

Mahiyangana Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Mahiyangana 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 for the year ending on that date, Cash Flow Statement and 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 which should be read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared 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 Mahiyangana Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing 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

Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- (a) In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Pradeshiya Sabha are consistent with the preceding year.
- (b) In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Audit Observations on the preparation of Financial Statements Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) 03 development projects amounting to Rs. 5, 679,867, which had been entered into agreements to implement under regional road development project in the year under review, had not been completed and abandoned as on 31 December of the year under review. Because that amount had been stated as construction creditors and construction debtors, current assets and current liabilities had been overstated by that amount.	It has been mentioned that It would be rectified in the preparation of financial statements of the year 2022.	Accounts should be correctly prepared.
(b) Although billed value of rates, rents, service charges and other revenue as at 31 December of the year under review had been Rs. 70,817,931, it had been overstated as Rs. 88,571,687 by 17,753,756 in the statement of financial operations, and as a result of that excess and receivables had been overstated.	It has been mentioned that It would be rectified in next year.	
(c) 09 account balances of arrears of other income amounting to Rs. 495,683, which had not been able to collect in a long period from 12 years to 21 years and included in receivables, on the reason of unable to collect, those account balances had been stated as current assets instead of write off to the accumulated fund. As a result of that a fake asset of that amount had been included in the statement of financial position.	It has been mentioned that informed department of local government to write off the revenue in arrears.	

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 31 December of the year under review had been Rs. 37,554,458 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 12,945,374 in the preceding year.

2.2 Revenue Administration Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Various parties have been carrying on trade activities for a period of 09 years from the year 2012 to the year under review in a 31-store shopping complex built at the expenses of the tenants on a land belonging to the council in Mahaiyangana town, and the Council had not reached agreements with tenants and collected rents	It has been mentioned that action had been taken to enter into agreements.	Sabha should reach agreements with tenants and collect arrears of rents.
(b) Red notices had been sent to the relevant parties regarding rates in arrears amounting to Rs 3,227,877 of 114 government institute assessment tax units and 1966 private and other assessment tax units as at 31 December of the year under review, and rates in arrears had not been recovered.	It has been mentioned that sabha approval had been obtained to suspend recovering arrears for 6 months.	Arrears of revenue should be collected.
(c) Rs. 1,919,224 related with annually leased properties including weekly fair charges, arrears of rents of butcher shop, fish shop and public toilets from the year 2000 had not been collected.	It has been mentioned that actions had been taken to collect.	

**3. Accountability and Good Governance
Environmental Issues**

Audit Observation	Comments of the Council	Recommendation
<p>-----</p> <p>Pradeshiya Sabha disposes of about 800 tons of annually collected garbage improperly in the area adjacent to Mahaweli river near the Mahiyangana-Badulla main road, and an expenditure amounting to Rs. 4,439,063 had been incurred for garbage disposal activities. 25 employees, 05 tractors and a lorry had been used for this work. 05 acres of land in Dehigolla village had been allocated for garbage disposal and a permanent garbage yard, an office building and the electrical connection required to the buildings had been obtained incurring Rs. 16,203,454, and the yard had not been used and had been idle due to opposition from the locals and garbage recycle had not been done about 06 years. As gully waste had been disposed of in a pit near Mahaweli river, the water source is contaminated. There was not a proper plan for garbage disposal.</p>	<p>-----</p> <p>It has been mentioned that there was a strong opposition from the locals to the disposal of garbage in the allocated garbage yard.</p>	<p>-----</p> <p>Garbage should be dumped properly.</p>