

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Manmunai South West Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Balance Sheet as at 31 December 2022, Income and Expenditure Account, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 accompanying financial statements give a true and fair view of the financial position of the Manmunai South West 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.

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 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) In the year under review the 10 per cent discount given to earlier payers of assessment tax had not been calculated and disclosed as expenses in the financial statements.	That in the coming year, actions have been taken to account the discounts given.	Discounts given should be disclosed as expenses in the financial statements.
(b) As at the end of the year under review, outstanding water charges of Rs. 312,415 from the Kuluwinamadu Community Drinking Water Supply Project had not been shown in the financial statements.	That the outstanding water charges from the current year will be disclosed as current assets in the financial statements.	Arrears should be disclosed as an asset in the financial statements.

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| (c) | Fees of Rs. 94,000 to be charged for the computer courses conducted by the council as at the last day of the year under review had not been shown in the financial statements. | In future years, these arrears will be accounted and included in the financial statements. | - Do - |
| (d) | Interest of Rs. 75,253 received for fixed deposits in the year under review had not been disclosed in the financial statements. | That information will be obtained from the bank and included in the financial statements in the future. | The income for the year should be shown in the financial statements. |

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
As at 31 December of the year under review, 04 account balances worth Rs. 59,625,995 could not be satisfactorily monitored during the audit due to non-submission of deeds, fixed asset registers and schedules.	That appropriate actions will be taken to complete the deficiencies.	Necessary evidence should be submitted to prove the account balances.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Sub-Section 24 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and Batticaloa District Local Government Commissioner's letter No. BT/ACLG/PL/Road/2013 dated 10 July 2013	253 roads belonging to the council area had not been published in the Gazette.	Actions have been taken to publish the names of the remaining 253 roads in the Gazette.	Action should be taken to publish the roads in the Gazette.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2022 amounted to Rs. 109,484 as compared with excess of expenditure over recurrent revenue amounted to Rs. 11,270,709 in the preceding year.

2.2 Revenue Administration

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

According to the information submitted by the council, the details relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	745,200	786,640	903,460	94,405	729,655	732,565	521,340	211,225
ii. Rent Income	810,100	681,350	681,350	--	795,100	352,900	352,900	--
iii. License Fees	1,942,850	2,040,920	2,040,920	--	978,000	1,141,867	1,141,867	--
iv. Other revenue	<u>23,212,500</u>	<u>38,158,456</u>	<u>38,755,715</u>	<u>2,796,511</u>	<u>22,720,265</u>	<u>33,392,891</u>	<u>35,794,464</u>	<u>23,212,500</u>
Total	<u>26,710,650</u>	<u>41,667,366</u>	<u>42,381,445</u>	<u>2,890,916</u>	<u>25,223,020</u>	<u>35,620,223</u>	<u>37,810,571</u>	<u>3,604,995</u>

2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observation	Comment of the Council	Recommendation
Actions had not been taken to recover the outstanding stamp duty of Rs. 3,622,850 for the last 5 years from the Chief Secretary of the Provincial Council and other officials up to the end of the year under review.	That actions have been taken to recover the arrears of stamp duty.	Actions should be taken to collect stamp duty income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
In the year under review, the council had collected 114,877 kg of biodegradable waste, but only 4,000 kg of organic fertilizers had been processed. Also, the garbage cutting machinery system and Compost Screener machine received by the council in the year 2021 had not been used for the production of organic fertilizers by the end of the year under review.	That this is being carried forward in an appropriate manner at present.	Actions to prepare organic fertilizers should be expedited.

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) Two tractors and 02 water bowsers belonging to the council had been remained unrepaired for 07 years.	That actions will be taken to repair the vehicles.	Actions should be taken to repair the vehicles.
(b) Two vehicles, 03 tractors, a trailer and a water bowser given to the council by other departments had not been taken over to the name of the council.	That further actions are being taken to transfer the ownership of the vehicles.	Actions should be taken to transfer ownership of vehicles.

3.3 Procurement Management

Audit Observation	Comment of the Council	Recommendation
In accordance with Guideline 4.2.1 of the Government Procurement Guidelines - 2006 and Department of National Budget Circular No. 128 dated 26 March 2006, the Council had not been prepared a procurement plan for purchases.	That the procurement plan for the year 2023 will be prepared in the prescribed format.	The procurement plan should be prepared in the prescribed format.

3.4 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
<p>(a) Employee Vacancies and Excess There were 10 vacancies and 09 excess in 05 posts of approved staff in the Department of Management Services.</p>		
<p>(b) Employee Loans The outstanding loan balance from an officer who served in the council and suspended his position in the year 2013 was Rs. 39,297.</p>	<p>That actions are being made to settle outstanding loans.</p>	<p>Arrears of employee loans should be collected.</p>

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comment of the Council	Recommendation
<p>According to sub-section 16 (2) of the National Audit Act No. 19 of 2018, the annual performance report had not been submitted along the financial statements.</p>	<p>That the annual performance report will be submitted promptly.</p>	<p>Annual performance report should be prepared and submitted along with the financial statements.</p>

4.2 Annual Action Plan

Audit Observation	Comment of the Council	Recommendation
<p>According to the annual budget, the council had not been prepared an action plan for 11 activities to be implemented.</p>	<p>That the annual action plan has been prepared in the future.</p>	<p>The annual action plan should be prepared according to the budget.</p>

4.3 Environmental Issues

Audit Observation	Comment of the Council	Recommendation
According to Section 23 (a) of the National Environment Act, no person can carry out a specified operation without having environmental protection permits. Even so, the council had not been taken actions to identify 26 factories operating in the council's administrative area and to issue environmental protection permits.	At present, licenses have been issued to 08 centers and actions have been taken to issue to the remaining.	Actions should be taken to issue environmental protection permits to the factories.