

Mahawa Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahawa 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 Mahawa 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.

- (a) 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.
- (b) 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
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(a)	An amount of Rs. 5,000,338 spent for the development of the library and the public property owned by the Sabha during the year under review had not been capitalized.	It is stated that the capitalization to be corrected will be accounted for in the future accounts.	The expenditure on buildings development should be capitalized.
(b)	Although the opening balance of court fines during the year under review was Rs. 3,864,625, it had been brought to account as Rs.2,987,000. Accordingly, a sum of Rs. 877,625 had been understated in the financial statements.	It is stated that corrections will be made in the ensuing year of accounts.	Court fines should be brought to account correctly.
(c)	Although the stamp duty to be received as at the end of the year was Rs. 13,592,137, it had been accounted for as Rs. 19,548,206. Accordingly, a sum of Rs. 5,956,069 had been overstated in the account.	Action will be taken to correct this in the accounts for the year 2022.	Stamp duty should be brought to account correctly.

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. 25,281,032 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 14,037,800.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
Rates and Taxes		
Rates of Rs. 4,993,440 had not been recovered from 1,651 assessment units in the jurisdiction of the Pradeshiya Sabha and no arrangements had been made to recover the dues.	Action will be taken to recover the arrears promptly.	Arrangements should be made to recover the arrears and accordingly, recover the dues.
Rent		
(a) A sum of Rs. 410,384 had not been recovered from 24 shops in the Mahawa Public Market Complex as at 31 December 2021.	In order to write off Rs.422,867 due to the Covid-19 epidemic situation, the matter has been referred to the Hon. Governor under the approval of the General Assembly. The arrears further remained outstanding will be recovered in due course.	Shops rents should be timely recovered.
(b) Lease rent balance of Rs. 2,085,415 to be recovered in 07 instances as at 31 December 2021 in relation to the lease of 02 weekly fairs, 03 fish stalls and 02 meat stalls on annual tenders by the Mahawa Pradeshiya Sabha had not been recovered.	Action will be taken to recover the arrears further remained outstanding.	Action should be taken to recover the arrears.
(d) Outstanding rents of Rs. 526,039 and fines of Rs. 63,592 were due from 07 shops of the shopping complex of the Ambanpola bus stand as at 31 December of the year under review.	Approval of the Governor has been sought to write off an amount of Rs. 109,889.	Action should be taken to recover the arrears.
Other Income		
It was observed in the inspection carried out regarding the income to be received in 05 instances relating to hiring the road	A sum of Rs. 172,540 has been received from the Road Development	Action should be taken to recover this money.

compressor, the drum and 03 JCBs relating to the year 2021 that a sum of Rs. 2,172,293 had not been recovered from the Road Development Authority and two persons as at 31 December of the year under review.

Authority. Out of the amount due from two persons, a sum of Rs. 7,755 has been received from one person. Action will be taken to recover the balance.

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 -----	Comment of the Sabha -----	Recommendation -----
<p>On 16 February 1968, the Kurunegala District Secretary had transferred an extent of 03 acres 20 perches of land bearing the Lot No.107 in the Madurugama to then Village Council for a housing scheme. This land had not been used for any purpose and the housing scheme had also not been implemented. It was observed at the physical inspection carried out on 08 April 2022 regarding this land that 21 families had been residing in this land over a number of years from 1990 by constructing permanent houses and no action whatsoever had been taken regarding this matter.</p>	<p>This land has been transferred to then Village Council on 16 February 1968 for a hosing scheme project at Madurugama. The said transfer order stated that this land should be used only for a housing scheme. Nevertheless, the families who did not have lands in the area have resided in the land by constructing permanent houses.</p>	<p>Action should be taken to earn income by leasing the land or to initiate legal proceedings.</p>