

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Nikaweratiya Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, and statement of financial operations, statement of changes in equity, 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 reported 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 2023, 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**

I express qualified opinion in respect of financial statements 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 Sri Lanka Public Sector Accounting Standards, 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 Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) The project creditors related to 24 unfinished projects of 2020 and 2021 amounting to Rs. 40,364,473 and Rs. 172,600 respectively had been shown in the financial statements as at 31 December of the year under review.	Actions will be taken to correct.	It should be accurately accounted for.
(b) Two types of electrical goods with a total value of Rs 129,950 had not been included in the financial statements under store value.	-do-	-do-
(c) The value of library books amounted to Rs 3,749, the value of consumer goods amounted to Rs 145,000 and the 04 stationery items amounted to Rs 45,900 had been understated in the financial statements.	Actions will be taken to correct.	It should be accurately accounted for.

(d)	Purchases of Fixed Assets during the year 2023 amounting to Rs. 273,800 had not been stated as purchases of fixed assets and expenditure on constructions in the year under review which totalled to Rs 9,612,632 had also not been capitalized.	-do-	-do-
(e)	No disclosures were made in the financial statements in respect of 09 pending cases as at 31 December of the year under review.	Actions will be taken to disclose in the future.	Contingent liabilities should be disclosed in the financial statements

### 1.6.3 Lack of Written Evidence for Audit

Audit Observation	Comments of the Secretary	Recommendation
Due to non-submission of formal documents to verify the balance of stock in hand as at 31 December of the year under review amounting to Rs.8,690,752, it could not be satisfactorily verified.	Agree with the observation.	Creditor balances should be settled promptly in a formal manner.

## 1.7 Non-compliance

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

The Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to Laws, Rules, Regulations, Management Decisions etc.	Comments of the Secretary	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987	Section 134 Actions had not been taken to declare the areas developed and serviced by the Sabha as developed village areas.	Agree with the observation Actions should be taken in terms of the Circular.

<b>(b)</b>	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
<b>(i)</b>	Financial Regulations 371	An advance of Rs.26,000 given in March 2023 for a repair work had remained outstanding even by 31 December 2023 .	-do-	Actions should be taken in terms of Financial Regulations.
<b>(ii)</b>	Financial Regulations 570 and 571	Actions had not been taken to credit 116 lapsed deposits valued at Rs.1,334,032 to the government revenue as per regulations.	-do-	-do-
<b>(c)</b>	Pradeshiya Sabha Financial and Administrative Rules			
<b>(i)</b>	Rule 33	A list of rates defaulters and a distress warrant of property had not been prepared by the Assessment Clerk at the end of each quarter and not submitted for the signature of the Chairman..	-do-	Actions should be taken in terms of Rules
<b>(ii)</b>	Rule 61	Although all the projects included in the list obtained after conducting an annual survey should be included in the register of project taxes, only the businesses that pay fees had been arranged to be included in the register. It was not included about the non-taxable projects in the registers and no legal actions had been taken in this regard.	Agree with the observation	Actions should be taken as per Rules.

<b>(iii)</b>	Rule 218	Although an annual survey of land and buildings should be conducted by an appointed board, it had not been so done.	-do-	-do-
<b>(d) Public Administration Circulars</b>				
<b>(i)</b>	Circular No. 02/2018 dated 24 January 2018 for the development of human resources in the public sector	Actions had not been taken as per the provisions included in clauses 3,4,6.1,6.3,6.5 of the circular.	-do-	Actions should be taken as per circulars.
<b>(ii)</b>	Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	Fuel combustion test was not done for vehicles/ machinery and motorcycles.	-do-	-do-
<b>Local Government Circulars</b>				
<b>(i)</b>	Section 1.2 ii of Circular No. 2010/02 and dated 30/07/2010	Although a divisional transfer system should be implemented once in 02 years for officers who find it difficult to do so, it had not been so done.	-do-	Actions should be taken as per circulars
<b>(ii)</b>	Circular No. 03/2015 and dated 02/11/2015	The register of street lights had not been maintained in an updated manner.	Agree with the observation	Actions should be taken as per circulars

**2. Financial Review**  
**2.1 Financial Results**

As per the financial statements presented, revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2023 was Rs. 2,981,285 and as correspondence revenue that exceeded the recurrent expenditure of the preceding year was Rs. 39,728,102 .

## 2.2 Revenue Administration

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

As per the information presented by the Secretary, the details about the estimated revenue, billed revenue, collected revenue and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	Year 2023				Year 2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December (from Billed Revenue)	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December (from Billed Revenue)
	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.
Rates and Taxes	7,524	15,664	8,833	6,830	7,120	6,351	6,299	7,338
Rents License Fees	20,496	19,131	14,111	5,020	16,712	5,849	10,944	5,768
Other Income	1,761	1,869	1,862	7	1,676	509	1,562	113
Total	188,363	91,125	33,324	57,800	37,965	-	52,158	61,034
	218,144	127,789	58,130	69,657	63,473	12,709	70,963	74,253

### 2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Secretary	Recommendation
(a) The unrecovered balance of rates as at 31 December of the year under review was Rs 6,799,619.	Agree with the observation.	Actions should be taken to recover the arrears of balances promptly.
(b) The uncollected acre tax as at 31 December of the year under review was Rs 31,141 .	-do-	-do-

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| (c) | Actions had not been taken to collect business tax related to the year 2023 from telephone transmission towers located within the area of the Sabha.   | -do-                        | Actions should be taken to recover the business taxes properly.                      |
| (d) | The arrears of rent were Rs.4,249,291 and the arrears of lease rent had been Rs.771,454 as at 31 December of the year under review.  | Agree with the observation. | Actions should be taken to recover the arrears of balances promptly                  |
| (e) | Rs. 57,800,660 had to be collected furthermore from other revenue billings in the year under review.   | Agree with the observation. | Actions should be taken to recover the arrears of balances promptly                  |
| (f) | Court fines and stamp duty to be received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2023 were Rs 45,103,250 and Rs 12,697,410 respectively.   | Agree with the observation. | Actions should be taken to recover the arrears of balances promptly.                 |
| (g) | Although the town hall had given to external parties on 18 occasions and earned an income of Rs 420,000, the town hall had been given to external parties for free on 30 occasions. Since the Sabha also bears the water bills, electricity bills and maintenance costs related to the town hall, the city hall was given to outside parties for free, which resulted in a loss of income that could be obtained from the property owned by the Sabha and unnecessary expenses had also been incurred. | -do-                        | The properties owned by the Sabha should be properly utilized for income generation. |



### 3. Operational Review

#### 3.1 Performance of functions assigned by the Act

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
<b>(a)</b> Although it is the duty of the Sabha to take effective measures to ensure that adequate and proper toilet facilities are provided to all houses, buildings and lands within the jurisdiction of the Council In terms of Section 85 (a) of the Pradeshiya Sabha Act No. 15 of 1987, sufficient attention had not been paid to it. The number of household units without proper toilet facilities in the Sabhal area was 937 .	Agree with the observation	Actions should be taken in terms of the Section.
<b>(b)</b> Even though capital expenditure of Rs. 141,726 and recurrent expenditure of Rs. 8,635,852 had been incurred for solid waste management during the year under review, the income received from the sale of waste was Rs. 131,200 .	-do-	Actions should be taken to manage biodegradable and non-biodegradable waste properly and to develop income generation activities.

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
There was a irrecoverable loan balance of Rs.519,740 from 14 employees as at 31 December of the year under review.	Agree with the observation.	The employee loans should be recovered promptly.

### 3.3 Operational Inefficiencies

Audit Observation	Comments of the Secretary	Recommendation
(a) A total balance of Rs 2,460,955 payable for more than 05 years old had remained unsettled.	Agree with the observation	The balances payable should be settled.
(b) Although the assessment of rates should be done once in 05 years by the Valuation Department, the last time the assessment of rates was done by the Pradeshiya Sabha in the year 2017 .	-do-	The assessments should be done on timely manner.
(c) Due to failure to mention membership numbers, it had to pay a surcharge amounting to Rs.8,564 to the Employees Provident Fund on 05 occasions during the payment of the Employee Provident Fund in the year 2023 .	Agree with the observation	As it is an unnecessary expense incurred due to non-fulfilment of duties, actions should be taken against the respective parties.

### 3.4 Assets Management

Audit Observation	Comments of the Secretary	Recommendation
(a) The Register Fixed Assets had not been properly maintained for furniture and fittings and vehicle machinery equipment.	Agree with the observation	Fixed asset records should be maintained up to date.
(b) Conducting a formal survey confirm the physical existence of 58 lands and cemeteries owned by the Sabha had not been done and the fence boundaries were not applied properly.	-do-	-do-
(c) Street lights owned by the Sabha had not been numbered and computer networking thereon had not been done	Agree with the observation	Street lights should be numbered and computer networking thereon should be done.

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| (d) | Out of 161 cemeteries maintained by the Sabha , the ownership of 159 and 15 lands had not been transferred to the Sabha. | Agree with the observation. | The ownership of assets should be taken over to the Sabha. |
| (e) | The assessed value of motor grader amounted to Rs.19,000,000 in the year 2023 had not been taken over to the Sabha.      | -do-                        | -do-   |

### 3.5 Idle or Underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
(a) The security camera system installed at Kotavehera Concrete Production Center remained inactive from June 2022.	Comments have not been given.	Actions should be taken to utilize the idle assets.
(b) A water bowser owned by the Sabha was decaying in the concrete production centre premises.	-do-	-do-
(c) Fifty eight out of 258 council wells and 20 out of 100 public wells were not at functional level.	-do-	-do-

### 3.6 Deficiencies in Contract Administration

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
The aggregate value of 04 unbudgeted projects had been completed during the year under review at a cost of Rs.3,471,624 .	Agree with the observation.	It should be completed promptly.

#### 4. Accountability and Good Governance

##### 4.1 Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
There were variations of 59 to 725 per cent between estimated and actual income in 04 income items and there were more than 20 per cent variations between the estimated allocation and the actual expenditure in 06 expenditures items.	Agree with the observation.	Income estimates should be prepared as rationally as possible.

##### 4.2 Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Secretary</b>	<b>Recommendation</b>
Projects had been implemented during the year under review at a cost of Rs.458,091 Projects had been implemented during the year.	Agree with the observation.	Projects had been implemented during the year under review at a cost of Rs.458,091 to achieve the objectives identified under 05 Sustainable Development Goals.