

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nikaweratiya Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, and cash flow statement including 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 Sub-section 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 accompanying financial statements give a true and fair view of the financial position of the Nikaweratiya Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 (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 Practices, 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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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 the Pradeshiya Sabha 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(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 -----	Comment of the Sabha -----	Recommendation -----
(a)	Since the expenditure of Rs. 3,961,713 incurred during the year under review for the development of lands and buildings of the Sabha had not been capitalized, assets and the revenue contribution to capital input account had been understated.	It is informed that this will be corrected by the account,2022.	Accuracy should be ensured in accounting.
(b)	Forty two development projects worth Rs.51,099,394 that had not been implemented from the year 2019 to 2021 had been shown in the financial statements by debiting the capital expenditure and crediting the creditors account during the respective year.	Action will be taken to correct through the journal entries.	Accuracy should be ensured in accounting.

1.6.2 Non-reconciled Control Accounts or Reports

	Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a)	There was a difference of Rs. 4,339,664 between the balance stated in the accounts and the balance shown in the schedules in relation to 02 Items.	Necessary action will be taken to correct this by examining the matters in the future.	Action should be taken to correct the errors.

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. 18,538,796 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 8,748,307.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
Rates and Taxes ----- Rates of Rs. 6,419,648 had not been recovered from 2,202 assessment units by the end of the year under review.	It is informed that action will be taken to recover the arrears.	Action should be taken to recover the arrears.
Rent ----- A sum of Rs. 904,250 had not been recovered from 20 shops on the ground floor and the upper floor at the Nikawaratiya bus stand and Rs.367,250 from 15 shops of the health centre as at 31 December of the year under review.	It is informed that necessary action will be taken to recover the dues expeditiously.	Arrears should be recovered.

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 Sabha 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 Management Inefficiencies

Audit Observation

A portion of land with 10 perches bearing Lot No.55 at Palugashandiya was unlawfully occupied by a person and the Pradeshiya Sabha had not taken action to confirm the absolute right of this land. It was observed in audit that a case had been filed under No.165/L in the District Court regarding this land.

Comment of the Sabha

It is informed that while necessary action was being taken to confirm the ownership of the Palugashandiya Kirihala land belonging to the Sabha, a person had filed a case in the District Court and therefore, relevant activities have been discontinued.

Recommendation

Action should be taken to protect the assets owned by the Sabha.