

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nikaweratiya Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Finance Operation, Statement of equity Changes, Cash Flow Statement and notes to the financial statements including material accounting policy 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, the sub section 172(1) of Pradeshiya Sabha Act No. 15 of 1987. 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 financial statements give a true and fair view of the financial position of the Nikaweratiya Pradeshiya Sabha as at 31 December 2024, 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

I expressed qualified opinion regarding financial statement 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 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 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 include 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 of this report 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 Non-Compliance with Generally Accepted Accounting Principles

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
There was no disclosure in the financial statements regarding any pending litigation as at 31st December of the year under review.	The case regarding the land of milk bar in Palugas Junction is litigate in court and the trial will continue until the Divisional Secretary issues a decision regarding that land.	Disclosures regarding lawsuits pending against the entity should be made in the financial statements.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) 06 asset items totaling Rs.712,800 which were purchased during the year under review were not included in the financial statements.	That work will be done to correct the 2025 account.	All assets must be properly accounted.
(b) Although the value of sodium bulbs included in the warehouse stock as of 31st December of the year under review was Rs. 97,500 it was accounted as Rs. 9,750 which was Rs. 87,750 less.	In providing information, the amount of Rs. 97,500 has been recorded as Rs. 9,750 and steps will be taken to correct this error from the 2025 account.	The value of warehouse inventory must be accurately accounted.
(c) A balance of Rs. 205,000 which was included in the closing creditor balance of the previous year but was not settled during the year under review, was omitted from the closing creditor balance of the year under review.	That work is being done to correct it.	Credit balances must be accounted for accurately.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of documents, schedules or valuation reports, the stock value of Rs. 3,129,626 could not be satisfactorily verified.	That it will be documented and corrected in the future.	Sufficient evidence must be provided to verify stock balances.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc. Non-compliance with Laws, Rules, Regulations and Management Decisions as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
Section 85 (a)	Although it is the duty of the council to ensure that adequate toilet facilities are provided for all houses, buildings and lands within the council area, sufficient attention has not been paid to this regard.	Only provide toilet aid to members of low-income families, considering the amount of allocation allocated for the relevant year. In addition, the maintenance of the public toilet systems belonging to the council will be carried out.	Must act in accordance with the rules and regulations and work towards the health and safety of the people.
(b) Pradeshiya Sabha (Finance and Administration) Rules, 1988			
(i) 61 Rule	Although all industries included in the list obtained through an annual survey should be included in the Industrial Tax Register, only Industry that pay fees were included in the register.	Although it is not possible to document the collection as per the survey list due to the delay in the survey work, collection will be carried out from 2025.	Actions should be taken in accordance with the rules of the Pradeshiya Sabha.
(ii) 218 Rule	A survey of fixed assets including land and buildings had not been conducted annually.	It will be done annually from 2025.	Actions should be taken in accordance with the rules of the Pradeshiya Sabha.

(c) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulations 571	Action had not been taken to settle 3 miscellaneous deposits and 38 tender deposits worth Rs. 641,031 which were overdue for a period of 02 years.	It has been decided that if the miscellaneous deposits are not verified and the applicants do not submit their applications, they will be taken to the revenue. The relevant persons will be informed in writing to recover the tender deposits and if they do not make any requests based on their response, the amount will be taken to the government revenue.	Financial regulations must be followed.
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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 2024 amounted to Rs. 21,930,520 as compared with the excess of revenue over recurrent expenditure amounted to Rs.2,981,284 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	Rates and Taxes		
(i)	In the assessment balance as on 31st December of the year under review, Rs. 3,036,452 relating to the period between 1 and 5 years and Rs. 1,626,069 relating to more than 05 years remained uncollected.	Action will be taken to collect the revenue under the Income Tax and Property Prohibit Programs in 2025.	Action should be taken to collect the arrears of revenue.
(ii)	Out of 2047 assessed properties owned by the council, there were 32 properties whose owners were listed as "Owner". The council had lost assessment revenue	That steps will be taken to obtain confirmation from the owners through the assessment to be carried out in 2025.	Steps should be taken to identify property owners and collect assessments.

due to the inability to properly identify the owners of assessed properties.

(b) Rent

As 31st December of the year under review, arrears of rent of Rs. 5,504,628 and arrears of lease rent of Rs. 395,595 were due.

Those who have not paid their arrears of rent have been referred to the Mediation Board, and necessary steps are being taken to file cases against three of them at the Nikaweratiya District Court.

Steps should be taken to collect the arrears of rent.

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Performing of Functions Enacted by the Act

Audit Observation	Comments of the Council	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws were to be enacted to carry out 30 main matters, but such by-laws had not been enacted as at 31 st December 2024. By the year under review, 10 by-laws had been prepared and forwarded to the Department of Local Government.	No comments were made.	Steps should be taken to enact by-laws regarding the affairs of the Council.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	06 stalls at the Nikaweratiya Health and Public Amenities Center owned by the council had not been used for income generation for 8 years.	If buyers come forward to buy the closed shops arrangements will be made to provide them on a monthly rental basis.	The property owned by the council should be used for revenue generation.
(b)	Action had not been taken to verify and settle the outstanding balances of Rs. 1,070,820, which were more than 05 years old.	Inform that the deposits in the shops, which are more than 05 years and amount to Rs. 381,785 cannot be taken as revenue as they should remain as deposits until the lease rights of those shops are in force. That steps will be taken to remove the amount of Rs. 697,035 which	Action should be taken to check the existence and settle the balance due.

is more than 05 years from the creditor's balance.

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| (c) | Although the assessment tax assessment is supposed to be done by the Assessment Department once every 5 years, the Pradeshiya Sabha had last conducted the tax assessment in 2017. Due to the failure to conduct the assessment within the stipulated time, the council had lost incalculable revenue due to the change in the current condition of the properties. | That the necessary steps are being taken to conduct a new assessment of the 2025 assessed property. | Property should be appraised every 5 years. |
| (d) | Due to the inoperative condition of the elephant fence built around the Solid Waste Management Center, a proper procedures had not been prepared and implemented for the final disposal of the collected electronic waste, as well as the potential harm to the employees of the center from elephants due to the consumption of non-biodegradable waste collected at the center, and the prevention of radioactive materials and heavy metals from entering the groundwater and soil during the disposal of the collected electronic waste. | That work will be done in the future to set up an elephant fence. | Environmentally friendly safety methods should be established. |
| (e) | Although the composition of the compost fertilizer produced by the council should be tested periodically, it was observed that this had not been done, and according to the sample test report provided to the audit on 25th January 2025, 6 out of the 9 criteria accepted by the Sri Lanka Standards Institution that compost fertilizer should contain were at the rejection level. | Measures are currently being taken to improve the quality of compost fertilizer and to bring the quality of the 2025 quality report to a higher level, from the low standards. | A method should be adopted to improve the quality of organic fertilizers. |
| (f) | While the old huller machine in the Solid Waste Management Center was repaired in May 2024 at a cost of Rs. 148,700 a new huller machine was purchased in September 2024 for Rs. 729,003 under the Provincial Specific Development Grant with the aim of increasing compost production. However, the desired objectives could not be achieved. | Since the old huller machine is being regularly repaired, it is possible to supply the demand properly, so a new huller machine has been purchased under a specific provincial budget, which will enable the continuous release of compost fertilizer to consumers. | Methods should be developed to increase the production and sale of organic fertilizer. |

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) The service supply agreement for the production of concrete at the Kotawehera Concrete Production Center had expired on 5 th of June 2024 and no steps had been taken to extend the agreement or enter into a new agreement. No production activities had been carried out after 5 th of June 2024.	It is stated that a newspaper advertisement was issued to find suppliers to procure the main raw materials for the production activities of this project, but due to the failure of the relevant suppliers to come forward, production activities were disrupted during that period, and that necessary measures have been taken to resume those production activities this year.	Since it is a revenue-generating project, steps should be taken to implement it.
(b) It was observed that the motor of the tube well at the concrete production center was out of order, causing difficulties in supplying water for the premises' water needs and production, and that the water bowser owned by the council within the concrete production center premises was deteriorating.	The water bowser was previously used to obtain water for concrete production and will be taken to the head office for repairs.	Steps should be taken to eliminate idle assets.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Fixed asset register of vehicles, furniture and fixtures, and machinery and equipment had not been updated to date.	That steps are being taken to systematically maintain the asset registers of vehicles, fixed assets, furniture, fixtures and machinery.	Steps should be taken to maintain asset registers properly.
(b) A survey of the lands owned by the council had not been conducted and the boundaries of the fences had not been properly established to ensure their physical existence, and all the cemeteries maintained by the council had not been surveyed and the boundaries of the fences had not been prepared to ensure the physical security.	Since the council owns a large amount of land, fences have been secured for a significant amount of land and for cemeteries, fences have also been secured for a significant amount. For the remaining lands, steps will be taken to properly install fences and install nameplates.	Steps should be taken to ensure the security of assets.

(c)	Although public trustees should be appointed whenever possible to ensure the safety and security of all street lights owned by the council, no attention has been paid to this regard.	The document maintained for the three Divisional Secretariat divisions, "Regarding the Repair of Street Lights", states that the responsibility for the safety and care of street lights has been assigned to public guardians.	Steps must be taken to ensure the security of assets.
(d)	Out of the 161 cemeteries maintained by the Council, the land ownership of 159 and the ownership of 8 lands used by the Council, including the land where the Pradeshiya Sabha head office is located, had not been taken over by the Council.	The transfer of the cemetery has been referred to the relevant Divisional Secretaries for the purpose of transferring it to the Cemetery Board, but due to the very complex processes involved in the transfer of the cemetery, the transfer process has not yet been completed.	Action should be taken to transfer ownership of the lands.

3.5 Defects in Contract Administration

Audit Observation

04 unbudgeted industries worth Rs. 5,519,850 had been completed during the year under review, while 11 industries worth Rs. 12,200,000 for which provisions had been made in the annual budget had not been completed.

Comments of the Council

No comments.

Recommendation

Efforts should be made to prepare estimates rationally.

3.6 Human Resources Management

Audit Observation

- (a) There were 20 vacancies and 48 surplus staff in the approved staff of the Council and recruitment had not been made for the vacancies.

Comments of the Council

It is stated that after obtaining the necessary approval to recruit for primary technical positions, arrangements will be made to recruit for those vacancies.

Recommendation

Employee vacancies within the approved staff must be filled.

- (b) As at 31st December of the year under review, there was an outstanding employee loan balance of Rs. 262,180 from 12 employees. Management had not paid attention to the recovery of this loan balance.

That steps will be taken in the future to recover the remaining loan balances of employees who died, transferred, retired and left the service as of 31st December of the year under review.

Action should be taken to recover employee loan balances.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
There was a variation of 20 percent to 98 percent between the estimated and actual revenues of 06 revenue items in the year under review, and a variation of 11 percent to 64 percent between the estimated allocations and actual expenditures of 08 expenditure items. As a result, it was not observed that the budget document was being utilized as an effective management control instrument.	In preparing the budget, the expected revenue and expenditure for the annual budget expenditure is prepared by estimating the expected revenue and expenditure, and it is possible that there will be an increase in the value of revenue received during the year, and accordingly, such variability has occurred.	Budget documents should be utilized as a useful management tool.