

## **Naula Pradeshiya Sabha - 2020**

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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 Naula Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, 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 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 Naula Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **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 it 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of 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 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

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### Accounting Deficiencies

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| Audit Observation  | Comment of the Sabha  | Recommendation                        |
|--|---|---------------------------------------|
| -----  | -----   | -----                                 |
| (a) Retention money of Rs. 99,737 that remained payable relating to the Project of development of Halabagahawatta Road laying concrete under the Programmed of Strengthen Pradeshiya Sabha had been brought to general deposits account without being accounted under creditors. | Action will be taken to correct this in the preparation of accounts for the years 2021. | Account balances should be corrected. |
| (b) The estimated value of Rs. 200,000 of the Pahala Bobella the Road Development Project for which Agreement had not been Signed by the end of the year under review was accounted under creditors.   | Action will be taken to correct this in the preparation of accounts for the years 2021. | Account balances should be corrected. |

## 1.7 Non-compliance

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 Non - compliance with Laws, Rules, Regulations and Management Decisions.  
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| Reference to laws, rules and regulations etc.  | Non-compliance   | Comment of the Sabha  | Recommendation                                       |
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| -----  | -----  | -----   | -----  |
| (a) Acts of Parliament<br>-----  |  |   |  |
| (i) Section 22 (1) of the Urban Development Authority Act No. 41 of 1978                                 | No action had been taken to acquire a plot of land with 51.88 perches Out of 78.88 perches worth Rs. 1,867,680 by the Pradeshiya Sabha from subdivided 05 acres of land sold in Naula, Habarakada in the year 2015 by a land sale company.                                       | Relevant documents had been forwarded to the attorney-at-law to initiate legal proceedings. | Action should be taken to acquire plots of land.     |
| (ii) Pradeshiya Sabha Act No.15 of 1987. Section 154(1)  | Although Rs. 175,650 had been levied on the assessment of Rs. 17,565,000 of the plots of land as 1 per cent receivable from the land of about 05 acres in Naula, Habarakada, the due amount to be levied from the seller had not been recovered by ascertaining the sales value. | Legal action has been taken to recover the dues.  | Action should be taken to recover the dues.          |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 104(4) | Although a cab belonging to the Sabha had met with an accident on 17 November 2019, an investigation had not been conducted even by 06 October 2020. Further, an expenditure of Rs.545,973 had to be incurred on   | Legal action has been initiated to obtain claim.  | The loss should be recovered following formal steps. |

repairs due to the above accident, whereas Rs.289,685 only had been received as insurance coverage. Accordingly, a loss of Rs. 256,288 had been incurred to the Sabha fund.

(c) Circular  
No.SP/RD/02/10  
dated 03 February  
2010 of the  
Secretary to the  
President regarding  
the Management of  
Government Lands.

|               |   |   |  |
|---------------|---|---|--|
| Paragraph 3.5 | Two plots of land bearing Nos. 595 and 596 containing 10.56 perches transferred to the Pradeshiya Sabha by the Divisional Secretary, Naula through the Original Plan No.254 by a transfer order under Section 27 of the Land Ordinance in the year 2007 had been allowed to use to external parties without obtaining any approval. | The occupants have been informed to reach a formal lease agreement. | Action should be taken in accordance with circular instructions. |
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**2. Financial Review**

**2.1 Financial Results**

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs.1,655,297 for the year ended on 31 December 2020 as compared with the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.2,703,627.

**2.2 Revenue Administration**

Performance in Collecting Revenue

| Audit Observation   | Comment of the Sabha   | Recommendation  |
|---|--|---|
| Arrears of Rates due from 380 assessment units as at 31 December of the year under review were Rs. 1,883,175. Action in terms of Sections 152 and 155 of the Pradeshiya Sabhas Act, No.15 of 1987 and Rule No.33 of | Outstanding balances could not be recovered due to Covid 19 situation. | Action should be taken to recover revenue in arrears. |

the Pradeshiya Sabha (Financial and Administration Rule) rule of 1988 had not been taken in respect of the Rates in arrears in the above balance that had continued to exist for more than 5 years.

### 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 Management Inefficiencies

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| Audit Observation   | Comment of the Sabha                               | Recommendation  |
|---|--|---|
| -----   | -----  | -----   |
| (a) It had been revealed that due to receipt of erroneous values over a long period due to software errors and erroneously including information in the computer software received from the Dambulla Pradeshiya Sabha in the year 2012 to collect Rates, the outstanding balance of Rs.1,571,488 as at 31 December 2018 was not tallied with the balance as per the Assessment Tax Registers. No action had been taken to find out reasons for the said differences and to take necessary measures. | This error occurred due to errors of the software. | Action should be taken to find out reasons behind the differences and take necessary actions. |
| (b) Five account balances of Rs.10,104,142 that remained receivable as at 31 December of the year under review had not been recovered and it included the balances totaling Rs.2,470,549 relating to a period of more than 01 year and less than 05 years and balances of Rs.743,955 continued to exist for more than 05 years.   | Accepted.  | Action should be taken to recover the outstanding balances.                                   |
| (c) Action had not been taken to settle 02 payable account balances of Rs.3,429,778 as at 31 December of the year under review and it included the balances totaling Rs.555,159 relating to a period of more than 01 year and less than 05 years and balances of Rs.3,240 continued to exist for more than 05 years.  | Accepted.  | Action should be taken to settle outstanding balances.  |

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| (d) | Environmental licences had not been obtained for solid waste recycling and disposal centres in accordance with Paragraph 27 and 28 of Part (b) of the Extraordinary Gazette No.1533/16 dated 25 January 2008 of the Democratic, Socialist Republic of Sri Lanka. | Action will be taken to obtain Environmental Licence once the land is taken over. | Action should be taken to obtain Environmental Licence |
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### 3.2 Operating Inefficiencies

| -----<br>Audit Observation<br>-----   | -----<br>Comment of the Sabha<br>-----                          | -----<br>Recommendation<br>-----   |
|---|---|--|
| (a) No action had been taken to prepare deeds or transfer orders and to confirm the ownership of 17 plots of land used by the Pradeshiya Sabha.   | Action will be taken to protect these lands in the future.      | Action should be taken to confirm the ownership of the lands and use them. |
| (b) Stall rent of Rs. 145,885 of 04 stalls of the Naula Weekly Fair was shown as being outstanding from the year 2012. Out of which, the amount of arrears defaulted up to 20 December 2012 was Rs.77,285 . The 04 stalls had been sealed after that day and subsequently, making erroneous billing and indicating an arrears of Rs. 68,600, a total arrears of Rs. 145,885 had been stated in the financial statements. No appropriate measures had been taken in this connection after looking into the matter. | Accepted.<br>Approval has been sought to write off the arrears. | Action should be taken to rectify the matter.                              |