

Nivithigala Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nivithigala 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 cash flow, significant accounting policies and the summary of 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in 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 December 2021 and of its financial performance and its cash flows 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 Responsibility for the Audit of 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 financial reporting process of the Pradeshiya Sabha.

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

1.4 Audit Scope (Auditor's Responsibility for the Audit of 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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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.

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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statements of the Pradeshiya Sabha are corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year except the paragraph 1.6.1 (f) of this report are included in the financial statements as requirement 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	Comments of the Council	Recommendation	
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(a) Due to accounting the agreed value of Rs. 403,909 instead of accounting the work done development work worth Rs. 320,889, land and building account and income contribution account to capital application was overstated by Rs. 115,134.	That will be corrected during the preparation of accounts for the year 2022	The corrected value should be identified and accounted.	
(b) Improvements of fixed assets valued at Rs. 1,139,065 were not accounted.		The value of fixed assets improvements should be capitalized.	
(c) Purchase value of machinery and equipment had been accounted less than Rs. 1,354,500.		That will be corrected during the preparation of accounts for the year 2022	The purchase value of the asset should be correctly recognized and capitalized.
(d) The cost of vehicles auctioned during the year under review was Rs. 2,202,800 was not accounted.		It will be correctly accounted in the year 2022.	The cost of auctioned vehicles should be removed from the financial statements.
(e) Rs. 23,083,314 worth land and buildings were not included in the opening land and building balance of the year under review.			The balance of land and buildings should be accurately identified and accounted.

- (f) Due to non-correction of the court fine revenue over provisions of Rs. 235,917 and the court fine over provisions of Rs. 141,720 indicated by paragraph 1.4.1 (i) of the Auditor General's report of the year 2020, court fine revenue account had been over stated by Rs. 377,637.
- Over provision value should be identified and accounted.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2021 was Rs. 9,227,262 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 11,323,055.

2.2 Revenue Administration

Performance of the Revenue Collection

The following observations are made regarding the performance of the revenue collection in the council.

Audit Observation -----	Comments of the Council -----	Recommendation -----
Assessment and Taxes -----		
The arrears of Rs. 1,253,122 related to 600 assessment units as the arrears of Rs. 45,852 related to 04 government institutions and arrears of Rs. 1,207,300 related to 596 private units remained to be recovered at the end of the year under review.	The revenue could not be recovered due to the corona epidemic situation, The property of foreclosure proceedings could not be carried out will be recovered in future.	Action should be taken to recover the arrears balance as per the provisions of the Act.

3. Operational Review

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

Procurement Management

Audit Observation	Comments of the Council	Recommendation
<p>The procurement of machinery for the compost yard was done by inviting limited quotations and although 21 days should have been given for that, only 12 days were given. Bidders missed the opportunity to participate on the day of price opening. As a result, the objective of the procurement, which is “to ensure transparency and regularity of the evaluation and selection process” was not fulfilled. Among the goods ordered by order No. 609 dated 14 October 2021 and received on the same day, hauler machine worth Rs. 1,475,088 and perishable garbage machine worth Rs. 580,000 were purchased and installed, but it was remained idle until obtaining the three-phase power.</p>	<p>No separate report will be prepared regarding the opening of prices since all activities are done on the same day by the Committee on Finance Policy.</p>	<p>Action should be taken to call for quotations and opening of bids should be conducted in a transparent manner in accordance with the Code of Procurement Guidelines.</p>

4. Accountability and Good Governance

Environmental Issues

Audit Observation	Comments of the Council	Recommendation
<p>An expenditure of Rs. 1,063,347 for 02 vehicles owned by the council and 09 employees have been incurred for collection of perishable garbage in the area of the council and total expenditure of Rs. 3,100,631 have been incurred annually for that as Rs. 2,037,284 expenditure, but it was observed during the on-site inspection that the garbage was piled up in a plot of the land that had been purchased for the construction of a compost project and due to non-availability of electricity supply even by the date of audited on 10 March 2022, the council had failed to start the production of compost fertilizer.</p>	<p>The piled up garbage has been retained in that building due to the completion of work of the new building on 22 March 2022, The newly collected garbage are properly disposed from that place.</p>	<p>Garbage recycling should be started immediately to solve the garbage problem.</p>