

## **Nawagaddegama 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 Nawagaddegama Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and 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 Sabha 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 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 Nawagaddegama 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 on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 financial reporting process.

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.

#### 1.4 **Audit Scope (Responsibilities of Auditors for the Audit of 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:

- 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 its 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, 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 Other Legal Requirements relating to Reports

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Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- The financial statements of the Pradeshiya Sabha were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

## 1.6 Audit Observations relating to Preparation of Financial Statements

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### 1.6.1 Accounting Policies

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Audit Observations	Comments of the Sabha	Recommendation
<p>(a) Accounting policies such as basis for identifying income and expenditure adopted to prepare the financial statements as well as the information relating to revaluation of motor vehicles carried out on 06 March 2020, had not been disclosed in the financial statements.</p>	<p>I accept that it was pointed out only in the Notes relating to revaluation and it was not pointed out in the disclosures. I inform you that I will take action in future to rectify it.</p>	<p>The accounting policies adopted to prepare the financial statements should be disclosed.</p>
<p>(b) If an information received relating to the situation prevailed as at the date of reporting of financial statements after the date of reporting of financial statements but prior to granting approval for publishing it, that information should be disclosed. However, information relating to whether such occurrence had occurred or not, had not been disclosed in the financial statements.</p>	<p>I inform you that action will be taken in future to point out into the disclosure of information relating to the financial statements.</p>	<p>The relevant disclosures should be made in the financial statements.</p>

## 1.6.2 Accounting Deficiencies

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Audit Observations	Comments of the Sabha	Recommendation
The grant total of schedules relating to general stores register was Rs.1,598,324. The tyre stocks at the total value of Rs.1,113,550 had been included into this. The total value had been shown as stationery stocks without proper classification while showing the grand total in the accounts	I inform you that action will be taken in future to present it under the classification in the financial statements	Classification of stocks should be correctly shown.

## 1.6.2 Unreconciled Control Account or Report

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Audit Observations	Comments of the Sabha	Recommendation
The value as per financial statements relating to 04 items of accounts was Rs.140,465,142 whereas the value as per corresponding reports was Rs.140,764,061 and as such a difference of Rs.298,919 was observed.	I accept that there was a difference between the balance of trial balance included in the financial statements and the balance in the general ledger. I inform you that omission of balances of journal entries No.76 and No. 77 in the Trial Balance was the reason for that it will be rectified and sent along with this.	The balance of the journal entries should be extracted to the trial balance without omission.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2020 amounted to Rs.219,879 as against the excess of revenue over recurrent expenditure of the previous year amounted to Rs.1,759,111. Decrease of rates and tax income, rent income, license fee income and other income by Rs.1,407,905 as compared with the previous year was the main reason for this variance.

### 3. Operating Review

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Matters observed with regard to fulfilling regulation and administration of facts relating to public health, public utility services and public road, with the protection comfort, convenience and welfare of the people, by the Sabha under Section 3 of the Pradeshiya Sabha Act, are shown below.

#### 3.1 Management Inefficiencies

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Audit Observations	Comments of the Sabha	Recommendation
(a) One hundred and one tube wells out of 129 tube wells belonging to the Pradeshiya Sabha had not been utilized. Even though it was decided at the General Meeting to provide those tube wells on lease basis for a sum of Rs. 5,000 annually as requested by the people of this area, only 03 tube wells were given accordingly on lease basis up to the date of audit on 01 March 2021.	People living in the area of authority of the Pradeshiya Sabha were informed in this regard. I inform you that necessary action will be taken to provide another 98 tube wells as per the request of the people.	Action should be taken to provide tube wells on lease basis by informing to the people.
(b) Even though a sum of Rs.1,979,353 had been spent to construct elephant fence, security hut, tube well and center for separating and storing of garbage at the Thammennawa Pachchillewa land under the Project of “Programme for Modernization of Solid Waste Management Project- 2019”, disposal of garbage at the relevant place had not been carried out in a proper manner and garbage is being disposed off at another land which was handed over to the Sabha in the year 2019.	I inform you that action will be taken to provide financial provision as early as possible and rectify it.	Action should be taken for disposal of garbage in a proper manner by providing necessary financial provision.