

## **Mahiyanganaya Pradeshiya Sabha - 2023**

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### **1. Financial statement**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Mahiyanganaya Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the comprehensive income statement, cash flow statement, statement of changes in equity, significant accounting policies and the summary of 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Mahiyanganaya Pradeshiya Sabha as at 31 December 2023 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **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 the 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

Those charged with governance are responsible for overseeing the financial reporting process of the Pradeshiya Sabha. 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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a 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 asses the risks of material misstatements in financial statements whether due to fraud or error 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 an 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 procedure that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the 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 discourses, 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:

The scope of audit has also been widened to examine the following as far as possible and whenever necessary.

- 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 the Pradeshiya Sabha 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**

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year
- (b) 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 Preparation of Financial Statements

### 1.6.1 Accounting deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Rs.60,189,965 of industrial assistance received from the Local Development Support Project (LDSP) had not been included in the statement of financial operations during the year under review.	As the Sabhawa does not have the ownership of the lands, LDSP assistance has been included in the cash book and deposit account when carrying out the industries.	Actions should be taken to prepare accounts accurately.
(b) Although the balance of cash and cash equivalents as on 31 December of the year under review was Rs.11,119,468, a sum of Rs.113,274 had been overstated as Rs.11,232,742 in the statement of financial position.	Action will be taken correct in preparation of Accounts in 2024.	-Do-
(c) The credit balance of Rs.914,881 in the suspense account which had been prepared depicting the difference in the trial balance the reviewed year had not been identified and settled.	-Do-	Until the difference in the checking balance is identified, it is recorded in a temporary suspense account and also actions should be taken to recognize and settle the difference.
(d) A sum of Rs.190,046 which had been paid for publication of newspaper advertisements in the year under review, had been shown as a pre-payments.	Expense for the advertising has been shown as pre-payment due to publication of newspaper advertisements to generate revenue in the year 2024.	Actions should be taken to identify expenses related to the accounting year and prepare the accounts correctly.

(e) There had been unrecognized prepayments amounting to Rs.71,539 in the statement of financial position during the year under review.	Action will be taken to adjust in the accounts in the year 2024.	Actions should be taken prepare the accounts accurately.
(f) Though the stamp duty revenue was Rs.2,033,067 in the reviewed year, it had been overstated by Rs.2,899,480 as Rs.4,932,547.	-Do-	- Do -
(g) Although outstanding stamp duty revenue as on 31 December of the reviewed year was Rs.1,033,321, it had been accounted as Rs.3,932,801.	- Do -	-Do -
(h) The sum of Rs. 120,185 had been shown in the financial statements as outstanding other income which has not been specifically identified as being received and there is no evidence to confirm the receipts that have been going on for a period of 15 years.	Comments have not been made.	- Do -

### 1.6.2 Unreconciled Control Accounts

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
As per statement of financial position and as per ledger, Industry Creditors Balance was different from the opening balance by Rs.31,907 and different from the closing balance by Rs.438,311.	It is mentioned that action is taken to adjust in 2024.	Actions should be taken to prepare accounts correctly.

### 1.6.3 Absence of written evidence for audit

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
It was unable to verify satisfactorily the amount of Rs. 522,475 receivable for providing stone roller, motor grader and bulldozer services in relation to the years 2018, 2021 and 2023 due to non-submission of machine hire register and proof of balance.	A sum of Rs. 218,800 has been recovered from the arrears and the documents will be maintained in the future as per instructions.	Actions should be taken to maintain the records properly and verify the existence of sources of income.

## 1.7 Non-compliance

### Non-compliance with laws, rules, regulations and management decisions

The instances where laws, rules, regulations and management decisions were not complied with are, as follows.

	<b>Reference to laws,rules and regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Sections 134(1) and 134(2) of the Pradeshiya Sabhas Act No. 15 of 1987	Although developed areas should be identified and assessment tax levied on annual value taking into account the level of development, Assessment tax had been charged on the basis of valuation in the year 2012.	Reminder letters have been sent to the Valuation department to obtain the valuation reports.	Actions should be taken to assess the property in time and assessment tax should be collected.
(b)	The Financial Regulations 104(4) of the Democratic Socialist Republic of Sri Lanka	In respect of the accidents that took place to 04 vehicles on 08 occasions in the years 2018, 2019 and 2020, investigations had not been carried out as per the financial regulations.	Action is taken to submit in the future.	Actions should be taken to act as per the Financial Regulations

## 2. Financial Review

### 2.1 Financial Results

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December in the reviewed year was Rs. 11,399,724, and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 14,317,436.

### 2.2 Revenue Administration

#### 2.2.1 Estimated income, Billed income, collected income and Outstanding income

According to the information submitted by the council, the information about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year is given below.

Source of revenue	<u>2023</u>				<u>2022</u>			
	Revenue estimated	Billed revenue	Revenue collected	Deficit as on 31 December	Revenue estimated	Billed revenue	Collected revenue	Deficit as on 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	5,086,655	4,537,638	4,357,517	180,121	5,566,445	4,527,539	4,759,863	
(ii) Rents	43,886,144	24,157,424	23,053,104	1,104,320	54,187,649	34,460,356	29,139,457	5,320,899
(iii) License Fees	1,578,270	1,549,830	1,549,830	0	1,561,000	1,251,827	1,251,827	0
(iv) Other revenue	77,786,414	27,694,783	73,824,017	0	177,379,372	78,602,608	85,225,478	0
	128,337,483	57,939,675	102,784,468	1,284,441	238,694,466	118,842,330	120,376,625	5,320,899

### 2.2.2 Performance of the Revenue Collection

Observations in respect of collecting the revenue of the council are as follows.

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Actions had not been taken to recover the outstanding assessment tax of Rs. 2,153,240 which had been coming since more than 03 years.	An amount of Rs.66,700 is possible to be recovered in 2024.	Actions should be taken to charge the outstanding money
(b)	The outstanding water tariffs of Rs.1,940,835, which have been going on for more than 03 years, had not been recovered in the reviewed year.	Dambana water project has been closed and Rs.12,822 has been recovered from the disconnected water accounts of Dambara water project.	Actions should be taken to charge outstanding water tariffs.
(c)	The total of Rs.18,776,518 annual tender outstanding tax income to be recovered in relation to the previous years and the a sum of Rs.2,016,020 uncollected tender outstanding tax income in relation to the reviewed year had not been recovered.	Comments have not been made	Actions should be taken to recover outstanding revenue expeditiously.
(d)	Court fines of Rs.5,816,980 and stamp duty of Rs.1,033,321 had not been collected as of 31 December of the reviewed year.	A sum of Rs.933,607 has been received as court fine.	Arrangements should be made to collect the outstanding stamp duty and court fines

**(e) Outstanding tender revenue**

Although the monthly rental should be collected before the 10<sup>th</sup> of the following month according to the lease agreement, a sum of Rs.236,609 as the outstanding rental (2022 year) for the public toilet near the Ceylon Transport Board in Mahiyangana town, an amount of Rs.4,479,950 as the Saturday *satipola* rental (2022 year), a sum of Rs.603,646 as the rental of toilets located at the Mahiyangana private bus stand (year 2022) and Rs.1,694,916 as the Saturday *Satipola* rent (year 2023) amounting to Rs.7,015,121 had not been recovered by 31 December in the reviewed year.

Comments have not been made.

Actions should be taken to recover arrears promptly.

**3. Operational review****3.1 Performance of functions assigned by the Act**

Under section 3 of the Pradeshiya Sabhas Act, the facts that were observed regarding the performance of the Sabha's duties of regularizing and controlling matters of public health, public utility services and public roads, comfort, convenience and welfare of the people, are as follows.

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)(i) The new compost yard, which was built at a cost of Rs.3,559,082 under the provincial council criteria based development program in 2021, remained idle without being used for production activities.	The composting process is planned to start from May 2024.	Actions should be taken to achieve the expected goals.
(ii) decomposable and non-decomposable garbage was irregularly dumped in the open ground around the new compost yard and during rainy days, it was washed away and added to the river Mahaweli flowing near the garbage yard.	waste is segregated and obtained,	Actions should be taken to dispose of garbage properly in a manner that minimizes environmental problems.
(b) A building for waste recycling and compost production was constructed in 2013 at a cost of Rs.13,665,854 and electricity connection had been obtained in 2017 at a cost of Rs.18,846. That	The subjected building has been tendered from the year 2021.	Actions should be taken to harness the Resources to achieve desired goals.

building also remained idle without being used for the expected purpose even by the year under review.

### 3.2 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The transport cost of Rs.25,778 had been overpaid due to the fact that the raw materials for the development of the road leading to Theldeniya Section 19 were not supplied from the nearest places in the year 2022.	Comments have not been made.	Actions should be taken to recover the overpayment for the Industries
(b) An extra payment of Rs.47,517 had been paid for the development of <i>Theldeniya Petti Kade</i> Road due to the construction contract estimates being made without adjusting the cost in order to minimize the cost for the transportation of raw materials last year.	-Do-	-Do-

### 3.3 Asset management

Audit Observation	Comments of the Council	Recommendation
(a) The tractor belonging to the Sabha had been handed over to a private garage in Mahiyangana area for repairs in 2019 and the repairs had not been done by 31 December of the year under review.	Mechanical engineering advice is sought and repairs are carried out promptly.	Actions should be taken to repair the vehicles and out them into use.
(b) The resort building belonging to the Sabha had been closed from 2020 due to its dilapidated condition. no action had taken to repair the building and use it for the related purposes in the reviewed year. Two employees had been employed for guarding the building and from 2022 to July 2023, an expenditure of Rs.68,515 had been incurred for electricity and water supply.	It is expected to be repaired and used for income generation.	Actions should be taken to manage the expenses.
(c) The hauler machine, shredders and glass crushers with a total value of Rs.3,337,500 purchased last year for waste management under the Regional Development Support Project (LDSP), remained idle until 31 December, 2023.	Electricity connection for the composting process has been obtained and the manufacturing process will start on 15 May.	Actions should be taken to utilize the assets efficiently.



### 3.4 Expenditure exceeding the income

Audit Observation	Comments of the Council	Recommendation
<p>The Sabha had received an income of Rs.2,633,689 from the Bathalayaya and Dambana water projects in the first 6 months of 2023 and Rs.5,014,326 had been spent as expenses including electricity and salaries for running the water projects.</p>	<p>Efforts are being made to increase income.</p>	<p>Actions should be taken to manage expenditure while maintaining the welfare of the public.</p>