

## **Naththandiya Pradeshiya Sabha – 2021**

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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 Naththandiya Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, statement of changes in net assets and cash flow statement 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 Naththandiya 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**

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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**

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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 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)**

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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

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National Audit Act, No. 19 of 2018 includes specific provisions for 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(i)(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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| Audit Observation   | Comment of the Sabha   | Recommendation  |
|---|--|---|
| -----   | -----  | -----   |
| (a) The value of 03 lands totaled Rs.1,010,000 included in the fixed assets register had not been indicated in the financial statements.  | Action will be taken to include in the financial statements for the year 2022.   | Action should be taken to include the value of lands in the financial statements.       |
| (b) The finished value of the work carried out in the new building of the Pradeshiya Sabha during the year under review amounting to Rs. 28,976,233 had not been brought to account.  | That the correct value will be brought to account after checking and finalizing the bill.  | Action should be taken to account for the finished work value.                          |
| (c) Due to accounting for 90 industries with contracted value of Rs.57,686,318, including 16 completed industries of which value of work done in the year under review had not been computed, 27 partly finished industries and 47 contracted industries of which work had not been initiated, the industrial creditors and capital expenditure had been overstated by that amount in the financial statements. | Only the values of bills in hand of which works have been completed by December 31 will be brought to account as industrial creditors in future. | Only the work completed value should be brought to account as the industrial creditors. |

- (d) The value of Rs.988,386 due from the State Ministry of Rural Roads and Other Infrastructure in relation to 37 industries carried out under the Rural Roads Development Programme had been overstated in the accounts. The amount brought to account as receivables in excess of the estimated amount was accounted for with the expectation that it would be provided to the Sabha as administrative expenses. The receivable correct value should be brought to account.

## 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. 153,111,736 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 106,000,263.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

| Audit Observation   | Comment of the Sabha   | Recommendation  |
|---|--|---|
| <p>(a) <b>Rates</b></p> <p>Sums totaling Rs.21,854,374, including Rs.268,981 for 162 units in the public sector and Rs.21,585,393 for 11,802 units in the private sector remained receivable as at 31 December of the year under review. Out of that amount, Rs.80,373 had been recovered for 48 units in the public sector while Rs.2,834,584 had been recovered for 4036 units in the public sector as at 31 August 2022.</p> | <p>Action will be taken to recover the dues by the mobile programmes.</p>  | <p>Action should be taken to recover the outstanding Rates expeditiously.</p> |
| <p>(b) <b>Acreage Tax</b></p> <p>Total value of Rs. 720,391, including Rs. Rs. 47,155 for 19 tax units in the public sector and Rs. Rs. 673,236 for 687 tax units in the private sector remained receivable as at 31 December of the year</p>   | <p>Since there are acreage taxes also for properties that are not taxable properties, action will be taken to write off that</p> | <p>The outstanding acreage tax should be recovered expeditiously.</p>         |

under review. Out of this, Rs. 14,571 only had been recovered for 22 units from the private sector.

arrears and make those properties subject to assessment tax in the future. The ownerless and unidentifiable property will be eliminated under the approval of the Governor in the future.

(c) **Rent**

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A total value of Rs.4,358,937 was due from 89 units, including Rs.1,388,975 for 62 units and Rs.2,969,962 for 27 units as at 31 December of the year under review. Out of this, Rs.719,682 for 57 shops rent units and Rs.439,866 for 15 lease rent units had been recovered as at 31 August 2022.

Action should be taken to recover the arrears expeditiously.

Arrears of shops rent and lease rent should be recovered expeditiously.

(d) **Other Income**

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According to the provisions in Part iv (B) (Local Government) of the Gazette of the Democratic Socialist Republic of Sri Lanka dated 24 December 2020, an amount of Rs.1,250 should be recovered for an annual license, whereas Rs.273,000 from 136 industries remained receivable as environmental licenses revenue as at 31 December of the year under review. Out of this, Rs. 72,500 had been recovered from 47 industries by 31 August 2022 and Rs. 60,500 could not be recovered due to the winding up of business activities of 22 industries.

Action will be taken to recover the arrears immediately.

Arrears of revenue should be recovered immediately.

**3. Operating Review**

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The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha 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 Vehicle System Management

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| Audit Observation  | Comment of the Sabha   | Recommendation  |
|--|--|---|
| <p>A cab belonging to the Sabha had met with an accident on 13 June 2019. Due to the fact that the driver of the vehicle was on leave on that day and a driver was not employed to cover the duties, the chairman of the Sabha had acted as the driver of the vehicle. Since the chairman who was driving the vehicle at that time could not control the high speed, vehicle had run off the left side of the road and hit on the culvert. The front, rear, left and right sides body of the cab had been damaged by the accident and the loss to the vehicle amounted to Rs. 2,900,000. Although the committee that investigated the accident stated that the officer who is responsible for damages should be disciplinary dealt with according to the provisions of the Establishments Code as stated in F.R. 105, the audit did not reveal any evidence that the said recommendation was implemented even by 20 November 2019.</p> | <p>It is informed that the Chairman himself had driven the cab because it was necessary the Chairman's participation in a function and the driver of the cab was reported to be on urgent leave on that day, and therefore, no disciplinary action was taken against the driver.</p> | <p>Action should be taken in accordance with the recommendation made by the Department of Local Government.</p> |