

Nikaweratiya Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Submission of Financial Statements

The financial statements for the year 2019 had been presented to audit on 20 April 2020 and the Summary Report of the Auditor General on those financial statements on 30 June 2020 and Detailed Management Audit Report on 31 July 2020 have been sent to the Chairman.

1.2 Qualified Opinion

In my opinion except for the impact of the facts described in the section of the basis for the qualified opinion of this report the financial statements give a true and fair view of the financial position of the Nikaweratiya Pradeshiya Sabha as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for the Qualified Opinion

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Financial Statements had been prepared during the year under review without making corrections of the accounting deficiencies of (a), (b), (e), (f), (i), (l), (m), (n), (o) which were in the Auditor General's Summary Report of the previous year.	Necessary corrections should be made.	It is informed that it will be corrected using journal entries.
(b) Although the expenditure on grants, contributions and subsidies under the Health Services Programme was Rs. 336,103 as per the trial balance, it was Rs. 183,019 according to the financial statements.	It should be accounted for accurately.	It is informed that it will be corrected using journal entries.

(c) The 13 account balances in the trial balance totalled to Rs.14,596,261 had not been stated in the financial statements.	It should be accounted for accurately.	It is kindly informed that the accounts of library deposits, machinery deposits and technical deposits were descending from previous years.
(d) The arrears of rates had been understated by Rs.2,932,169 at the end of the year under review.	It should be accounted for accurately.	Its kindly informed that the understating of arrears of rates will be corrected.
(e) The year end balances of the 10 accounts receivables had not been properly entered into the financial statements and the similar values had been presented in all 03 years of 2017, 2018 and 2019.	It should be accounted for accurately.	Due to an error in preparing the accounts in conjunction with the Excel worksheets, the current year values have not been recorded in these accounts and it is kindly informed that such changes account balances will be corrected.
(f) The salary reimbursement receivable amounting to Rs.1,444,071 as at the end of the year under review had been overstated .	Actions should be taken to account for accurate values.	Due to the mistakes, errors, the salary reimbursement has been overstated by Rs.1,444,071 and it is kindly informed that it will be corrected.
(g) The court fines receivable as at the end of the year under review had been overstated by Rs.1,044,050.	Actions should be taken to account for accurate values .	It is kindly informed that the overstatement of the court fines has been made in the financial statements by mistake and it will be rectified.
(h) The stamp fees receivable as at the end of the year under review had been understated by Rs.11,848,605.	Actions should be taken to account for accurate values.	The stamp duty receivable has been understated by mistake and it is kindly informed that it will be corrected.
(i) The balance of the rent receivable as at the end of the year under review had been overstated by Rs.2,431,451 in the financial statements.	Actions should be taken to account for accurate values.	It is kindly informed that the overstatement of the balance of the rent receivable account in the financial statements will be corrected.

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| (j) A stock of goods valued at Rs.2,467,076 purchased during the year under review had not been accounted for. | Actions should be taken to account for accurate values . | Its kindly informed that the omission of stock of Rs.2,467,077 has been adjusted by the journal entries. |
| (k) Nine development projects valued at Rs.7,180,233 completed in the year under review and in the previous year had not been brought to account. | Arrangements should be made to account for capital expenditure. | Its kindly informed that the value of 09 development projects will be corrected. |
| (l) A sum of Rs.791,146 paid in December of the year under review as per Standing Orders by the Bank and the bank charges of Rs.7,550 had not been brought to accounts. | Direct debits and credits should be identified and properly accounted for . | Its kindly informed that a sum of Rs.791,146 which was paid according to Standing Orders by the bank for the payment of loan installments of the health center and bank charges of Rs.7,550 had not been recorded, it will be corrected by journal entries. |
| (m) The cash in hand amounted to Rs.88,582 as at the end of the year under review had not been taken into account. | Actions should be taken to account for accurately. | Comments had not been expressed. |
| (n) There were differences amounted to Rs.74,027,258 in between the balances relating 10 account items and balances in relevant source documents at the end of the year under review. | Actions should be taken to correct the accounts by reconciling changes in the relevant balances. | It is informed that it will be corrected by a journal entry. |
| (o) Schedules with detailed information for a value of Rs.20,866,612 relating to 9 accounting items had not been submitted for audit. | Arrangements should be made to present audit evidence along with financial statements. | It is kindly informed that the actions will be taken in the future to prepare accounts with detailed schedules. |

1.4 Non-compliances

1.4.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of Non-compliances with Laws, Rules, Regulations and Management Decisions are as follows.

References to Laws, Rules, Regulations and Management Decisions	Non- compliance	Recommendation	Comments of the Accounting Officer
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(a) Pradeshiya Sabha Act No.15 of 1987 Section 159 (1)	Actions had not been taken to collect the outstanding rent amounted to Rs. 676,550 from 10 shops in the Public Facilities and Health Center .	Actions should be taken to recover the arrears.	Letters have been sent to recover the arrears and it is kindly reported that the legal actions will be taken against the shopkeepers who do not pay during stipulated time period.
(b) 1988 Pradeshiya Sabha (Finance and Administration) Rules (i) Rule 32-42	Actions had not been taken to recover a rate of Rs.5,074,508 from 2202 properties of 17 roads as at 31 December 2019 .	The arrears should be recovered	Out of the aforesaid arrears in the year 2020, a sum of Rs. 492,066.43 has been recovered and for the year under review a sum of Rs.2,235,868.18 has been recovered. The collection of rates from some government organizations has become problematic and it has led to an increase in arrears.

(ii)	Rule 33	A list of defaulters and a Property Prohibition Warrant had not been prepared at the end of each quarter.	A list of defaulters should be prepared and submitted to the Chairman.	It is kindly informed that the arrears will be collected at the end of each quarter and submit them to the Chairman in future.
(iii)	Rule 218	A Board of Survey had not been carried out on land and buildings.	A Board of Survey on Land and buildings should be carried out.	A Board of Survey on lands has not been conducted in 2019 regarding lands and buildings. It is kindly informed that an Annual Board of Survey will be conducted as at 31 December 2020.

02. Financial Review

2.1 Financial Results

The income over the recurrent expenditure of the Sabha for the year ended 31 December 2019 was Rs. 60,270,266 and the corresponding income over the recurrent expenditure of the preceding year was Rs. 17,408,658 as per the financial statements presented.

2.2 Revenue Administration

2.2.1 Estimated Income , Billed Income, Collected Income and Arrears Income

The information on estimated income, billed income, collected income and arrears income submitted pertaining to the year under review and the preceding year are shown below.

Source of Income	<u>Year 2019</u>				<u>Year 2018</u>			
	Estimated Income	Billed Income	Collected Income	Total arrears as at 31 December	Estimated Income	Billed Income	Collected Income	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and taxes	7,320,062	54,607,886	6,760,982	2,183,647	7,010,062	6,860,062	4,372,827	4,772,157
Lease Rent	16,076,000	16,076,000	16,659,781	7,083,169	19,066,000	19,066,000	16,178,203	4,861,492
License Fees	1,266,000	1,065,000	881,786	80,400	1,212,300	1,212,300	845,575	80,400
Other Income	97,940,116	97,740,116	19,620,699	28,627,925	74,394,914	74,394,914	68,761,436	26,616,340
Total	122,602,178	169,489,002	43,923,248	37,975,141	101,683,276	101,533,276	90,158,041	36,330,389

Note: - There were discrepancies between the balances of financial statements and the information submitted by the "Sabha" to the Audit. As a result, there were discrepancies among the arrears as at January 01 of the year under review and the balances receivable after the revenue collected from the billing under review year and the balances receivable as at 31 December of the year under review as per the financial statements.

2.2.2 Rates and Taxes

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
Even though the rates and taxes receivable as per the financial statements as at 31 December 2019 was Rs.2,183,647, those values were the balances remained as at 31 December of preceding year. However, according to the information submitted by the "Sabha" for the audit, the rates amounted to Rs.5,074,508 had to be collected.	Actions should be taken to recover the arrears of rates.	The above error occurred in preparing the account in connection with the Excel worksheets and it is kindly informed that the accounts will be corrected and prepared in future.

2.2.3 Lease Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) A sum of Rs.428,409 from 22 permanent shops, Rs.75,030 from 06 shops of vegetables and fruits and Rs.789,250 from Health and Common Facility Center were receivable at the end of the year under review.	Actions should be taken in accordance with the agreement to recover the arrears.	Letters have been sent to recover the arrears and it is kindly informed that the legal actions will be taken, if failure to pay on time.
(b) The Sabha had lost the 2019 annual assessed rent, with an income of Rs.1,501,150 as at 31 December 2018 due to not taking actions to recover the rent for bus stand shops after signing the new agreements and receiving the assessment on 25 January 2016.	Actions should be taken to increase the revenue of the Sabha by collecting the stipulated rent.	The rent of ground floor stalls will be charged as per the valuation report dated 25 January 2016 and it is also informed that the steps are being taken to sign the agreements. It is kindly informed that the further actions will be taken with the approval of the Commissioner of Local Government regarding the collection of lease rent from the shops in upstairs.
(c) A sum of Rs.688,385 was receivable at the end of the year under review from 15 shops at bus stand and a sum of Rs.564,500 had to be recovered by 13 July 2020 furthermore.	Actions should be taken to recover monthly rent and arrears as scheduled.	It is kindly informed that a sum of Rs.123,885 has been collected.

03. Operating Review

3.1 Performance

The matters revealed in respect of executing of functions that should have been performed by the Sabha such as regulation, control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 3 of the Pradeshiya Sabha Act are as follows.

(a) By-laws

Audit Observation

Although by-laws had to be enacted under Section 126 of the Pradeshiya Sabha Act to carry out sub-matters included in 30 main matters by the end of the year under review by-laws had not been enacted as required by the “Sabha” and it had adopted the approved by-laws and the by-laws of the North Western Province and acted accordingly. Although three years had elapsed since the Local Government Authority prepared a by-law regarding the parking of taxis and submitted it to the Department of Local Government, the approval for it had not been received.

Recommendation

Actions should be taken to enact by-laws as required by the Sabha and to act in accordance with the by-laws adopted.

Comments of the Accounting Officer

It is kindly informed that the process of approving has been stopped because of the Department Local Government then had verbally informed that actions would be taken in the future to draft a by-law regarding taxi parking and to get it passed by the Provincial Council as an approved by-law.

(b) Sustainable Development Goals

Audit Observation

Although the “Sabha” was aware of the “Sustainable Development Agenda 2030”, the progress of achieving the targets had not been reviewed and the plans had not been formulated for the coming year by documenting the quantitative and planned targets and indicators for the year 2019 in advance.

Recommendation

Budgets should be prepared and programmes should be implemented so that goals and objectives could be achieved.

Comments of the Accounting Officer

A training workshop on “Sustainable Development Agenda 2030” was held on 02 November 2018 and all the staff were made aware of it. Accordingly, it is kindly informed that the necessary activities have been carried out by conducting the required programmes when preparing

the budget, by documenting the targets to eradicate hunger, provide primary education for all, empower women and improve maternal health.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) As a result of not taking actions to recover the payment of rent from the tenderers who signed the agreements and obtained shops of Nikaweratiya Public Facilities and Health Center by the key money system, the Sabha had lost a revenue of Rs.676,550 as at 31 December of the year under review.</p>	<p>These shortcomings need to be rectified as soon as possible to generate revenue.</p>	<p>Its kindly reported that the letters have been sent to all shopkeepers who have not signed the agreement to be arrived and sign the agreement and actions will be taken to recover the arrears from the date of opening of the shops .</p>
<p>(b) Even though the sales stalls should not be alienated by the lessee in terms of the lease agreement of the shops at the Public Facilities and Health Center, the shops were sub-leased by three lessees.</p>	<p>Sub-leases should be dealt with and rent should be charged as per the agreement.</p>	<p>It was accepted that sub-leasing is not possible under the Agreement. Actions will be taken in terms of the agreement in this regard in future. It is kindly informed that the actions will be taken to seal all the assets which does not make the payments properly.</p>
<p>(c) The balance of accounts payable as at 31 December 2019 was Rs.107,562,587 and although there were balances of Rs.10,281,370 for more than 01 year and less than 03 years, Rs.4,868,954 for more than 03 years and less than 05 years and Rs.842,470 for more than 05 years within</p>	<p>Further actions should be taken to settle the outstanding balances.</p>	<p>A value of Rs.750,178.33 has been taken to income under tender deposits and a value of Rs.258,768.74 has been released.</p>

that balance, the money had not been settled. There was a sum of Rs.106,553,640 to be settled furthermore even by 13 July 2020.

3.3 Human Resource Management

Audit Observation

Recommendation

Comments of the Accounting Officer

Twenty eight secondary posts had been approved and the actual staff was 42 by the end of the year under review. There was an excess of 14 and 07 vacancies. Furthermore, there were 12 vacancies and also an excess of 03 in the primary sector.

Actions should be taken to fill the essential vacancies and to regularize the excess staff.

The reason for the increase in the secondary staff for more than the approved number was the number of 21 Development Officers attached by the Department Local Government. There are also 07 vacancies.

3.4 Procurement

3.4.1 Contract Administration

Audit Observation

Recommendation

Comments of the Accounting Officer

(a) The release of retention amounted to Rs. 169,920 had been approved on the recommendation of the Technical Officer, the Local Government Engineer and the Design Superintendent of the Sabha, without drawing attention on the shortcomings in the industry of tarring the Giriulla Nabada Road at a completion work value of Rs.1,699,201. During the inspection of the relevant road with the Technical Officer of the

Existing shortcomings need to be rectified.

Estimates have been prepared and committee approval has been obtained to rectify the relevant deficiencies by the retained money. The Hon. Chairman has verbally advised that this construction is unnecessary as proposals have been made to carpet this road.

Sabha on 12 December 2018, it was observed that the edges of the road were deteriorating and a number of potholes were formed in the section up to 20 m from the beginning of the road.

- (b)** Although it has been instructed verbally to inspect and to chip sealing the Udunowa Galpanawa road and Galpanawa Monnekulama Road by the Engineer of the Department of Local Government on 09 August 2018, the road had further damaged due to non-repairing even by 08 June 2020 .

Shortcomings should be rectified as instructed.

An estimate for chip sealing has been prepared and committee approval has been obtained. It is kindly informed that this work will be completed as soon as possible.