

## **Nivithigala Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Nivithigala Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations, cash flow statement, statement of changes in equity, significant accounting policies and the summary of 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and National Audit Act No.19 of 2018. My comments and observations which I consider should be report 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 Nivithigala Pradeshiya Sabha as at 31 December 2022 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**

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 Responsibility for the Audit of 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 financial reporting process of the Pradeshiya Sabha.

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

#### **1.4 Audit Scope (Auditor's Responsibility 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 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 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 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) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.

- (b) The recommendations made by me during the previous year are included in the financial statements as requirement 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

<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
(a) Fixed deposit interest was under-accounted by Rs. 71,342.	This will be corrected in the year 2023.	This should be corrected.
(b) Electricity supply cost of Rs. 467,580 in Doloswala compost yard was not capitalized.	This will be corrected in the year 2023.	This should be corrected.
(c) Donations of fixed assets amounting to Rs. 1,036,938 were not included in the statement of financial operations.	This will be corrected in the year 2023.	This should be corrected.
(d) Shop rent billings were under-accounted by Rs. 1,008,000 in the year under review.	This will be corrected in the year 2023.	This should be corrected.
(e) The balance of the motor vehicle and cart account had been under-accounted by Rs. 18,448,710 at the end of the year under review.	This will be corrected in the year 2023.	This should be corrected.
(f) Arrears of salary and allowances to be paid to an employee suspended for 25 years due to a 2021 judgement were not accounted.	This will be corrected in the year 2023.	This should be corrected.

### 1.6.2 Lack of Written Evidences for Audit

<b>Subject</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
Detailed schedules of 02 accounting subjects totaling Rs. 56,737,900 were not submitted.	The schedule will be submitted in future.	Adequate and appropriate evidences should be submitted.

## 1.7 Non-Compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Overdue sundry deposits amounting to Rs. 321,938 for the period from the year 2015 to 2019 were not settled as per Financial Regulation 571 (2).	No comments	Should be act as per Financial Regulations.

## 2. Financial Review

### 2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2022 was Rs. 5,713,191 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 9,227,262.

### 2.2 Revenue Administration

#### 2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the council, the information about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year is given below.

Income Source	2022				2021			
	Estimated income	Billed income	Collected income	Arrears as at 31 December	Estimated income	Billed income	Collected income	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	2,574,429	2,698,119	2,645,318	1,285,333	2,625,910	2,635,747	2,682,083	1,404,190
Rentals	13,053,700	7,688,250	7,517,814	147,990	12,469,600	5,826,000	4,860,668	826,700
License fee	1,163,590	1,026,705	1,026,705	1,500	1,252,540	1,096,267	1,096,267	1,500
Other income	<u>2,507,250</u>	<u>3,164,210</u>	<u>3,163,442</u>	-	<u>2,314,300</u>	<u>3,278,566</u>	-	-
	<u>19,298,969</u>	<u>14,577,284</u>	<u>14,353,279</u>	<u>1,434,823</u>	<u>18,662,350</u>	<u>12,836,580</u>	<u>8,639,018</u>	<u>2,232,390</u>

#### 2.2.2 Performance of the Revenue Collection

The observations regarding the performance of the revenue collection of the council are given below.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) There was a balance of Rs. 469,203 as at the last date of the year under review, which was more than 05 years old, in the outstanding assessment balance of Rs. 1,092,853.	Although the property was not banned in the first quarter in view of the existing economic crisis, an income of Rs. 112,102 was collected by the property ban in the last quarter.	Action should be taken to recover the arrears of income.
(b) There was a balance of Rs. 70,495 as at the last date of the year under	That the acreage tax will be collected after acreage tax	Action should be taken to recover the arrears of

review, which was more than 03 years old, in the outstanding acreage tax balance of Rs. 115,815. conciliation. income.

- (c) No survey was conducted during the year under review to identify the institutions that should obtain environmental permits. That the survey has been conducted to identify the business locations that should be given environmental permits in the year 2023. An annual survey should be conducted and revenue arrears should be recovered.
- (d) Non-payment telephone transmission towers were not identified and recovered business tax. The institutions that own telephone towers in the year 2023 will be identified and charged. Action should be taken to collect the income to be received to the council.

### 3. Operational Review

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

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 done by the council under section 3 of the Pradeshiya Sabha Act are shown below.

#### 3.2 Operational Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
Rs. 9,329,705 had been spent since the year 2019 for a compost yard. Also, a baler machine worth Rs. 950,000 was received from the provincial council on 08 August 2022. But. Due to lack of electricity, the work of the project had not been started by the end of the year under review.	Necessary action is being done to get three-phase electricity and fertilizer is currently being poured and about 1500 kg of fertilizer has been poured and packed and that the work is done daily.	A solid waste management programme should be planned and implemented.

#### 3.3 Assets Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The premise of the head office of the council and the premises of the sub-office of the council had not been assessed and accounted.	It will be corrected in the year 2023.	This should be corrected.

- (b) 96 Issued flag poles were not returned. Notices have been issued to bring 51 flag poles. That the responsible parties in this regard should be identified and recovered. Although the value of 15 flag poles had been recovered, the value of 81 flag poles amounting to Rs. 1,032,750 was brought or the loss will be charged and arrangements have been made to charge from salary of April 2023 of those responsible parties for the shortage of goods. Also, those responsible persons for the shortage of 35 items were not identified.

### 3.4 Utilization of Vehicles

#### **Audit Observation**

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No action was taken to seize or return the ownership of 04 vehicles which were not owned by the Council.

#### **Comments of the Council**

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That the relevant documents have been submitted for taking over as per the instructions of the Chief Secretary.

#### **Recommendation**

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Should be followed the provisions of Assets Management Circular No. 02/2017.

### 3.5 Informal Transactions

#### **Audit Observation**

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Rs. 88,600 received during the year under review as subsistence allowance of gully was paid to several persons as incentives without formal approval.

#### **Comments of the Council**

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As per section 9.3 of the Pradeshiya Sabha Act, the Secretary has decided and received that allowance from the year 2017.

#### **Recommendation**

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Governor's approval is required for payment of incentives.