

## **Nikaweratiya Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Nikaweratiya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, statement of changes in equity, 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 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 financial statements give a true and fair view of the financial position of the Nikaweratiya 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 for Local Authorities

#### **1.2 Basis for Qualified Opinion**

I express qualified opinion based 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

National Audit Act, No. 19 of 2018 includes specific provisions for 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 the recommendations made by me in the previous year as per the requirement of 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	Comments of the Sabha	Recommendation
The retention value of the public market toilet construction of the Sabha carried out under Sabha funds in the year 2021 amounting to Rs.33,110 had been paid in 04 July 2022, it had not been removed from the respective account.	It will be rectified by Journal Entry No. 02.	It should be accurately accounted for.

### 1.6.2 Unreconciled Control Account

Audit Observation	Comments of the Sabha	Recommendation
There was a difference in the total value of Rs. 21,975,636 between the financial statements of 04 accounting items and the schedules.	It will be rectified by Journal Entries .	It should be accurately accounted for.

## 1.7 Non –compliances

### Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Sabha	Recommendation
Pradeshia Sabha (Finance and Administration) Rules 1988 Rule 59	Conducting a survey on licenses in the Sabha area and inclusion of all the industries mentioned in that list, in the industrial tax register had not been carried out during the year under review.	It has been planned to be done in the future in the order of survey list	The relevant instructions in rules should be followed.

## 2. Financial Review

### 2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 39,728,102 and the income exceeding the recurrent expenditure of the preceding year was Rs. 18,538,795.

### 2.2 Revenue Administration

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

The estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December (from billed income)	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December (from billed income)
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	7,120	6,351	6,299	7,338	776	5,946	2,944	3,002
Rents	,16,712	5,849	10,994	5,768	18,348	2,747	-	14,239
License Fees	1,676	509	1,562	113	2,066	800	600	1,465
Other Income	37,965		52,158	61	36,142	1,550	24,166	11,975
Total	63,473	12,709	71,013	13,280	57,332	11,043	27,710	30,681

## 2.2.2 Performance on Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<p><b>(a) Rates and Taxes</b></p> <p>Out of the arrears of rate balances, the balance remained between 3-5 years old was Rs.1,235,018 and the balance older than 05 years was Rs.705,506 as at 31 December of the year under review.</p>	<p>Arrangements will be made to promptly recover the arrears of rates remained furthermore.</p>	<p>Actions should be taken to recover arrears of rates.</p>
<p><b>(b) Acreage Taxes</b></p> <p>Out of the arrears balance of Rs.20,431, a sum Rs.2,510 was between 3-5 years and a sum of Rs.3,445 was a balance older than 05 years as at 31 December of the year under review.</p>	<p>Arrangements will be made to recover arrears of acreage taxes promptly.</p>	<p>Actions should be taken to recover arrears of acreage taxes.</p>

**(c) Rents**

A lease rent arrears of Rs.2,686,300 should have been collected from public market complex, bus station shops, mobile booths and public facility shops as at 31 December 2022 .

Arrangements will be made to recover the arrears remained at present promptly.

Actions should be taken to promptly recover arrears of lease rent.

**(d) Court Fines and Stamp Duties**

The court fines and stamp duties that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 were Rs.43,777,250 and Rs.17,256,977 respectively.

Arrangements will be made to recover court fines and stamp duties.

Actions should be taken to prompt collection of court fines and stamp duties.

**3. Operational Review**

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<p><b>(a)</b> The total value of 10 accounts receivable balance items as at 31 December of the year under review was Rs.116,639,023 and out of which, a sum of Rs.1,406,046 was outstanding balance for more than 05 years.</p>	<p>Arrangements will be made to recover income receivables.</p>	<p>Actions should be taken to recover receivables.</p>
<p><b>(b)</b> The total value of 12 accounts payable items as at 31 December of the year under review was Rs.73,351,642 and the</p>	<p>Arrangements will be made to lease out the shops.</p>	<p>Accounts payable should be settled promptly.</p>

total of three account balances that had exceeded a period of 05 years was Rs. 1,332,186 .

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| (c) | Due to the failure of the Sabha to provide necessary infrastructure before leasing out the shops, the Sabha did not receive any income from 5 bus stand shops, which were not entered into agreements in the previous year as well. | Actions will be taken to recover.                             | Arrangements should be made to develop infrastructure and generate income from lease properties. |
| (d) | There were 21 telephone transmission towers in the area of the Sabha in the year 2022 and actions had not been taken to collect business tax related to those towers.   | -do-  | Arrangements should be made to collect business tax related to telephone transmission towers.    |
| (e) | Actions had not been taken to identify new development constructions in the area and to collect rates thereon by the Sabha.   | -do-  | Arrangements should be made to accurately identify rateable properties and generate income.      |
| (f) | The value of 29 lands and 161 burial grounds owned by the Sabha for public wells had not been assessed and accounted for as at 31 December of the year under review.  | Arrangements will be made to be corrected by journal entries. | It should be assessed and accounted for.   |

### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
The ownership of 162 burial grounds maintained by the Sabha had not been taken over to the Sabha.	That the activities of taking over the ownership of 162 cemeteries owned by the Sabha are currently being carried out.	Arrangements should be made to take over the ownership of burial grounds.

### 3.3 Idle / Underutilized Assets

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Even though it had been shown in the registers that there were 258 tube wells out of 100 public wells owned by the Sabha, as the records of their existence and functioning were not maintained up to date a verification of idle wells was not submitted for audit. Out of approximately 40 public wells and 53 tube wells were at unusable level.	A Committee has been appointed by the letter dated 28 November 2022 to investigate this matter and actions will be taken to remove inactive public wells and update the registers.	Asset registers should be maintained up to date.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Due to variation of 34.5 per cent to 100 per cent between estimated and actual income of 05 revenue items and variation of 49 to 80 per cent between estimated provision and actual expenditure of 05 expenditure items in the year under review, the Budget was not made use as an effective management control tool.	Comments have not been given.	Arrangements should be made to prepare the budget realistically and optimize the allocation based on it.



## 4.2 Sustainable Development Goals

Audit Observation	Comments of the Sabha	Recommendation
Even though the Sabha had identified sustainable development goals and objectives as per the terms of the Sustainable Development Act No. 19 of 2017, indicators had not been identified to measure those objectives and targets.	Indicators will be identified and implemented to measure the goals and objectives in the future.	Sustainable development goals and objectives should be identified and achieved.