

Mawanella Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Mawanella 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 for the year then ended and 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 Subsection 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 financial statements give a true and fair view of the financial position of the Mawanella Pradeshiya Sabha as at 31 December 2022, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 (SLAuS). 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 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 of the Sabha.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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:

- 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the 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 presented by the Pradeshiya Sabha are 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 observation on the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs.5,000,000 incurred by the Ministry of Sports for the play ground at Mawanella which had been developed and vested by the same Ministry in the year 2021.	It will be rectified in the preparation of final accounts 2023.	Action should be taken to rectify accounts.
(b) A sum of Rs.4,630,530 received in the year under review as 1 per cent for plotting lands had been brought to accounts as income, without being brought to accounts as deposits.	It will be rectified in the preparation of final account in the year 2023.	Action should be taken to rectify accounts
(c) Even though it was not to be paid the charges for lawyers within the year 2016, a sum of Rs.1,773,000 had been allocated for that purpose.	After confirmation of there is no any payments according to the documents, necessary adjustments will be done in the year 2023.	Action should be taken to rectify accounts
(d) The deficit amounting to Rs.190,077 identified in the board of survey 2021 and the deficit amounting to Rs.299,755 of flag poles had not been shown in accounts as recoverable until recovered from responsible officers.	Actions are being taken to recover from responsible persons. It will be shown as balances recoverable in final accounts in the future.	Relevant deficit should be recovered from responsible persons.
(e) Stamp fees payable amounting to Rs.114,600 in the year 2020 and a sum of Rs.222,288 for court fines and staff allowances in the years 2020 and 2021 had been over allocated.	It will be rectified in the preparation of the final accounts in the year 2023.	Action should be taken to rectify accounts
(f) Investment interest receivable amounting to Rs.127,685 in the year under review had been credited to the fixed deposit account by debiting to the accumulated fund , instead of crediting to the investment interest account receivable.	As the investment interests in the year 2021 has been debited to investments before realized , it was rectified by adjusting to the opening balance of the year 2022.	Action should be taken to rectify accounts
(g) Even though the investment interest income amounting to Rs.1,818,978 which had been accounted in deficit in the year 2021 , should be credited to the cumulative fund by debiting to the investment interest account receivable, it had been credited and debited to the cumulative fund.	As it had been realized in the year 2021, adjustments were done to the cumulative fund.	Action should be taken to rectify accounts

1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
Schedules has not been presented for the confirmation of the accuracy of the sum of Rs.19,113,662 of fixing furniture and office equipment and rate taxes receivable amounting to Rs.492,368.	Those schedules will be submitted with the final accounts of 2023.	Schedules should be presented.

1.7 Non-compliances

Non-compliances with Laws,Rules ,Regulations and Management Decisions

Instances of non-compliances with Laws,Rules ,Regulations and Management Decisions are given below.

Reference to laws,rules and regulations	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of Democratic Socialist Republic of Sri Lanka			
(a) FR 371	Advances amounting to Rs.325,632 given within period of 02 years to 12 years, had not been settled even as at the end of the year under review.	Will be settled in due course	Action should be taken according to the financial regulations.
(b) FR 571	Deposits amounting to Rs.2,189,553 which was older than 03 years ,had not been disposed.	Will be settled in due course	Action should be taken according to the financial regulations.

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. 52,521,177 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.93,316,542.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

According to the information presented, the information on estimated revenue, billed revenue, collected revenue and revenue in arrears relevant to the year under review and the preceding year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Rates and Taxes	16,302,300	18,766,835	19,000,551	13,646,172	16,176,590	13,181,823	11,900,439	14,009,150
Rents	47,390,700	31,264,938	31,733,747	11,163,365	38,110,150	33,994,565	32,114,790	19,189,954
License fees	6,625,250	3,149,849	2,158,269	4,916,278	4,260,300	4,303,669	2,645,739	3,875,698
Other Income	<u>20,637,000</u>	<u>18,976,173</u>	<u>10,405,778</u>	<u>15,918,578</u>	<u>21,713,500</u>	<u>16,408,056</u>	<u>11,877,377</u>	<u>394,992</u>
Total	<u>90,955,250</u>	<u>72,157,795</u>	<u>63,298,345</u>	<u>45,644,393</u>	<u>80,260,540</u>	<u>67,888,113</u>	<u>58,538,345</u>	<u>37,469,794</u>

2.2.2 Performance on Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) A sum of Rs.120,658,749 was due from the items of revenue such as rates, acreage tax, stall rents, court fines ,stamp fees as at 31 December 2022. That value included a balance amounting to Rs.57,904,589 overdue between 01 and 05 years and another balance of Rs. Rs.8,349,630 overdue for more than five years.	Agreed with this statement. Necessary action will be taken to minimize the amount.	Prompt action should be taken to recover the revenue in arrears.
(b) A sum of Rs.7,453,806 relevant to the period from the year 2018 to 2022, was to be recovered from 107 display hoardings.	Forwarded to the approval for writing off the charges in arrears for old hoardings.	Revenue in arrears should be recovered immediately
(c) Rate assessment which should be carried out once in 5 years according to the Circular No.1988/22 dated 17 May 1988, had not been carried out after the year 2009.	Rates assessment had not been carried out after the year 2009	Action should be taken in terms of the Circular.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The balance of key money amounting to Rs.1,607,774 in arrears relevant to the shopping complex at Hemmathagama was older than 21 years by 31 December 2022.	Such balance in arrears is existed. Money has been allocated from the current budget for the construction of the 2 nd stage of this shopping complex.	Action should be taken to recover the revenue in arrears.
(b) Action had not been taken for the recovery of 02 debtors balances of Rs.1,654,496 older than 03 years and for the settlement of creditors balances of Rs.3,169,542 even as at 31 December 2022.	Agreed with this statement	Recovery of the balances receivable and settlement of the balances payable should be done.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
As the service of gully bowsers was not fulfilled efficiently in the Sabha which is an urban area, the earned revenue up to August 2002 only a sum of Rs.24,300.	Gully income can be increased after the preparation of a method to dispose gully waste	A place for disposal of waste should be prepared.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) 14 vehicles and machineries belonging to the Sabha, were being decayed in a children's park from a long period.	Request made for obtaining of mechanical engineering quality report for the disposal of 07 damaged vehicles.	Action should be taken as per the Assets Management Circular No.0/2020 dated 02 October 2020.
(b) As the decision taken to vest the compactor vehicle belonging to the Sabha to other state institution was not implemented, the same vehicle was remained un used from the year 2013.	Future actions are being taken in this regard.	Assets should not be kept in un used manner.

(c)	As the lease holders were not presented for the year 2022 for 08 stalls belonging to the Sabha, an income of Rs.12,818,660 had been lost.	As the place which those shops were located was not populous, it was ejected to buy those shops for tendered price because it couldn't earn money by carrying out business in this area.	Should be entered into suitable alternate decisions in a manner to exist assets in un used condition.
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3.4 Deficiencies in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
In the payment of advance for a contract , contrary to Section 5.4.4 of the procurement Guidelines 2006, 70 per cent of the agreed amount or advance amounting to Rs.4,893,000had been paid.	The approval of the General Council has received for that purpose.	Action should be taken according to the Procurement Guidelines.

3.5 Human Resource management

Audit Observation	Comment of the Sabha	Recommendation
The Sabha decided in the year 2006 to recruit on direct method or the posts of field and health labourers which the vacancies were not existed and accordingly 31 employees had been recruited in the year 2013. However,contrary to the said decision of the sabha, they were deployed for other activities and a sum of Rs.57,524,942 had been paid as salaries up to August 2022 from the Sbha's fun, As such appointment letters of the 10 employees out of them, had not been attached to personal files.	Employees has been recruited by the political authority and deployed in other places. Even though it was presented to the General Council regarding that matter, the same suggestion had been withdrawn .As they have been deployed in the service more than 5 years, inquiries has been made from Assistant Commissioner of Local Government regarding the granting of appointment letters.	Approval should be obtained for the increasing of the number of posts on service requirement.