

Nikaweratiya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Nikaweratiya Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Subsection 172(1) of the Pradeshiya 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 financial statements give a true and fair view of the financial position of the Nikaweratiya Pradeshiya Sabha as at 31 December 2020, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 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 of the Sabha.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 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 the Sabha' 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 by the Pradeshiya Sabha are 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 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 relating to the Preparation of Financial Statements.

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The sum of Rs. 7,629,470 incurred on the development of lands and buildings of the Sabha during the year under review and the preceding years, had not been capitalized.	It is informed that corrective measures will be taken through journal entries.	Expenses incurred on the development of lands and buildings should be capitalized.
(b) Motor vehicles and carts had been assessed in the year under review, and the increase in value by Rs. 1,496,500 had not been brought to accounts whereas the decrease in value amounting to Rs. 122,420 had been overstated.	Agreed and will be corrected through journal entries.	Assessment of motor vehicles should be brought to accounts correctly.
(c) The balance of court fines receivable by the end of the year under review, had been understated by a sum of Rs. 1,541,750.	Not commented.	The receivable balances should be identified correctly and brought to accounts.
(d) Revenue had been overstated by a sum of Rs. 2,478,891 with respect to 02 items.	It is informed that corrective measures will be taken through journals.	The revenue should be identified correctly and brought to accounts.
(e) The lease rent of Rs. 1,663,787 written off in the year, had not been adjusted in the financial statements.	Necessary action will be taken to adjust to the financial statements of this year through journals.	Accuracy should be ensured in the accounting process.

- (f) The Pradeshiya Sabha had filed Cases filed against the Contingent liabilities cases against 03 external parties external parties could not should be disclosed. in the year under review by be disclosed in the report of spending a sum of Rs. 612,600 accounts for this year by without disclosing in the mistake. financial statements.

1.7 Non-compliances

Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, were observed.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Sabha	Recommendation
Circular, No. 2015/01 of the Commissioner of Local Authorities, dated 02 November 2015.	The maximum of financial assistance provided on request of persons should be Rs. 25,000, but a sum of Rs. 500,000 had been paid for a heart surgery performed on a member of the Pradeshiya Sabha.	Those monies had been given with <i>bona fide</i> intentions for a heart surgery of a member of the Pradeshiya Sabha. Recommendation of the Commissioner of Local Authorities, and approval of the Minister in charge of the subject had been obtained in that connection.	Provisions of Circulars should be followed.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 8,748,307 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 60,270,265.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
Due to failure in taking action to give 04 assets of the Sabha on lease during the year 2020, an income of Rs. 1,713,168 had been deprived on the lowest bid.	Tenders were invited quare for the 04 assets pointed out by the Audit, but no buyer showed interest. Due to the COVID-19 pandemic, duties were performed from home for 2 ½ months. As such, it is informed that further action could not be taken in that regard.	The minimum bid should be revised by identifying the reasons for the failure of buyers to show interest, thus calling for tenders.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas 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.

3.1 Performance

Audit Observation	Comment of the Sabha	Recommendation
A sum of Rs. 7,736,609 had been spent for establishing a concrete manufacturing center. No revenue had been generated by manufacturing concrete products in the year 2020, but a revenue of Rs. 192,770 had been generated in the year 2021.	It is informed that guidelines have been prepared in that connection.	Action should be taken to reap benefits by manufacturing concrete products through this project.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Due to failure in giving 05 stalls at the bus station owned by the Sabha, on lease during the year under review, an income of Rs.420,000 had been deprived of whilst an income of Rs.1,434,000 had been lost due to failure in leasing out 18 stalls at the	It is informed that necessary action will be taken in due course. Despite being decided that the said stalls would be given on lease annually, no buyers showed interest.	Action should be taken to generate income by giving the properties of the Sabha on lease.

ground and upper floors of the health center. Although a period of 3-4 years had elapsed since the stalls at the upper floor of the bus station had been declared open, those stalls remained closed due to various reasons such as non-availability of electricity, and pigeons. The Sabha had not taken corrective measures in that connection.

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| (b) | The value of three balances relating to trade debtors, industrial advances, and prepaid balances receivable as at 31 December of the year under review totalled Rs.8,395,213. According to the age analysis thereon, the total of the account balances relating to 1-5 years amounted to Rs. 5,731,991 whilst the total of the account balances older than 05 years amounted to Rs. 1,715,435. | It is informed that action will be taken in due course to settle those balances. | Action should be taken to recover the receivable balances. |
| (c) | The value of creditors of expenditure and trade creditors payable as at 31 December of the year under review totalled Rs.23,008,564. According to the age analysis thereon, the total of the account balances relating to 1-5 years amounted to Rs.2,804,877 whilst the total of the account balances older than 05 years amounted to Rs.1,682,650. | It is informed that action is taken to settle the balances payable. | Action should be taken to settle the payable balances. |