

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Naula Pradeshiya Sabha including the financial statements for the year ended 31st December 2021 comprising the Balance Sheet as at 31st December 2021, Income and Expenditure Account 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 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 Naula Pradeshiya Sabha as at 31st 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

I expressed qualified opinion 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 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 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 on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) As at the end of the year under review, Rs.2,943,324 related to the construction of buildings and toilets had not been accounted for under fixed assets.	That will be corrected by the next year's journal entries.	Financial statements should be prepared accurately.
(b) The sum of Rs.172,548 spent for the construction of the concrete fence post preparation centre building was not included under the capital expenditure but under the recurring expenditure. And that expense was not accounted under fixed assets.	That will be corrected by the next year's journal entries.	Financial statements should be prepared accurately.
(c) 07 plots of land worth Rs.592,000 in 128.6 perches owned by the Sabha had not been shown under land and buildings in the financial statements	That will be corrected by the next year's journal entries.	Financial statements should be prepared accurately.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There were differences of Rs.361,666 between the balances related to 3 accounts of Rs.2,886,166 shown in the financial statements and the balances shown in the schedules.	That will be corrected in the next year's financial statements.	The accuracy of the balances shown in the financial statements should be verified.

1.7 Non- Compliances

Non-compliance with Laws, Rules and Regulations

Followings are the instances where laws, rules and regulations were not complied with.

Reference to Laws, Rules Regulations etc	Non-compliance	Comments of the Sabha	Recommendation
Parliament Acts			
Orders 22(1), issued under section 21 of the Urban Development Authority Act No. 41 of 1978 published in the Special Gazette No. 392/9 dated 10 th March 1986	A land portion of 51.88 perches worth Rs.1,867,680, from the sub-divided HabaragahamadaWatta land in the year .2015 which should be taken over to the Sabha for community and recreational purposes, had not been taken over.	That, action will be taken to take over the land.	Action should be taken to in accordance with provisions of the Act.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31st December 2021 amounted to Rs5,177,734 as compared with the excess of revenue over recurrent expenditure amounted to Rs.1,655,297in the preceding year

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates		
According to Section 158 of the Pradeshiya Sabha Act No.15 of 1987, as on December 31 st of the year under review, the arrears amounting to Rs.1,780,387 in respect of 334 properties for more than 10 quarters had not been recovered.	That, the outstanding balances will be charged in the future.	Arrears income should be recovered.

(b) Other Income

The stamp duty receivable from the Chief Secretary of the Central Province and other authorities as on December 31st of the year under review was Rs.6,387,650

That, Rs.2,787,650 has been recovered from this amount. Arrears of Stamp duties should be recovered.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 03 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) At the end of the year under review, the total of 03 accounts receivable balances amounting to Rs.21,203,746 had not been recovered and balance of Rs.20,447,590 of which the period without being charged is for the less than 01 year, the balance of Rs.527,129 for more than 01 year and less than 05 years, and the balance of Rs.229,027 for more than 05 years were also included.	That, the receivables will be collected in future.	Actions should be taken to recover the receivables
(b) At the end of the year under review, the sum of 02 accounts payable balances amounting to Rs.27,418,283 had not been settled, balance of Rs.26,765,569 of which the unsettled for more than 01 year, the balance of Rs.649,474 for more than 01 year and less than 05 years, and the balance of Rs.3,240 for more than 05 years were also included.	That, the balance due will be settled in the future.	Arrangements should be made to settle the payables.

3.2 Asset Management

Audit Observation	Comments of the Sabha	Recommendation
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The Sabha had not taken over the ownership of 14 lands worth Rs.12,191,838 of which used by the Sabha was not identified and a motor grader worth Rs.2,500,000 received from the Ambagamuwa Pradeshiya Sabha on August 17 th , 2019.	That, vehicles and land will be taken over in the future.	Arrangement should be made to take over the ownership of vehicles and land.