

Neluwa Pradeshiya Sabha – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Neluwa Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the 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 the Neluwa Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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 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 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 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, 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.

- (a) Financial Statements of the Pradeshिया Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1. Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The amount of Rs.1,016,200 deposited into the public account through direct remittances on 26 June 2020 and 06 May 2021 was not recognized until 31 December of the year under review.	Actions will be taken to correct in future.	Should be accounted the correctly.
(b) Revenues totalling to Rs.4,754,367 had not been accounted.		
(c) the value of 06 assets amounting to Rs.13,549,544 had not been accounted as at 31 December of the year under review,.		
(d) The capital expenditure creditors amounting to Rs.28,371,994 had not been accounted as at December 31 of the year under review.		

1.6.2 Non reconcile control account or reports

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
There was a difference sum of Rs. 1,328,899 in between the balance value of 07 accounting items in the financial statements and balance value in relevant utility registers as at 31 December of the year under review.	The action will be taken to correct the mistakes coming from previous years.	Differences need to be identified and corrected.

1.6.3 Suspense Accounts

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The action had not been taken to settle the credit balance of the suspense account of Rs. 21,176 which was being carried forward even before the year 2015.	Action will be taken to correct in future.	The balance should be investigated and settled.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 231,625 as against the excess of revenue over recurrent expenditure amounted to Rs. 763,237 in the preceding year.

2.2 Revenue Administration

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Rent Income ----- At the end of the reviewed year, the shop rental income due from 43 shops was Rs.539,492 and 05 shop owners had not paid any amount, and there was an outstanding balance of Rs.458,515 from those 5 shops. The council had not taken any action to recover these arrears.	Action will be taken to recover in future.	Arrears of Rate should be recovered.

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 **Operational Inefficiency**

Lease of Duly Ella Premises

Audit Observation

As the lessee who leased the Duli Ella premises had not paid any amount to the Council for the year 2020 and 2021, an amount of Rs.1,600,400 remained outstanding as at 31 December of the year under review, and the Council had not taken any action to recover this outstanding balance.

Comment of the Sabha

The actions will be taken to recover the arrears of taxes.

Recommendation

Taxes should be collected.