

## **Nagoda Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Nagoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations, statement of changes in assets, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy 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 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 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 Nagoda Pradeshiya Sabha as at 31 December 2023, 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 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.

- Financial Statements of the Pradeshiya 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.
- 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 Hardimek crane valued at Rs.662,000 was not accounted under cars and carts.	The action will be taken to account properly in the future.	Should be accounted properly.
(b) Interest receivable and interest received on fixed deposits amounting to Rs.196,170 were stated as a liability balance.	- do -	- do -
(c) Due to the non-presentation of the Udugama sub-office repair expense bills to the Sabha during the year under review, and due to over-stated the balance due for the repair of the Pradesiya Sabha public library, the government grant account payable had increased by Rs.849,065 and Rs.202,970 respectively.	- do -	- do -

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| (d) | Capital expenditure of Rs.10,111,667 incurred during the year was not capitalized under fixed assets.   | - do -                                       | - do -                         |
| (e) | An amount of Rs.102,384 due to the Sabha for the maintenance of street lights for the year 2019 was received in the year 2020, however the balance was shown as debtors in the year 2023. | It will be properly accounted in the future. | Should be accounted correctly. |

### 1.6.2 Non reconciled control account

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
There was a difference of Rs.3,940,500 between the balances related to 10 accounting items shown in the financial statements and the balances shown in the related utility registers and schedules	Will be corrected by in future.	Should be reconciled the differences and rectify the accounts.

### 1.6.3 Suspense Accounts

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The credit balance of the suspense account of Rs.18,315 since 2014 remained unsettled even at the year under review.	Will be corrected in the future.	Arrangements should be made to settle the balance of the suspense account coming continually.

### 1.6.5 Lack of Documentary evidence for Audit

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Due to non-submission of the necessary detailed schedules for the confirmation of 06 accounting items aggregating to Rs.116,238,133 could not be examined satisfactorily	The action will be settled.	Evidence should be submitted to confirm the account balances.

## 1.7 Non-compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a) The Financial Regulations 104 of the Democratic Socialist Republic of Sri Lanka	The back glass and the right glass of the driver's seat of a tractor belonging to the Sabha were broken, and the actin had not been taken as per financial regulations in this regard.	The investigations have been started according to FR.104.	The action should be done in accordance with the Regulations.
(b) Circular No. SS/03/12/05 dated 22 May 2018 of the Chief Secretary of the Southern Province	The repairs were not made to 02 tractors and 02 Hardimec machines costing Rs.4,211,120 which were idle between 05 and 02 years.	Quotations have been called and further action has commenced.	The action should be taken to repair the vehicles.

### 1.7.2 Unauthorized transactions

Audit Observation	Comment of the Sabha	Recommendation
The secretary had used the Sabha's vehicle to travel between home and office daily without group transport facilities, and had paid Rs.277,229 for the fuel.	The approval of the Hon'ble Governor has been given for obtaining transport facilities.	The action should be done according to the Act.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2023 amounted to Rs.1,103,608 and as compared with the excess of recurrent expenditure over revenue amounted to Rs.3,220,655 in the preceding year.

## 2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	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.
Acreage ]	1,315,000	561,850	582,269	379,222	865,000	1,063,469	1,186,032	399,641
Taxes ]								
Rent	3,379,200	2,967,456	2,859,710	725,387	4,476,000	1,813,560	6,633,804	617,641
License ]	1,100,500	1,086,328	982,805	103,523	551,000	965,740	1,696,452	-
Fees ]								
Other ]	1,705,000	830,496	830,496	14,801,129	1,710,000	780,242	1,191,152	14,801,129
Income ]								
	7,499,700	5,446,130	5,255,280	16,009,261	7,602,000	4,623,011	10,707,440	15,818,411

### 2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
(a) The total outstanding revenue was Rs.15,818,411 as at 01 January of the year under review, and the deficit at the end of the year was Rs.16,009,261, the percentage of revenue collection was 24 percent.	The actions are being taken to recover these arrears.	Arrears of income should be recovered as soon as possible.
(b) There were 53 Grama Niladari divisions with an area of 17,971 hectares within the Area of authority of the Pradeshiya Sabha, and in accordance with Sections 134(1) and (2) of the Pradeshiya Sabha Act No. 15 of 1987, the action had not been taken to identify the developed areas and taxed to raise the income of the Sabha,.	The 06 Grama Sewa divisions have been identified and gazetted.	Action should be taken to identify the areas where the assessment tax should be levied.
(c) There were 02 balances of Rs.358,784 in shop rent arrears remained uncollected for a period of 03 years.	A solution will be provided in this regard.	Unrecoverable balances should be collected promptly.

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| (d) | The Sabha's water bowser had been used for 84 days to distribute water, however the sabha had lost an income of Rs.770,000 as the revenue was collected only for 07 days. | The above water bowser has been provided as per 105(a) of the Pradeshiya Sabha Act No. 15 of 1987 under Public Utility Services. | Arrangements should be made to collect fees as prescribed. |
| (e) | The income of Rs.783,200 due from 27 hoardings displayed within the Sabha had not been collected.   | Necessary action will be taken.  | Relevant fees should be charged.                           |

### 3. Operational Review

#### 3.1 Management Inefficiencies

##### **Audit Observation**

As the Sabha did not pay the water and electricity bills within the stipulated time, the Sabha had to pay the balance and fine of Rs.43,425.

##### **Comment of the Sabha**

The action will be taken happen this again in the future.

##### **Recommendation**

Water and electricity bills should be paid as soon as possible.

#### 3.2 Operational Inefficiencies

##### **Audit Observation**

- (a) The Sabha had not taken action to charge Rs.240,000 in advance fees for 08 communication towers that had been installed in the area of Sabha.

##### **Comment of the Sabha**

The action will be taken to recover in the future.

##### **Recommendation**

Applicable fees should be charged.

- (b) In relation to 03 communication towers located in the area, the license fees had not been paid from the year 2019 and 2022, however the Sabha had not taken action to recover receivable amounting to Rs.33,000

Letters have been sent asking to pay money for the year 2023.

Business and professional license fees should be charged.

### 3.3 Deficiencies in contract administration

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) In the construction of the entrance road related to the crematorium belonging to the Pradeshiya Sabha, an informal payment of Rs.1,270,225 had been made without preparing estimates based on the quantity based on the price rates related to earth cutting.	Payments has been made on a machine-hour basis.	Estimates should be prepared and paid based on quantity.
(b) In preparing the estimates for the construction of the shopping complex at Talgaswala, Rs.181,472 was overpaid due to not using the prescribed price rates for filling the foundations of the building under work item 5.1. Also, although the contract value of this work was Rs.8,503,932, the work was scheduled to be completed on 09 December 2021, however the amount of work completed at the end of the reviewed year was Rs.2,989,854, so its financial progress was as low as 35 per cent.	Since the soil from the road and the crematorium was required for its construction, the soil was not sufficient to be used for the construction of the Talgaswala shopping complex and there was a very bad weather condition at the time of the project to complete the work.	To be used according to the prescribed rates.  The construction should be completed within the stipulated time to achieve the desired objectives.

### 3.4 Staff Loan

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Debt balances of Rs.39,847 due from 15 dismissed and retired officers had not been recovered.	The recoverability of these loan balances will be further considered.	Outstanding loan balances should be recovered.