

Niyagama Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Niyagama Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, 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 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 accompanying financial statements give a true and fair view of the financial position of the Niyagama Pradeshiya Sabha as at 31 December 2021, 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 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

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

- (a) 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.
- (b) 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 |
|---|----------------------------------|--------------------------------|
| (i) The cost of Rs.2,065,397 including the cost of Rs.1,999,552, spent on construction of solid waste management stores and restrooms during the year under review had not been capitalized under land and buildings. | . | |
| (ii) The machinery and equipment valued at Rs.536,763 and Furniture and Fitting valued at Rs.246,705 had not been capitalized during the year under review. | | |
| (iii) The credit provision had not been made for the value of tax Rs.430,272 for land related to waste management project and Rs.2,784,102 for 13 industries as at 31 December of the year under review. | Action will be taken to rectify. | Should be accounted correctly. |
| (iv) The capital grant of Rs.2,613,454 receivable for 03 industries had not been accounted as at December 31 for the year under review . | | |

1.6.2 Non reconcile control account or reports

| Audit Observation | Comment of the Sabha | Recommendation |
|---|--|---|
| There was a difference sum of Rs. 1,432,525 in between the balance value of 10 accounting items in the financial statements and balance value in relevant utility registers as at 31 December of the year under review. | Action will be taken to check and corrected the information. | Differences should be identified and corrected. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 2,359,948 as against the excess of revenue over recurrent expenditure amounted to Rs. 2,991,495 in the preceding year.

2.2 Revenue Administration

| Audit Observation | Comment of the Sabha | Recommendation |
|---|---|---|
| (a) Rates and Tax | | |
| According to Section 3 of the shop rent assessment reports of the Government of Valuation Department of 63 shops under the sub-office of the council, the rent of the building has been assessed on the basis that the owner should also bear the repair cost by the residents of the assessment tax required for its maintenance. However the council did not collect assessment tax from those 63 shops. Therefore, the council had lost its due income | Action will be taken to recover. | Actions should be taken as per the assessment report. |
| (b) Acreage Tax | | |
| According to the Acreage Tax Register of the head office, there were 110 acreage tax units, of which only 17 units had paid tax. Accordingly, Rs. 99,439 remained as outstanding from 93 acre tax units. | Action will be taken to recover the arrears | Arrangements should be made to recover the arrears. |