

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nuwara Eliya 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 Pradesiya 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 Nuwara Eliya 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The Financial Statements presented are consistent with that of 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 during the previous year are included in the financial statements presented as required by Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Revenue of Rs. 360,000 received from advertisement boards for the preceding year had been brought to account as a revenue for the year under review and the revenue of Rs.524,500 from the advertisement boards pertaining to the year under review had not been brought to account.	This matter will be corrected in the year 2023.	Correct amounts should be included in the financial statements.
(b)	Laptop computers purchased at a cost of Rs. 193,462 during the year under review and the cheque machine had not been capitalized.	This matter will be corrected in the preparation of financial statements for the ensuing year.	Assets should be capitalized.
(c)	The creditors as at the end of the year under review had been overstated by Rs. 740,546.	Action will be taken to prepare the financial statements for the ensuing year with the use of notes to the accounts.	Correct balances should be shown in the financial statements.
(d)	Stamp duty income of Rs. 10,369,320 received during the year under review in respect of the preceding year and the year under review had not been brought to account.	Corrections will be made after identifying the values.	Correct values should be stated in the financial statements.
(e)	Stamp duty of Rs. 3,541,900 received for the preceding year had been brought to account as the revenue for the year under review.	Action will be taken to make corrections in the year 2023.	Accounts balances should be corrected.
(f)	A motorcycle worth Rs. 71,000 had been brought to account under the motor vehicles.	Action will be taken to include it into the Motor Vehicles and Cart Account and thereby, correct it.	Fixed assets should be brought to account.
(g)	A payment of Rs. 608,166, which is applicable to the year under review and paid in the year 2023, had not been brought to account under the creditors.	This matter will be corrected in the preparation of account for the ensuing year.	Expenses should be brought to account.

1.6.2 Unreconciled Control Account or Reports

Audit Observation	Comment of the Sabha	Recommendation
When comparing the balances in the original books and the subsidiary documents related to 06 items of accounts indicated in the financial statements, there was a difference of Rs. 3,892,531.	The account for the coming year will be prepared by including relevant values.	Account balances should be rectified.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
As the subsidiary documents and lease agreements related to 06 account balances worth Rs. 11,937,327 as at 31 December of the year under review had not been submitted, those could not be satisfactorily examined during the audit.	Relevant schedules and agreements will be prepared and submitted.	Action should be taken to prepare schedules.

1.7 Non-compliance Non-compliance with laws, rules, and regulations.

Instances of non-compliance with laws, rules, and regulations are given below.

Reference to laws, rules, and regulations	Non-compliance	Comment of the Sabha	Recommendation
(a) By-laws			
	The by-law 39 of the Local Government Standard By-laws No. 06 of 1952 published in the Extraordinary Gazette No. 520/7 dated 23 August 1988		
i. Section 01	Although the Pradeshiya Sabha had levied charges of Rs. 8,835,775 for 68 advertisement boards from the years 2020, 2021 and up to September 2022, a licence had not been issued.	The shortcomings will be rectified in levying charges for advertisement boards in the year 2023.	Action should be taken in accordance with provisions of the by-law.

ii. Section 2 (g) Charges of Rs.1,308,000 had not been levied for advertisement boards containing 8720 square feet. Necessary steps will be taken to make the relevant institutions aware in order to recover the arrears that further remained outstanding. Action should be taken to recover the revenue in arrears.

(b) Circulars of the Local Government Commissioner

Circular No. 1988/22 dated 17 May 1988 The assessment tax properties of the area of the Sabha had not been recovered after the year 2009. Although requests were made on several occasions to obtain new assessment report after the establishment of new Sabha, the assessment reports have not been received. Action should be taken in accordance with instructions in the circulars.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 5,234,153 for the year ended on 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 10,872,109.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue-	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	4,578,000	4,430,583	5,117,826	1,940,827	4,578,000	5,476,754	3,960,440	2,628,070
(ii) Stall Rents	6,547,916	85,865,475	86,330,192	1,020,167	7,491,667	6,228,598	8,660,973	1,484,884
(iii) License Fees	2,767,000	2,301,478	2,301,478	-	4,000,000	1,966,059	5,913,747	-
(iv) Other Revenue	58,700,821	15,086,522	12,365,771	6,741,728	67,630,827	-	53,269,545	4,020,977
Total	72,593,737	107,684,058	106,115,267	9,702,722	83,700,494	13,671,411	71,804,705	8,133,931

2.2.2 Performance in Collecting Revenue

Performance on the collection of revenue of the Sabha is indicated below.

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
i. Rates of Rs. 336,895 related to the period from 2008 to the year under review had not been recovered from the Department of Railways.	This matter has been informed to the Railway Department in NanuOya on several occasions.	Action should be taken to recover the revenue in arrears.
ii. Outstanding Rates of Rs. 386,545 due from 59 lessees had not been taken in accordance with Sections 158 and 159 of the Pradeshiya Sabha Act No.15 of 1987.	Action will be taken to instruct the officers in charge of the subject of Rates and recover the dues by the Revenue Inspectors.	Action should be taken to recover the revenue in arrears.
(b) Rent		
Outstanding rent of Rs. 77,005 due from the government quarters as at the end of the year under review had not been recovered from the year 2018.	A former Chairman had granted a deed of transfer to a resident and a resurvey will be conducted regarding its legality.	Arrears of rent should be recovered after settling the ownership.
(c) Water Charges		
Outstanding water charges of Rs. 191,880 due from 44 water consumers had not been levied from the year 2018.	Arrangements will be made to recover the dues in instalments.	Arrears of revenue should be recovered.
(d) Court fines and stamp duties		
The court fines and the stamp duty that remained receivable from the Chief Secretary and the other authorities of the provincial council amounted to Rs. 2,020,916 and Rs. 4,720,812, respectively, as at the end of the year under review.	Action will be taken to recover the charges.	Arrears of 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 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.

	Audit Observation	Comment of the Sabha	Recommendation
(a)	According to Section 27 of the Pradeshiya Sabha Act No. 15 of 1987, the existing roads in the area of the Pradeshiya Sabha had not been gazetted.	After computing the relevant roads to be gazetted, necessary action will be taken by allocating funds for that purpose.	Activities should be carried out in accordance with plans.
(b)	Although the it had been planned to test food samples for food hygiene and to instruct the food manufacturing establishments which fall under the functions of Section 78 of the Pradeshiya Sabha Act No. 15 of 1987 through public health inspectors, those tasks had not been carried out during the year.	After making necessary arrangements in this connection, action will be taken to correct the matters.	Activities should be carried out in accordance with plans.

3.2 Management Inefficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Eight lands and buildings valued at Rs. 24,325,000 included in the financial statements had not been stated in the register of fixed assets.	Action will be taken to correct the matter.	Fixed assets should be documented.
(b)	Despite having four canopy huts in the stores as at the beginning of the year under review, 05 canopy huts had been purchased at a cost of Rs. 745,000. Although an amount of Rs.1,000 and a refundable deposit of Rs.2,000 should be obtained in renting canopy huts, canopy huts had been given without levying charges for more than 20 instances during the year under review.	Action will be taken to levy charges from the year 2023.	Action should be taken to collect revenue.

3.3 Assets Management

	Audit Observation	Comment of the Sabha	Recommendation
	Seven stalls belonging to the Sabha in Kirimetiya had been personally modernized by the lessees without obtaining permissions and 04 new shops had been constructed on the premises of the Sabha without permission. Deeds for the stall No.05 and 06 had been given to the relevant stall owner by a Chairman of the Sabha.	Action will be taken to correct the matter by signing agreements with the Sabha for the relevant properties and levying lease.	The safety of Properties owned by the Sabha should be ensured.

3.4 Deficiencies in the Contract Administration

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Public Drainage Construction Industry on the road of the Edinburgh Estate Rs.1,364,874		
i	Although the mixing of concrete could be done by machines, it was estimated and paid at a higher rate as a manual work. As such, a sum of Rs. 54,124 had been overpaid.	Overpayments will be recovered in the repayment of retention money.	Estimates should be prepared at a minimum cost.
ii.	According to physical inspection, as the concrete of the drainage system had not been compressed properly, appearance of honeycombs could be observed. Mortar had not been properly applied to the gaps of the rubble retaining wall and due to overstatement of the measurements, a sum of Rs. 56,031 had been overpaid during the construction of the wall.	Overpayments will be recovered in the repayment of retention money.	Estimated works should be carried out in proper standard.
(b)	Development of Nanu Oya Playground. Rs.1,486,600		
i.	Although Rs. 1,468,600 had been paid for supplying, filling and leveling 750 cubic meters of soil approved by the Engineers to the playground, the soil thus filled contained large stones which could not be identified as engineering approved soil after filling on the field. The construction had not been completed during the year under review.	The work was completed on 27 February 2023, and an engineering recommendation will be obtained on the filled soil	Estimated works should be carried out in proper standard.
ii	Although advance of Rs. 394,675 had been paid to the relevant contractual society on 31 May 2022, the contractual society had misappropriated government funds for three months without commencing works until August 2022.	The loss will be recovered in the payment of final bill.	Necessary steps should be taken regarding the payment of advances.

4. Accountability and Good Governance

4.1 Annual Action Plan

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Even though the Revenue Division anticipated to take legal action, seizure of property and file lawsuits in respect of arrears of revenue,	Steps will be taken in accordance with the Action Plan form the	Activities should be carried out in accordance with the

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| | those activities had not been done during the year. | year 2023. | plans. |
| (b) | Although it had been proposed in the annual action plan to establish development advisory committees to facilitate the work of the Sabha and identify development projects accordingly, action had not been taken accordingly. | Action will be taken to obtain proposals through development advisory committees in the preparation of budget for the year 2024. | Activities should be carried out in accordance with the plans. |
| (c) | Although it had been proposed in the action plan to properly empower the community by implementing community participatory programmes during the year, no community empowerment programmes whatsoever had been implemented during the year. | Further action will be taken in accordance with the action plan from the year 2023. | Activities should be carried out in accordance with the plans. |
| (d) | Although plans had been drawn to implement 04 objectives related to provide primary education to all the children in the area, those activities had not been carried out. | Action will be taken to carry out necessary activities and thereby, correct the matter. | Activities should be carried out in accordance with the plans. |

4.2 Budgetary Control

Audit Observation

In terms of the budget prepared for the year under review, when comparing the estimated income and expenditure with the actual income and expenditure, variations of 21 per cent to exceeding 100 per cent were observed in 06 items of revenue and variations from 03 per cent to over 100 per cent were observed in 05 items of expenditure, and accordingly, the budget had not been made use of as an effective instrument in control.

Comment of the Sabha

Action will be taken to rectify shortcomings.

Recommendation

The budget should be prepared with due consideration in keeping with the requirement.

4.3 Environmental Issues

Audit Observation

The garbage collected in the area of the Nuwara Eliya Pradeshiya Sabha, which has abundant in water sources and supplies water to the main rivers, had been dumped in an empty land in Edinburgh Estate bordering the main road for almost two months without even segregating the garbage.

Comment of the Sabha

Action will be taken to rectify shortcomings.

Recommendation

A proper programme should be put in place for solid waste management.

4.4 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
No sustainable development goals had been established in accordance with the Sustainable Development Act, No.19 of 2017.	Action will be taken to carry out necessary activities in this regard and thereby, correct the matter.	Action should be taken in accordance with the plans.