

Nallur Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nallur Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020, Income and Expenditure Account, Cash Flow Statement for the year, 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 SubSection 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and the 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 Nallur Pradeshiya Sabha as at 31 December 2020, 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 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

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 Pradeshiya Sabha's 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 (Responsibility of the Auditor 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 exercised 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 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, 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

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

- 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.
- The financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Council	Recommendation
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(a)	The expenses and current liabilities in the financial statements had been overstated by Rs.59,614,333 each due to the adjustment of purchasing items that has not been purchased, finishing 33 projects that has not been finished and repairing 02 vehicles that has not been repaired to the sundry creditor account.	It will be rectified according to your instructions in the future.	Accounts should be prepared in accordance with the principles and policies of accounting.
(b)	Although there was a physical balance of electrical equipment as at 31 December 2020 as per the inventory register, the value of current assets in the financial statements had been understated by Rs.315,874 due to these items had not accounted.	-	Do -

1.6.2 Unreconciled control accounts or records

Audit Observation	Comment of the Council	Recommendation
(a) There was a difference of Rs.16,368,674 of the balance of 03 revenue subjects in the General ledger as at 31 December 2020 compared with the financial statements.	It will be rectified in the future.	Necessary corrections should be made.
(b) There was a difference of Rs.795,011 of other revenue balance in the debtor ledger as at 31 December 2020 compared with the financial statements.	- Do -	- Do -

1.6.3 Lack of written evidence for the audit

Audit Observation	Comment of the Council	Recommendation
The decisions of the council about the allocation of Rs.16,014,102 mentioned in the financial statements as development programs, had not been submitted to the audit.	Actions will be taken to rectify.	Necessary corrections should be made.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.105,363,368 as compared with the excess of revenue over recurrent expenditure amounted to Rs.94,352,534 in the preceding year.

2.2 Revenue Administration

2.2.1 Revenue Collection Performance

Audit Observation	Comment of the Council	Recommendation
(a) The amount of Rs.6,263,614 of arrears of assessment tax which were more than 02 years, had not been charged.	The epidemic situation had caused this.	Revenue collection should be well managed.

- (b) There was a balance of shop rent arrears of Rs.544,574 which was more than 5 years. Adjustments are made after the necessary approval to write off from the books. - Do -
- (c) The amounts of Rs.9,201,042 of taxes from meat shops and shopping malls, Rs.7,955,867 for court fine fees and Rs.22,042,220 for stamp fees had been due as at 31 December 2020. Adjustments are made after the necessary approval to write off from the books. The answers had not been submitted regarding court fines and stamp duty. - Do -

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Assets Management

Audit Observation	Comment of the Council	Recommendation
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Although the construction of a public well had been completed 8 years ago at a cost of Rs.5,354,000, it had been remained as idle until now.	Action will be taken promptly.	Assets should not be idled.