

Norwood Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Norwood Pradeshiya Sabha for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, 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 Norwood Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 for Local Authorities, 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)

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 the Pradeshiya Sabha 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Pradeshiya Sabha are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- b) The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Policies

Audit Observation	Comment of the Sabha	Recommendation
Three cases filed by the Sabha had not been disclosed in the financial statements.	Information on those cases will be disclosed in the financial statements in due course.	Disclosures should be made on the cases.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
a) A credit balance of Rs. 175,000 in the garbage bin account had been omitted in the accounts.	Corrective measures will be taken.	Account balances should be corrected.
b) In order to construct 21 stalls at the upper floor in the new shopping complex of Bagawanthalawa and give them on long term lease, tenders had been called. A down payment of Rs. 12,347,375 had been obtained from 21 tenderers equivalent to 25 per cent of the tender value. However, no activity whatsoever had been done in the year under review for construction of the stalls, and those funds had been brought to accounts as a revenue of the year under review without being retained in the general deposits.	Corrective measures will be taken on the deficiencies pointed out.	Correct values should be shown in the financial statements.
c) Interest on fixed deposits and advertisement board fees totalling Rs. 351,019 along with legal fees, salaries and travel expenses totalling Rs. 319,443 relating to the year under review, had not been accounted for.	Corrective measures will be taken.	Account balances should be corrected.

1.7 Non-compliances

Non-compliances with Laws, Rules, and Regulations

Instances of non-compliances with Laws, Rules and Regulations, are as follows.

Reference to Laws, Rules, and Regulations	Non-compliance	Comment of the Sabha	Recommendation
Circulars of the Commissioner of Local Authorities. Circular No. 1988/22 dated 17 May 1988	Assessment on properties should be done at least once per 05 years for rates, but rates had been recovered even in the year under review based on the assessment done in the year 2010.	Letters have been sent to the Department of Valuation relating to the assessment of properties.	The Circulars should be followed.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure for the year ended as at 31 December, amounted to Rs. 4,773,456 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 3,612,569.

2.2 Financial Control

Audit Observation	Comment of the Sabha	Recommendation
An advance of Rs. 12,347,375 had been obtained without entering into agreements by selecting bidders for the construction of stalls at shopping complex in Bagawanthalawa. Those funds had been invested and an interest income of Rs. 909,562 had been earned with respect to the period 16 August – 31 December of the year under review. Accordingly, a minimum amount of Rs. 13,256,937 should have been in the possession of the Sabha out of the sum obtained on that purpose, but the balance of the Sabha amounted to Rs. 11,114,745 only as at 31 December of the year under review. Although no activity whatsoever had been executed for construction of the stalls, Rs. 2,142,192 had been spent on the affairs of the Sabha out of the sum obtained for construction of stalls.	Of the sum obtained in that connection, Rs. 10,000,000 had been invested in fixed deposits. The remaining balance of Rs. 2,142,192 had been spent on miscellaneous payments approved by the Chairman and the Financial Committee.	The funds collected should be utilized on the intended purpose.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

According to the information made available by the Chairman, particulars on the estimated revenue, billed revenue, collected revenue, and outstanding revenue relating to the year under review and the preceding year, are given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Deficit as at 31 December
	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .	Rs. .
(i) Rates and Taxes	5,320,000	3,102,133	3,237,884	289,800	3,490,000	3,394,218	3,309,425	425,551
(ii) Stall Rent	11,543,000	8,445,360	8,458,807	2,046,856	11,846,052	7,352,658	7,352,658	2,060,303
(iii) License Fees	3,961,000	1,997,048	1,997,048	-	2,587,000	2,019,556	2,045,096	-
(iv) Other Income	69,036,460	10,014,386	8,449,170	8,241,136	71,281,780	6,372,674	28,738,339	6,675,920
	89,860,460	23,558,927	22,142,909	10,577,792	89,204,832	19,139,106	41,445,518	9,161,774

2.3.2 Performance in Collecting Revenue

Observations relating to the performance of the Sabha in collecting revenue, are given below.

Audit Observation	Comment of the Sabha	Recommendation
a) Rates and Taxes		
There existed an outstanding balance of rates amounting to Rs. 305,776 as at 01 January of the year under review, and only 56 per cent thereof had been recovered during the year. Furthermore, the outstanding balance of rates included a sum of Rs. 3,095 older than 10 years relating to 02 private premises, and a sum of Rs. 21,790 continued to exist between 05 – 10 years relating to 06 private premises. Rates totalling Rs. 108,438 remained due over 01 – 05 years from 35 premises.	Those activities had delayed due to lack of staff.	Action should be taken to recover the outstanding revenue.
b) Rents		
Stall rents totalling Rs. 1,976,546 had not been recovered by end of the year under review.	Will be recovered in due course.	Outstanding revenue should be recovered.

c) Court Fines and Stamp Fees

Court fines and stamp fees receivable from the Chief Secretary of the Provincial Council and other officials amounted Rs. 7,365,500 as at 31 December of the year under review. Court fines amounting to Rs.523,488 had been received on 2023.05.19, and stamp fees amounting to Rs. 3,699,660 had been received. Outstanding revenue should be recovered.

3. Operating Review**3.1 Execution of Duties Entrusted by the Act**

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act, No. 15 of 1987 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.

	Audit Observation	Comment of the Sabha	Recommendation
a)	The Sabha did not possess a gully bowser for disposal of sewage in terms of Sections 93-95 of the Pradeshiya Sabha Act. There was no mechanism for removal of sewage in the area.	A gully bowser could not be purchased due to critical financial position of the Sabha.	Responsibilities assigned by the Act should be exercised.
b)	Action had not been taken to publish roads in Gazette in terms of Section 27 of the Pradeshiya Sabha Act.	Will be done in due course.	Responsibilities assigned by the Act should be exercised.
c)	Action had not been taken as per Section 108 of the Pradeshiya Sabha Act to supply drinking water after being purified and metered; instead, only a monthly fee had been charged.	Action will be done to supply drinking water in due course.	It is necessary to render services for the public.

3.2 Management Inefficiencies

	Audit Observation	Comment of the Sabha	Recommendation
a)	Loan installments of Rs. 639,031 belonging to the officers attached to the Norwood Pradeshiya Sabha from the Pradeshiya Sabha of Ambagamuwa, had not been transferred to the latter; instead, the balance had been retained in the General Deposits Account.	Further action is already being taken in this regard.	The recovered loans should be transferred.

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| b) | An agreement valued at Rs. 2,435,864 had been entered into on 15 March 2022 to implement the project for repairing the library building in Upper Osborn Division. Advances amounting to Rs. 487,000 had been released on 22 March 2022 although the works had not been commenced, but the project had not been completed even by the end of the year under review. | The association in Construction works agreement has been appraised in this connection, and it is informed that works to the value of advance paid, be executed. | Construction works should be completed expeditiously, and the advances should be settled. |
| c) | A sum of Rs. 63,000 had not been settled out of the advance paid to the Engineering Division of the University of Peradeniya for testing the samples of 28 roads constructed in the preceding year. | A sum of Rs. 148,000 out of the advance of Rs. 211,000 has been settled, and a sum of Rs. 63,000 remains to be further settled. | Action should be taken to collect the test reports. |
| d) | Book Stock value of 03 buildings shown in the Register of Fixed Assets, preschool, medical center and 117 units of assets pertaining to a the public library and stock of organic fertilizer as per the report of survey on articles, had not been identified and accounted for. | Will be corrected in preparing the financial statements for the year 2023. | Assets should be brought to accounts. |

3.3 Transactions of Contentious Nature

Audit Observation	Comment of the Sabha	Recommendation
Three bidders who had made a deposit of Rs. 150,000 after presenting bids for stalls in the new shopping complex, Bagawanthalawa in the year 2013, could not get the stalls. But the deposits were not refunded. One of those bidders was given a stalls in Bagawanthalawa at a sum of Rs. 1,555,000 without following the tender procedure.	The relevant party insisted that a stall be constructed by the finance committee. Hence it was so done.	The refundable deposits should be returned.

3.4 Management of Assets

Audit Observation	Comment of the Sabha	Recommendation
a) Boundaries of the land located near the Bridwell road and owned by the Sabha, had not been settled; and, no action had been taken against the encroachers.	After being handed over to us by the Pradeshiya Sabha, Ambagamuwa, it is intended by the Pradeshiya Sabha to maintain a preschool.	The encroachers should be evicted.

- b) Twenty four lands of the Sabha had not been assessed and accounted for, and licenses or agreements had not been made available to the Audit with respect to 22 lands. Those 11 lands had not been secured. Lands will be surveyed based on financial position of the Sabha, thus securing the lands. Security of the properties of the Sabha should be ensured.

3.5 Management of Procurements

Audit Observation	Comment of the Sabha	Recommendation
Only the height of the Barbed were fence post had been mentioned in the bid document, thus obtaining 152 concrete Barbed were fence post which had not complied with the standard, and a payment of Rs. 376,200 had been made.	Due to non-availability of concrete Barbed were fence post compliant with the standard, at the market, and the contract should be awarded expeditiously, it was so done.	Works should be done in accordance with the estimate and standard.

3.6 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
a) A human resource management plan had not been prepared based on the Format given in Annexure 02 of the Public Administration Circular No. 02/2018 dated 24 January 2018.	Due lack of awareness of a human resources management plan, the plan could not be prepared thus far.	Action should be taken as per the Circular.
b) Although 94 posts had been approved, there existed 73 vacancies in 22 posts. As such, key functions of the Sabha such as, collection of revenue, rendering community services & health services and management of waste, had been hindered.	As new recruitments had been suspended due to economic crisis in the country, execution of daily duties of the office has been hindered.	Action should be taken to fill the vacancies.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
Having expected to increase self-financing activities by 01 per cent, it was mentioned in the performance report that the progress thereof ranged between 01 – 74 per cent. Nevertheless, no self-financing projects had been implemented.	As the bylaw had not been adopted, it could not be put in place.	The plans should be adhered to.

4.2 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
<p>Comparison between the estimated revenue and expenditure with the actuals in accordance with the budget prepared for the year under review, revealed variations ranging from 26 per cent to 90 per cent were observed relating to 06 items of revenue whilst variations ranging from 0 per cent to 122 per cent were observed with respect to 09 items of revenue. As such, the budget had not been made use of as an effective instrument of control.</p>	<p>Estimates will be followed as far as possible in the year 2023.</p>	<p>Risk based budget should be prepared as per requirements.</p>

4.3 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
<p>A land in extent of 35 perches had been selected in Kilani for waste management, but waste had been used as a land filling without being managed. Although an amount of 700 kg of organic fertilizer had been produced during the year, no action had been taken for marketing.</p>	<p>The Norwood Pradeshiya Sabha has been established newly, and the financial position thereof remains critical. Hence, equipment has not been purchased.</p>	<p>Solid waste management should be done properly.</p>

4.4 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
<p>Twenty two targets had been set by the Sabha relating to 06 goals. Targets such as, constructing all the canals in the division of the Sabha, destroying all the mosquito breeding locations, constant testing of the samples of drinking water, securing the water resources, and using solar power and renewable energy whenever possible, had not been achieved during the year. Furthermore, no bylaws had been made and no assessments had been done as well.</p>	<p>Development activities had not been carried out in the year 2022. Construction of canals had not been done. The other sustainable development goals will be achieved in the year 2023.</p>	<p>Provisions of the Act should be followed.</p>