

1. Financial Statement

1.1 Adverse Opinion

The audit of the financial statements of the Mahara Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022, comprehensive income statement, 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Mahara Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Adverse Opinion

I expressed Adverse opinion 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 for Local Authorities, 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 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

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 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 | Comment of the Sabha | Recommendation |
|---|--|--------------------------------|
| (a) Depreciation value had been understated by Rs.1,221,807. | Will be corrected in the final Accounts for the year 2023. | Should be correctly accounted. |
| (b) Government Grants for non-recurring expenditure had been understated by Rs.853,255. | -do- | -do- |
| (c) Capital Grants amounting to Rs.2,416,434, received for the constructions of 03 external institutes, had not been removed from Capital Grants account and Work in Progress Account. | -do- | -do- |
| (d) When writing off Industrial Creditors amounting to Rs.18,700,715, though, Work in Progress Account should have been credited, Accumulated Fund had been credited. | -do- | -do- |
| (e) When correcting the error of not accounting Depreciation value amounting to Rs.1,359,071 of Library Books in the year 2021, instead of debiting the Accumulated Fund, Depreciation Account had been debited. | -do- | -do- |
| (f) Net Assets Value had been understated by Rs.118,952,135 as per the Statement of Assets and Liabilities as at 31 December 2022. | -do- | -do- |
| (g) The Comprehensive Income for the year had been overstated by Rs.19,136,542 due to the reason that, the value of Capital Expenditure had not been shown deducted from the Surplus/Deficit for the year, under the Other Comprehensive Income, in the Comprehensive Income Statement. | -do- | -do- |

- (h) In order to adjust the prior period errors in the Statement of Changes in Equity, though the total of 07 Journal Entries amounting to Rs.38,441,384 should have been credited to the Accumulated Surplus, it had been credited by Rs.39,147,467. - do- -do-

1.6.2 Un reconciled control Accounts or Reports

| Audit Observation | Comments of the Sabha | Recommendation |
|---|---|---|
| The total amount of 08 nos. Accounting Items as at 31 December 2022, as per Financial Statements, had been Rs.259,608,046 and since the total amount as per Supporting Schedules was Rs.176,686,926 there had been a difference of Rs.82,921,120. | Will be corrected in the final account for the year 2023. | Differences should be identified and corrected. |

1.7 Non-compliances

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Comments of the Sabha | Recommendation |
|---|--|--|---|
| (a) Section 24(1) b of Pradeshiya Sabhas Act No.15 of 1987. | Out of the 3859 roads belonging to the Sabha's area of control, 3835 roads had not been noticed in the gazette | Since surveying of roads requires lot of money, surveying is done according to budgetary provisions. | Roads should be noticed in the Gazette. |
| (b) Regulations regarding Accounting activities relating to Administration of Pradeshiya Sabhas | | | |

(i) No. 90 Court Fines and Stamp Fees had been accounted on cash basis even though, instructed to prepare financial statements on accrual basis. Attention will be drawn in this regard. Financial Statements should be accounted on accrual basis.

(ii) No. 300 Actions had not been taken regarding uncollected Trade License Fees of Rs.376,393 as at 31 December 2022. Further Actions with regard to arrears amounts will be taken and will be corrected in the final account of the year 2023. Actions should be taken as per regulations.

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

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Deposit balances amounting to Rs.1,612,771 exceeding 02 years, had not been regulated. According to request letters sent in the year 2023, re-deposits have been made from the deposit types exceeded 02 years and therefore, further Rs.1,612,771 is remaining out of the Deposits that have exceeded 02 years. Actions should be taken as per Financial Regulations.

2. Financial Review

2.1. Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.77,588,762 as compared with the excess of revenue over expenditure amounted to Rs.85,829,929 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue

As per the information presented by the Secretary, particulars relating to the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

| Income Source | 2022 | | | | 2021 | | | |
|--------------------|-------------------|-------------------|-------------------|------------------------------------|-------------------|-------------------|-------------------|------------------------------------|
| | Estimated Income | Billed Income | Collected Income | Arrears Income as at 31st December | Estimated Income | Billed Income | Collected Income | Arrears Income as at 31st December |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| (i) Rates & Taxes | 77,562,990 | 84,062,374 | 76,825,240 | 101,137,252 | 77,388,000 | 80,893,754 | 17,714,748 | 60,881,768 |
| (ii) Rent | 4,666,074 | 4,266,074 | 4,099,420 | 166,654 | 4,841,900 | 4,201,808 | 2,726,507 | |
| (iii) License Fees | 1,120,000 | 1,120,000 | 743,607 | 376,393 | 1,120,000 | 1,120,000 | 647,200 | |
| (iv) Other Income | 1,217,000 | - | 524,258 | - | 1,040,500 | - | 1,747,532 | - |
| | <u>83,566,064</u> | <u>89,448,448</u> | <u>82,192,525</u> | <u>101,680,299</u> | <u>84,390,400</u> | <u>86,215,562</u> | <u>22,835,987</u> | <u>60,881,768</u> |

2.2.2 Revenue Collection Performance

Observations relating to the Revenue Collection Performance are stated below.

| Audit Observatio | Comments by the Sabha | Recommendation |
|--|--|--|
| (a) Rates and Taxes | | |
| (i) Arrears Rates value as at 01 January 2022 had been Rs.60,618,018 and uncollected Revenue as at the end of the year under review, had been Rs.49,828,109. | Conducting Mobile Services, Collecting arrears Taxes by going to the Field, sending demanding letters have been implemented to collect these arrears Rate amounts. | As per the regulations of the Act, actions should be taken to collect arrears Rates. |
| (ii) Out of Industrial Taxes of Rs.2,080,000 billed in the year under review, uncollected Revenue had been Rs.769,450. | Estimated amount had been billed by a mistake. Due to Coved Pandemic and Economic Crisis, Business Places had been closed down. | Surveys should be done and Industrial Taxes should be billed correctly. |
| (b) Court Fines and Stamp Fees | | |
| Revenue had not been accounted having called for schedules pertaining to Stamp Fee Revenue and Court Fines Revenue since the year 2020. | Schedules had been prepared for the year 2020. | Schedules should be prepared and Court Fines and Stamp Fees should be brought. |

3. Operating Review
3.1 Discharging the Duties Assigned by the Act

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

| Audit Observation | Comments of The Sabha | Recommendation |
|---|---|--|
| <p>(a) Action Plan An Annual Action Plan had not been prepared indicating allocated amounts for individual Programs for the year.</p> | <p>Prepared for the year 2023.</p> | <p>Action Plan should be prepared correctly.</p> |
| <p>(b) Solid Waste Management Rs.36,453,827 had been spent during the year under review, for garbage disposal by a private firm, using Sabha owned 06 vehicles and 18 employees. Even though, a request had been made to the Commissioner of Local Governments-Western Province, on 03 September 2021, for a 10 acre land, to be acquired from the Urban Development Authority, for the purpose of constructing a Compost Yard, the land had not been assigned as of 14 March 2023.</p> | <p>Though, a project worth Rs.70 M was received by the Sabha earlier to this and the money was allocated, the project stopped since the land owners did not agree with the government valuation amount.</p> | <p>Waste should be managed having constructed a compost yard.</p> |
| <p>(c) Environmental Licenses (i) Even though, as per the Extra Ordinary Gazette No.1159/22 dated 22 November 2000, activities relating to renewal should start 03 months before the expiry of the Environmental License. renewal activities had not been started of Environmental Licenses expired in the period from 21 January 2021 to 27 January 2023 of 10 business entities operating within the control area of the Sabha.</p> | <p>Steps will be taken in the future to carry out these activities properly.</p> | <p>Entities which have not obtained Environmental Licenses, should be followed up.</p> |

- (ii) A survey had not been conducted regarding the organizations that should obtain Environmental Licenses. Survey Activities will be carried out in the future. Surveys should be done.

3.2 Operating Inefficiencies

| Audit Observation | Comments of the Sabha | Recommendation |
|---|-----------------------|--|
| (a) Receivable Balances Industrial Debtor Balance as per Financial Statements as at the closing date of the year under review was Rs.8,231,524. | . | receivable balances should be settled. |
| (b) Payable Balances | | |
| (i) Supply Creditor balance of Rs.57,702,714 as at the closing date of the year under review, included the balances of Rs.30,580,208 outstanding for 01 year to 03 years. | -do- | payable balances should be settled. |
| (ii) Creditor Industrial Balance as per Financial Statements as at the closing date of the year under review was Rs.37,073,169. | -do- | -do- |

3.3 Idle or Under-utilized Property, Plant and Equipment

| Audit Observation | Comments of the Sabha | Recommendation |
|--|---|------------------------------------|
| A hand Tractor and a water Bowser valued to a total of Rs.1,742,000, owned by the Sabha has been idling. | As per the recommendation of the Finance and Policy Committee, this will be modernized as a Gully Bowser. | Should be modernized and deployed. |

3.4 Assets Management

| Audit Observation | Comments of the Sabha | Recommendation |
|---|---|---------------------------|
| (a) Actions had not been taken regarding 1350 books amounting to Rs.476,079, that were borrowed and not returned and 1460 books amounting to Rs.424,746 which were not present for verification, of the 08 Libraries operating under the Sabha. | Relevant libraries were notified and information is being received. Actions will be taken to correct. | Losses should be charged. |

- (b) Actions had not been taken to transfer the ownership of the Backhoe Machine, valued at Rs.3,500,000, received from Municipal Council – Peliyagoda, Actions were taken to transfer. The ownership should be transferred.

3.5 Human Resource Management

Audit Observation

Comments of the Sabha

Recommendation

Staff Loans

Loan and Advances Balances amounting to Rs.1,158,543 of 07 officers who were transferred, retired, and dead, had been outstanding.

Have been unable to charge due to Guarantors being retired. Gone abroad, non-receipt of death gratuity, non-receipt of retiring gratuity etc.

Staff Loans should be recovered.