

Nochchiyagama Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Nochchiyagama Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in net assets / equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 Subsection 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 reported 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 Nochchiyagama Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 standard 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 Sri Lanka Public Sector Accounting Standard for Local Authorities, 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 all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Pradeshiya Sabha.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 to identify and assess the risk 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 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 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.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (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 Council	Recommendation
(a) Capital grants received in the year under review had been understated by Rs.47,202.	Accepted.	Accurate value should be accounted.
(b) Even though interest amounting to Rs.148,434 obtained in cash on fixed deposits in the year under review had been invested on cumulative fixed deposit basis, it had been indicated only as a cash flow under investment activities.	-Do-	-Do-
(c) Fixed assets amounting to Rs.2,615,816 received as donations during the year under review had been indicated as purchases of property, plant and equipment in the cash flow statement.	Investments have been treated as cash flows.	Receipt of fixed assets as donations is not a cash inflow.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
(a) According to the statement of assets and liabilities of the year under review, the accumulated surplus as at 01 January 2022 had been Rs.379,685,416 it had been Rs.378,012,248 according to the statement of changes in equity as at that date. As a result, there	Accepted.	Schedules should be compared with corresponding records.

had been a difference of Rs.1,673,168.

(b)	There had been a difference of Rs.746,507 in between two arrears revenue accounts and the totals of their schedules as at 31 December in the year under review.	Confirmations had been submitted.	Confirmations should be submitted.
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1.6.3 Documentary Evidence not made Available for Audit

Audit Observation	Comment of the Council	Recommendation
Information or time analysis of 02 outstanding individual balances receivable, valued at Rs.572,540, had not been submitted to audit.	Could not be found.	Confirmations should be submitted.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure, which exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2022, had been Rs.7,357,404 and corresponding expenditure, which had exceeded the revenue in the previous year had been Rs.4,778,498.

2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
Amounts of Rs.226,060 and Rs.1,299,586 remained idle in two current accounts of a state banks from the years 2013 and 2016 respectively.	They remain idle owing to a legal proceeding.	Permission should be obtained from the Court of Law to convert it to a fixed deposit.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

Information about estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year is mentioned below.

		2022				2021			
Revenue Source	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i) Rates and Taxes	3,244,500	3,484,481	2,741,860	5,395,549	3,911,550	4,153,481	4,109,056	4,652,928	
(ii) Rents	10,244,137	7,893,050	7,043,467	16,011,824	4,128,352	7,222,685	5,635,762	15,162,241	
(iii) License Charges	1,750,000	1,568,066	1,568,066	147,740	2,048,000	1,233,576	1,224,576	147,740	
(iv) Other Revenue	24,239,020	21,258,363	23,399,215	12,495,845	16,751,960	16,513,507	16,623,523	14,636,697	
	<u>39,477,657</u>	<u>34,203,960</u>	<u>34,752,608</u>	<u>34,050,958</u>	<u>26,839,862</u>	<u>29,123,249</u>	<u>27,592,917</u>	<u>34,599,606</u>	

2.3.2 Performance in the Collection of Revenue

The observations in relation to the performance in the collection of revenue in the Pradeshiya Sabha are mentioned below.

	Audit Observation	Comment of the Council	Recommendation
(a)	The balance receivable as at 31 December in the year under review had been Rs.5,278,549 and the license charges to be recovered and older than 03 years had been Rs.147,740.	Accepted.	Action should be taken in accordance with the Act.
(b)	Arrears in revenue amounting to Rs.2,246,530 in relation to 04 water projects implemented by the Pradeshiya Sabha had not been recovered.	-Do-	Action should be taken to recover.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comment of the Council	Recommendation
Even though it had been revealed in the survey of goods conducted in the year 2020 that 291 books worth Rs.45,339 had been missing in the Notchiyagama Public Library, investigations had not been carried out in that regard and the loss had not been recovered from the parties responsible.	Action will be taken to recover.	The loss should be recovered.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
Even though applicants had applied to get new water connections from Ihalawetiya and Nochchiyagama water projects from the year 2018 to the year 2022, the Pradeshiya Sabha had not taken sufficient measures to develop the capacity of those water projects.	61 water connections have been provided.	Attention should be paid to develop the capacity of the water projects.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Council	Recommendation
Hela Bojun Hala, which had been constructed by incurring an expenditure of Rs. 2,695,013 and works, of which had been completed on 14 July 2021, remained idle without being utilized for income generation activities.	It will be assessed and utilized for income generation in the future.	Action should be taken expeditiously to utilize.