

## **Nivithigala Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Nivithigala Pradeshiya Sabha for the year ended 31<sup>st</sup> December 2020 comprising the statement of financial position as at 31<sup>st</sup> December 2020 and the statement of financial operations for the year then ended including a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-section 172(1) of the Pradeshiya Sabha Act No 15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be published in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1. 6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Nivithigala Pradeshiya Sabha as at 31<sup>st</sup> December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matter described in paragraph 1. 6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSS). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of the Management and Those Charged with Governance for the Financial Statements.**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal as management determine is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

Those charged with governance, are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, The Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets, and liabilities to enable annual periodic financial statements to be prepared.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material, if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and asses the risks of material misstatements in financial statements whether due to fraud or error in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements including the discourses, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation.
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha.
- Whether The Pradeshiya Sabha has performed according to its powers, functions and duties; and,
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Report on Other Legal Requirements

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National Audit Act No. 19 of 2018 includes specific provisions for the following requirements.

- a) The financial statements of The Pradeshiya Sabha are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements.

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### 1.6.1. Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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(a) A cost of Rs. 8,817,825 incurred for improvement of fixed assets in the year under review had not been capitalized.	It has been informed that, it will be rectified in preparing accounts of the year 2021.	The cost of improvement of fixed assets should be capitalized.
(b) Debtors of Rs.642,740 and provisions for debtors of Rs. 521,112 had been overstated for the work of laying block stones and development.	It has been informed that, it will be rectified in preparing accounts of the year 2021.	The values of creditors and debtors should be correctly identified and accounted for.
(c) Licence fees revenue relating to the year under review had been understated by Rs. 59,700.	It has been informed that, the due revenue for the year will be billed, in making bills for licence fees from the year 2021.	The bills should be brought to account on an accrual basis.
(d) Without being adjusted for over provisions of court fines amounting of Rs 141,720 which was received on behalf of the preceding year had been brought to account as revenue of the year and as such the operating revenue had been overstated by similar amount.	It has been informed that, it will be corrected by a journal entry in the preparation of the accounts for the year 2021.	The revenue relating to the year should be correctly identified and accounted for.

## 1.6.2. Unreconciled Control Accounts or Reports.

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<b>Subject</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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According to the financial statements the value relating to an item of accounts had been Rs. 57,905 while according to the schedules the value had been Rs.188,689 and as such the difference had been Rs. 130,784.	It has been informed that, it was an error in the bills and that error will be rectified in preparation of accounts in future.	The balances shown in the accounts should be reconciled with bank reconciliations.

## 2. Financial Review

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### 2.1 Financial Results.

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31<sup>st</sup> December 2020 amounted to Rs. 11,323,055 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs 12,283,655.

### 2.2 Revenue Administration.

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#### 2.2.1 Performance in Collection of Revenue

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<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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<b>(a) Rates and Taxes</b>		
(i) Action had not been taken to recover the balance of the arrears of rates amounting to Rs. 977,329 as at the end of the year under review. Further, an assessment of properties had not been carried out after the year 2014.	It has been informed that, action will be taken to carry out programs for restraining of properties and to recover the balances.	Action should be taken to recover revenue receivable to the Sabha.
(ii) The balance of the arrears of acreage tax amounted to Rs. 61,325 as at the end of the year under review.	It has been informed that, action will be taken to recover the balance money in the future.	Action should be taken to recover the revenue receivable to the Sabha.
<b>(b) Other Revenue</b>		
An annual survey had not been carried out to identify the advertisement hoardings installed within the authoritative area of	It has been informed that, the letters had been sent by notifying for payment of charges for these advertisement hoardings and due	The revenue receivable to the Sabha should be recovered.

the Sabha and a sum of Rs. 55,600 recoverable for 10 advertisement hoardings for the year 2020 had not been recovered.

**(c) Court Fines and Stamp Fees.**

The stamp fees relating to the period from July to December 2020 which had to be receivable as at 31 December 2020 from the Chief Secretary of the Provincial Council and other authorities amounting to Rs. 6,105,290 had been identified even by the end of the year 2020. But that had not been recovered.

It has been informed that, the stamp fees schedules are prepared by the Offices of the Land and District Registrar and a request had been made thereon.

The revenue receivable relating to the year should be correctly identified and recovered.

**3. Operating Review.**

The matters observed in respect of the activities that should be carried out by the Sabha such as regularize and control over the matters of public health, public utility services, thoroughfares and the comfort , facilities and wellbeing of the people under Section 3 of the Pradeshiya Sabha Act are given below.

**3.1 Uneconomic Transactions**

**Audit Observation**

**Comments of the Sabha**

**Recommendation**

A total loan amount of Rs. 390,000 had been given to 16 public representatives, at Rs. 25,000 each by mentioning that, “To provide relief to the needy people in their divisions due to covid epidemic situation” as per the urgent proposals, 5.7(III) in the report of the Sabha dated 26 March 2020 for the purposes extraneous to the purposes for which the Pradeshiya Sabha fund can be utilized.

It has been informed that, a report had been obtained from the public representatives that the loan given to the public representatives to provide relief to the people in the divisions due to the epidemic situation has been used for the intended purpose.

The fund of the Pradeshiya Sabha should not be utilized for the purposes extraneous to the provisions of the Act.

### 3.2 Operating Inefficiencies.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The Sabha had not followed a proper methodology to identify the unauthorized constructions and action had not been taken by the Sabha to regularize or remove 03 unauthorized constructions identified in the year 2019. Similarly, no action whatsoever had been taken in respect of 04 constructions out of 05 unauthorized constructions identified in the year 2020.	It has been informed that, the unauthorized constructions identified in the year 2019 has been presented to the Sabha to regularize them and the unauthorized constructions in the year 2020 has been referred to the technical officer for inspections and action thereon will be taken in the future.	The unauthorized constructions existed in the authoritative area should be identified and the action thereon should be taken.
(b) Five freehold deeds had been issued for the first 05 houses built on the land allotted to the Sabha under the slum massacre housing scheme on 15 January 1973 and the land was surveyed and divided into 32 blocks. As this land is belong to the Sabha, the licencing for the occupants and action of solving problems have been assigned to the Pradeshiya Sabha by the letter of the Nivithigala Divisional Secretary dated 16 August 2015. Nevertheless the Sabha had failed to solve the above problem, which has been around for a long time even by November 2020.	It has been informed that, after notifying the Assistant Commissioner of Local Government the Chief Secretary has been instructed to provide legal advice and action will be taken to resolve the issue of the occupants of the houses in accordance with the instructions and approval given accordingly.	The occupants should be provided with the relevant deeds and action should be taken expeditiously to resolve the issue.

### 3.3 Deficiencies in Contract Administration

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
The estimated cost of the project which was estimated separately and expected to be completed under 03 phases of the Pradeshiya Sabha public market complex upper floor construction work was Rs. 4,877,238. The estimates relating to 03 phases above had been approved on 17 December 2019 and the limited tenders had been invited while only one contractor had quoted. The Tender	It has been informed that, as the construction of the public market complex is a matter of urgency and the Sabha does not have sufficient funds to carry out these constructions, the estimates had been prepared in several stages with an objective to get provisions of funds under other sources.	A total cost estimate for the Development projects should be prepared and competition should be promoted through the procurement procedure.

board had taken action to award all 03 phases for one institution on 11 February 2020 without being called tenders again. Due to the preparation of the estimates for the whole work in 03 separate phases while having the opportunity to prepare a total cost estimate for the entire work above in terms of Financial Regulation 20, the opportunity to submit competitive bids by inviting open tenders had been deprived. As a result, the company had lost the advantages that could have gained by creating a competition which is the primary objective of the procurement.