

Nuwara Eliya Pradeshiya Sabha -2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nuwara Eliya Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account 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 Sabhas 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 presented 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 Nuwara Eliya Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Practices, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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 and periodic financial statements to be prepared.

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, 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 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 assess the risks of material misstatement in financial statements whether due to fraud or errors 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 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 disclosures, 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

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

- 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.
- The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(I)(d)(iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) There were understatements of balances totalling Rs.3,026,878, including Rs.795,827 as liabilities and Rs.2,231,051 as expenditure on 02 occasions and omission of assets balances of Rs.4,425,981 and liability balances of Rs.3,184,784 from the accounts on 03 occasions in the financial statements.	It has been informed that the errors will be corrected in the financial statements of the year 2022.	Financial statements should be prepared correctly.
(b) There were classification errors in stating balances totalling Rs.11,329,530 of 04 items of account in the financial statements.	It has been informed that action will be taken to record it in the deposit account and make the corrections.	In stating account balances in the financial statements, they should be correctly classified.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observations

There was a difference of Rs.3,859,000 between the balances indicated in the financial statements and the relevant schedules in relation to 03 items of accounts of lands and buildings, water tax agreements and tender deposits for the year under review.

Comment of the Sabha

It has been informed that action will be taken to include correct balances in the preparation of future accounts.

Recommendation

Differences of the accounts balances should be looked into and accordingly, relevant schedules or financial statements should be corrected.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 10,872,110 as at 31 December 2021 as against the expenditure exceeding the recurrent revenue for the preceding year amounting to Rs. 5,919,490.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observations

Rates

Out of the arrears of Rates amounting to Rs.1,982,016 as at 01 January in the year under review, a sum of Rs.1,171,123 further remained in respect of 1641 units from 999 persons had not been recovered as at 31 December.

Comment of the Sabha

It has been informed that final notifications have been issued to all persons in order to carry out property prohibitions.

Recommendation

Arrears of revenue should be recovered.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Assets Management

Audit Observations	Comment of the Sabha	Recommendation
(a) The Sabha had identified 44 unauthorized constructions and sent 55 reminders to remove them during the year under review. Instead of removing the unauthorized constructions, the Sabha had issued 39 applications by 31 July 2022 to formalize them and only one construction had been demolished.	It has been informed that applications have been issued to formalize 39 unauthorized constructions and one construction has already been approved and only one construction has been demolished.	Relevant steps should be taken regarding unauthorized constructions.
(b) With the use of provision of the Ministry of Estate Housing and Estate Infrastructure Facility Development, a retaining wall had been constructed at a cost of Rs.1,765,198 in the Konkodiyawatta land, Kandapola which is not belonging to the Sabha. However, this land is owned by the Land Reform Commission and a private party was occupying the land. However, the amount due for the retaining wall constructed by the Sabha at a cost of Rs.1,765,198 had not been recovered.	It has been informed that after constructing six temporary shops on this portion of land and obtaining electricity connection, when action was taken to provide relevant business places to the shop owners who were evicted, a person has attempted to obtain the ownership of the land through the Land Reform Commission and therefore, the Nuwara Eliya Pradeshiya Sabha has notified to remove the temporarily built shops.	Money recoverable to the Sabha should be recovered.