

Mahaoya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahaoya 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 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 Mahaoya 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.

- (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 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 Observations	Comments of the Council	Recommendations
(a) The lorry bowser worth Rs. 14,000,000 given to the local council in the year under review had not been accounted.	That the actions will be taken to account the value of Rs.14,000,000 for the lorry browser.	Should be properly accounted.
(b) The outstanding advance balance had been overstated by Rs. 1,263,384 as at 31 December of the year under review.	That the advance value of Rs. 1,263,384 which was overstated will be corrected.	- Do -
(c) The interest income received in respect of a fixed deposit amounting to Rs.140,138 had not been accounted as income in the year under review and had been credited to the accumulated fund by Journal 89.	That the recording of the value of Rs. 140,138 in fixed deposit as correction of error will be corrected and will be included to interest income.	- Do -
(d) The industrial creditor balance had been under-accounted by Rs. 41,194,145 as at 31 December of the year under review.	That the creditor value of Rs.41,194,145 which had been missed will be taken into account.	- Do -
(e) The shop deposit balance had been over accounted by Rs. 46,470,212. As at 31 December of the year under review.	That the shop deposit value of Rs. 46,470,212 which had been over accounted will be taken into account.	- Do -
(f) The local loan interest expense related to the year under review had been overstated by Rs. 105,488 in the Income Expenditure Account.	That the premium has been accounted as interest and that the value of Rs. 105,488 will be corrected.	- Do -

- (g) The payable retention money amounting to Rs. 1,177,049 had not been accounted as at 31 December of the year under review. That these values are taken into account. - Do -
- (h) The receivables and payables of retention money amounting to Rs. 428,730 had not been accounted in respect of the waste management center repair project as at 31 December of the year under review. That the receivable retention money will be accounted. - Do -

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. 2,479,682 as compared with the excess of expenditure over recurrent revenue amounted to Rs. 4,148,060 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 presented by the chairman, 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	500,000	430,200	430,200	-	800,000	130,380	130,380	-
ii. Rent Income	10,083,402	15,823,744	9,338,219	6,879,574	2,860,000	7,714,108	7,709,358	394,050
iii. License Fees	350,300	298,442	298,442	-	1,592,000	866,200	866,200	-
iv. Other revenue	<u>2,159,912</u>	<u>518,879</u>	<u>518,879</u>	<u>-</u>	<u>45,280,000</u>	<u>31,368,778</u>	<u>34,119,113</u>	<u>8,093,479</u>
Total	<u>13,093,614</u>	<u>17,071,265</u>	<u>10,585,740</u>	<u>6,879,574</u>	<u>50,532,000</u>	<u>40,079,466</u>	<u>42,825,051</u>	<u>8,487,529</u>

2.2.2 Revenue Collection Performance

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observations	Comments of the Council	Recommendations
Rent		
(a) The shop rent income to be collected was Rs. 5,431,962 as at 31 December of the year under review and due to lack of legal actions against those who did not pay the arrears, the progress in collecting the arrears was very poor.	Legal action has been taken so far and the money will be recovered in the future.	Arrears should be recovered promptly.
(b) The rent income to be collected was Rs. 1,447,611 as at 31 December of the year under review and the actions had to be made as per the agreement for the collection of that money.	That the arrangements have been made so far in relation to the recovery of these tax rental incomes.	- Do -

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) The local council had not been taken any action to update the agreements of 129 shops owned by the local council, which had expired.	That the agreement will be updated.	Agreements should be updated.
(b) Adequate actions had not been taken to recover 02 outstanding balances worth Rs. 146,250, which have been for a period of 9 to 15 months for renting out the motor grader owned by the council.	That legal action will be taken to recover the arrears in the future.	A formal register should be used and actions should be made to recover arrears of income.

3.2 Assets Management

Audit Observations	Comments of the Council	Recommendations
(a) According to the financial statements of the local council, the value of fixed assets of Rs.142,237,813 had not been identified by each and had not been included in the fixed assets registers.	That the asset register will be properly updated after the assets revaluation.	Values should be entered correctly and fixed asset registers should be updated.

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| (b) | The value of 28 cemeteries owned by the local council had not been identified, documented and accounted. | That the value of the 28 cemeteries will be accounted in the future. | Value should be recognized and accounted. |
| (c) | The value of 24 items of goods received as donations during the year under review had not been recognized and accounted. | That the accounting was not done due to non-availability of values. | - Do - |
| (d) | The council had not been taken action for more than 5 years, to take over the ownership of 03 vehicles to the council's name and to repair and reuse 02 vehicles or to sell them at auction. | That the actions related to taking over to the name of the council and the necessary actions for auctioning will be done in the future. | Actions should be made to take over the ownership and auction unusable vehicles. |

3.3 Human Resource Management

Audit Observation

Although it had been informed to the local government department from time to time about the vacancy of the secretary post and other 09 posts of the local council, which has been vacant for more than 02 years, those vacancies had not been completed by the date of the audit.

Comment of the Council

That the concerned parties have been informed in this regard through quarterly reports.

Recommendation

Necessary action should be taken to fill the vacancy.