

## **Namaloya Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Namaloya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising Statement of financial position as at 31 December 2022, Income and Expenditure Account, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Namaloya Pradeshiya Sabha as at 31 December 2022, 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 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 and Regulatory Requirements**

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

- (a) 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.
- (b) 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**

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
(a) The shop rental income related to the year under review had been over-accounted by Rs. 223,215.	That the error will be corrected while preparing the financial statements for the year 2023.	Should be properly accounted.

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|-----|---|--------|--------|
| (b) | Advertisement billboard revenue amounting to Rs. 236,958 receivable as at 31 December of the year under review had not been accounted.  | - Do - | - Do - |
| (c) | The development creditor balance had been under-accounted by Rs.1,687,040 as at 31 December of the year under review.   | - Do - | - Do - |
| (d) | The amount of Rs. 453,000 to be paid for the project of developing the Polwatta Shops had been stated twice under the development creditors.  | - Do - | - Do - |
| (e) | The value of Rs. 4,190,158 incurred for the construction of the canteen and toilet system near the Paragahakale Cultural Center under the Regional Development Assistance Project had not been capitalized.                                     | - Do - | - Do - |
| (f) | The receivable stamp duty income related to the months of November and December of the year under review had not been recognized and accounted and the outstanding stamp duty income had been overstated by Rs. 365,793 as at 31 December 2022. | - Do - | - Do - |

## 1.6.2 Unreconciled Control Accounts or Records

### Audit Observation

### Comment of the Council

### Recommendation

There was a mismatch of Rs. 11,509,642 between the accumulated fund balance as at 31 December of the year under review and the balance of the contribution from income/ grant to capital investment account.

That the error will be corrected while preparing the financial statements for the year 2023.

Reasons for mismatches should be investigated and rectified.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2022 amounted to Rs. 40,005 as against the excess of revenue over recurrent expenditure amounted to Rs. 450,291 in the preceding year.

### 2.2 Financial Control

#### Audit Observation

#### Comment of the Council

#### Recommendation

Necessary actions had not been taken to settle 03 balances of Rs. 28,886 which have been brought

Although the governor's approval was sought, the necessary instructions have not been

Actions should be made to settle the balance.

forward for a long time in the statements of bank reconciliations related to two bank accounts belonging to the local council. received. Actions are being taken to submit a letter again.

## 2.3 Revenue Administration

### Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the chairman, the details relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	350,000	161,500	161,500	-	206,000	222,450	222,450	-
ii. Rent Income	4,173,540	1,859,264	1,878,272	3,100	2,502,890	3,049,672	3,027,565	22,108
iii. License Fees	837,000	393,945	393,945	22,505	666,000	507,085	484,580	22,505
iv. Other revenue	3,425,505	1,563,614	1,563,614	15,008	565,045	2,117,236	2,117,236	15,008
Total	8,786,045	3,978,323	3,997,331	40,613	3,939,935	5,896,443	5,851,831	59,621

## 3. Operational Review

### 3.1 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) According to the financial statements of the local council, the value of fixed assets of Rs. 196,526,918 had not been kept the fixed assets register up-to-date by entering the values according to each item.	That the separate new documents will be prepared.	The fixed asset register should be updated by entering the values.
(b) The value of the land where the buildings of the local council are located, the value of 15 cemeteries and 07 playgrounds had not been identified and accounted.	That a committee will be appointed to identify and account the value in the future.	Values should be recognized and accounted.
(c) The value of 20 items of goods received as donations during the year under review had not been recognized and accounted.	That will be accounted in the future.	- Do -
(d) The value of a tractor-tailor owned by the local council had not been recognized and accounted.	That the tailor was received around the year 1994, so council do not have any information about it, so council could not account it.	- Do -

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|-----|---|---|---|
| (e) | Three non-repairable vehicles in the possession of the council had been remained idle for a period of 07 to 23 years. | That the right to auction the vehicle has not been transferred to council and has been informed to the office of the Deputy Chief Secretary about it. | It should be submitted to the relevant institutions and sold in the auction.              |
| (f) | The council had not taken over the ownership of the 05 vehicles to the council's name.                                | That the vehicle transfers applied but not delivered yet.   | The registration rights of the vehicles should be transferred in the name of the council. |

### 3.2 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) According to the employee loan register, it was observed that 02 loan balances of two officers who were transferred had been remained uncollected for a period of 11 to 16 years.	That the relevant institutions have been informed through letters but have not been charged yet.	Actions should be made to recover the outstanding loan amount.
(b) At the end of the year under review, there were 08 vacancies in the council.	This has been reported to the Local Government Commissioner through monthly reports.	Necessary actions should be taken to fill up the vacancies.