

Mahiyangana Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahiyangana Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, statement of changes in equity, cash flow statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 Sabha Act No. 15 of 1987 and the Provisions of the 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 financial statements give a true and fair view of the financial position of the Mahiyangana 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 for Local Authorities .

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 Sri Lanka Public Sector Accounting Standards, 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 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 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 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

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- 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.
- The financial statements presented includes 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 Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The debit balance of Rs.38,209 in the suspense account which was prepared showing the difference in the trial balance had not been identified and settled.	Actions will be taken to adjust by the account of the year 2023 .	Accounts should be settled identifying suspense account balances .
(b)	Although the court fine income was Rs.4,310,826 in the year under review, it had been stated as Rs.2,524,955 in the statement of financial operations.	-do-	Accounts should be accurately prepared.
(c)	Although the stamp duty income for the year under review was Rs.3,422,927, it had been stated as Rs.3,000,000 in the statement of financial operations.	Excess in accounts amounted to Rs.432,927 has been understated and it will be adjusted in the final account of the next year.	-do-
(d)	Although the arrears of court fine income as at 31 December of the year under review was Rs.2,874,820, it had been shown as Rs.1,088,950 in the statement of financial position.	Actions will be taken to adjust through the account of the year 2023.	-do-
(e)	Although the outstanding stamp duty revenue as at 31 December of the year under review was Rs.2,226,086, it had been shown in the statement of financial position as Rs.1,906,771.	-do-	-do-

- (f) An accounts receivable balance totalling to Rs.427,936 for more than 10 years had been entered in the statement of financial position as a bogus asset. It has been sent to the approval of the Ministry in respect of writing off of the balances and, as Mahiyangana base hospital has been received a sum of Rs.97,294 pertaining to the receivables remaining in the salary reimbursement arrears accounts 2009, the necessary arrangements have been made to obtain it. Bogus account balance should be identified and proper actions should be taken.

1.6.2 Unreconciled Control Accounts and Records

Audit Observation	Comments of the Sabha	Recommendation
The Non-reconciliation of Rs.40,619 included in the bank reconciliation statement prepared showing the difference between the balance shown in the cash book and the bank statement as at 31 December of the year under review had not been settled.	Actions are being taken to settle the balances.	Unreconciled account balances should be settled.

1.7 Non-compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
Paragraph 2 of the Declaration of Assets and Liabilities Act No. 01 of 1975.	Twenty members of the Council had not submitted Annual Declarations of Assets and Liabilities from 2019 to the year under review.	The relevant forms have been provided to the members and the forms submitted to the Council have been sent to the Department of Local Government.	Actions should be taken to submit Annual Declarations of Assets and Liabilities.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha was Rs. 14,317,436 for the year ended 31 December and the correspondence revenue that exceeded the recurrent expenditure of the preceding year was Rs. 37,554,458.

2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
According to the bank current account maintained in a government bank in Mahiyangana town, the unreconciled balance of Rs.575,579 as per bank reconciliation statement between the balance as at 31 December of the year under review and the balance as per cash book on that date had not been identified and settled.	Actions are being taken to identify and settle outstanding balances.	It should identify the discrepancies in accounts and settle.

2.3 Revenue Administration

2.3.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

The information about the estimated income, billed income, collected income and arrears of income presented by the Chairman for the year under review and the previous year are as follows.

Source of Income	2022				2021			
	Estimated Income Rs.	billed Income Rs.	Collected Income Rs.	Arrears as at 31 December Rs.	Estimated Income Rs.	Estimated Income Rs.	Collected Income Rs.	Arrears as at 31 December Rs.
(i) Rates and Taxes	3,001,655	3,001,655	2,118,521	883,134	3,001,655	3,001,655	1,713,174	1,288,481
(ii) Rent	24,471,649	19,649,816	14,098,758	5,551,058	24,471,649	24,512,072	14,516,996	9,995,076
(iii) Others	9,500,000	10,051,133	12,129,207	(2,078,074)	9,500,000	10,599,091	8,452,924	2,146,167
Total	<u>36,973,304</u>	<u>32,702,604</u>	<u>28,346,486</u>	<u>4,356,118</u>	<u>36,973,304</u>	<u>38,112,818</u>	<u>24,683,094</u>	<u>13,429,724</u>

2.3.2 Performance in Revenue Collection

The observations regarding the revenue collection performance of the Sabha are as follows.

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
Arrears of rates and taxes amounting to Rs.1,576,064 and water charges amounting to Rs.610,739 had not been collected even in the year under review.	Actions will be taken to recover the arrears.	Arrears and taxes should be collected promptly.

(b) Stamp Duties and Court Fines

Court fines receivable amounting to Rs.1,088,950 and arrears of stamp duty amounting to Rs.1,906,771 had not been collected as at 31 December of the year under review.

The court fines relating to the year under review have been prepared and sent and 3 months' money out of that, has been received in the year 2023. Another three months' court fines has to be received.

Arrears of court fines and stamp duty should be recovered.

3. Operational Review**3.1 Management Inefficiencies**

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though the allocations have been made from the Fund, for the purchase of books valued at Rs. 700,000 for the public library belonging to the Sabha during the year under review, only Rs. 97,930 had been spent for it. However, the opinions and suggestions of the Library Advisory Committee and Readers had not been taken for that.	Actions will be taken to be received the recommendations of the Advisory Committee while purchasing books in the future.	Actions should be taken as per the recommendations of the Advisory Committee.
(b) Even though an allocation of Rs. 200,000 has been allocated from the Sabha Fund for the purchase of medicines for the free Ayurvedic Dispensary belonging to the Sabha from the year 2019 to the year under review, since the council had not spent any money to buy medicines in a period of 04 years, it was impossible to provide satisfactory service to 1000-4000 clients of the free Ayurveda Dispensary every year.	Procurements have been made by now for obtaining medicines for the Ayurvedic Dispensary in the year 2023 .	The provision of public health services should be continuously done.
(c) Almost 03 metric tons of perishable and non-perishable garbage had been disposed of in Mahiyangana area every day. Around 05 acres of land in Mahiangana Dehigolla village had been allocated 06 years prior to the year under review and a permanent waste yard, an office building had been constructed and electricity connection to the buildings had been obtained at a cost of Rs.16,203,454. However, due to the protest of the local residents, the waste recycling work at the site had not been carried out even the end of the year under review.	The waste yard building constructed at Dehigolla area has been leased out to an external party for compost production from 01.08.2021 up to now.	Necessary steps should be taken to give economic value to the money spent.

- | | | |
|--|---|---|
| <p>(d) Although the role of the Secretary should be to collect the rents and fees receivable to the Pradeshiya Sabha in terms of the Section 159 (1) of the Pradeshiya Sabha Act No 15 of 1987, the shop rents had not been collected from the year 2014 to 2022 in respect of the 20 shops located on the ground floor of the public market.</p> | <p>The ground floor shop owners have delayed the signing of the contract by informing that to arrange to give a lease period of 25 years.</p> | <p>Contracts should be properly entered into and collect the rents.</p> |
| <p>(e) As the collected garbage had been informally disposed of in an open area of the New Waste Management Centre Dodamwatta, there was a risk of insects such as flies breeding and a bad smell spreading and washing away of the mixed garbage during the rains, and joins the Mahaweli river which flows near the garbage yard. A sum of Rs. 38,284,828 had been spent for waste management activities at this place in the previous year and the year under review.</p> | <p>Our institutions has received a composting machine and shredding machine and a letter of request has been sent to the Commissioner of Local Government to get a baling machine and a shopping cutting machine. Actions have been taken to produce compost as soon as possible.</p> | <p>Formal plans should be properly developed for long-term waste recycling</p> |
| <p>(f) (i) Even though 24 old market stalls and 20 block stalls on the market area which were built on the land of Lot No. 5035 belonging to the Pradeshiya Sabha were demolished and a building complex consisted of 88 new stalls, a cinema hall and a mall with 32 block stalls were being constructed from the year 2012 by collecting money by a trade association formed by several people, the works had not been completed even by the end of the year under review.</p> | <p>With the intervention of the Trade Association, money has been collected from the lessees and done through a contract agency in agreement with Mahiyangana Pradeshiya Sabha and Mahiyangana Public Trade Union without the contribution of government.</p> | <p>A formal agreement should be entered into during the construction done in a land belonging to the Sabha , and the projects should be completed promptly.</p> |
| <p>(ii) In carrying out such projects, although the relevant projects should be commenced according to formal agreements after preparing project reports, studying them and getting approval from the Minister actions had not been so done accordingly, and the project was being implemented completely out of control of the Sabha.</p> | <p>Likewise, the construction has been carried out based on the agreement of handing over to the Sabha at the end of the construction.</p> | |

- | | | | |
|-------|---|---------------------------------|--|
| (iii) | Works had been begun on the main entrance of the building and a proposed cinema without being complied with the building plan approved on 10 March 2015 . | Answers have not been provided. | Constructions should be made with the supervision of Technical Officer as per approved plan. |
|-------|---|---------------------------------|--|

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation	
(a)	The Urban Development Authority had built 29 stalls at the Mahiyangana Sri Lanka Transport Board bus stand at a cost of Rs. 21.5 million in the year 2013 under the special programme launched for infrastructure development in Badulla District. Even though the Sabha had been authorized to lease the shops following the formal procurement process, the Sabha had lost a shop rental income of Rs.10,040,000 due to the fact that the shops were not formally leased out to external parties from January 2014 to December 31 of the year under review.	The relevant 29 shops were tendered on several occasions and 11 shops were tendered therein. Although 5 of them have entered into contracts, as an injunction has been imposed in respect of 3 of the remaining 6 shops, entering into agreements have been suspended. The remaining shops will be tendered in the future.	The shops should be leased out through a formal procurement under new conditions.
(b)	The minimum bid submitted on 25 October 2013, for the lease of the shop at Mahiyangana Sri Lanka Transport Board Bus Stand was Rs.1,200,000, since only one lessee had submitted bids, the bids were not opened and the respective bidder was informed that they would be notified after a Sabha decision. Accordingly, the Sabha had lost an income of Rs. 2,348,000 at the end of the year under review due to failure of leasing out the shop.	The approval of the Sabha General Meeting with regard to the provision of the respective shop was received and the agreement has been entered into by now.	Shops should be leased out through a formal procurement procedure under the new conditions.
(c)	Because the Sabha did not carry out the renovation of the old shops in the weekly fair area in a lawful manner, the income lost to the Sabha from 49 shops in the weekly fair area from November 2012 to December 31 of the year under review was Rs.5,776,700 .	Answers have not been given.	Actions should be taken in a lawful manner and not to the detriment of the fund in a lawful manner and not to the unfavourable to the Fund of the Sabha.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Two tractors valued at Rs.4,522,404 belonging to the Pradeshiya Sabha and the compactor had been parked for more than three years in the Sabha premises and a private company in Mahiyangana area for repair works.	As the garbage compactor part of the compactor was not working properly, it was difficult to use the garbage collection process and actions will be taken to repair the tractors and put into use.	The assets of the Sabha should be used efficiently for effective work.
(b) A sum of Rs. 1,129,900 receivable for the year 2021 for renting the motor grader and roller had not been collected by 31 December of the year under review.	The balance to be as at 31.12.2022 for renting out the motor grader and gully bowser is Rs. 281,561 and the deficit related to gully bowser amounting to Rs. 127,461 has been recovered in the year 2023.	Arrears of rent should be collected promptly.

4. Accountability and Good Governance

Environmental Issues

Audit Observation	Comments of the Sabha	Recommendation
A gully was constructed for the removal of gully waste near the Mahaweli River which flows adjacent to the Nisala Arana Crematorium land by incurring Rs. 778,500 from the Sabha Fund in the year under review without getting the recommendations of the Public Health Inspector and without conducting an environmental study also . The gully was not used even as at the date of test check carried out on 23 February 2023, and within a period of 07 months, its banks had collapsed and the capacity of the gully had decreased.	The construction of gullies has been done under the supervision of the Technical Officer. At present, both gully pits are used for putting gully.	Gully pit should be set to dispose of gully material.