

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahaoya Pradeshiya Sabha for the year ended 31 December 2023 comprising the financial position as at 31 December 2023 and statement of financial operations, cash flow statement for the year then ended and notes to the financial statements, including material accounting policy 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 subsection 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 reported 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 Mahaoya Pradeshiya Sabha as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on 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 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 Principles and for such internal control as management determines 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 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 to be prepared of the Sabha.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 exercise professional judgement and maintain professional skepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors 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 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pradeshiya Sabha's 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 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 discussions 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 the other legal requirements

The special provisions had been inserted in the National Audit Act No.19 of 2018 in relation to the under-mentioned requirements.

- (a) The financial statements of the pradeshiya sabha are consistent with the preceding year as per the requirement of the section 6(1)(d)(iii) of the National Audit act No. 19 of 2018 .
- (b) The recommendations made by me in the preceding year as per the requirement indicated in the section 6(1)(d)(iv) of the National Audit act No. 19 of 2018 had been included in the financial statements forwarded.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observations	Comments of the Sabha	Recommendation
(a) The retention money to be paid on 31 December in the year under review in relation to construction project of Centre for purchase and sale of Agricultural Products implemented under Local Development Support Project had been overstated by Rs.337, 048.	Erroneous accounting of retention money of LDSP (BT2 & 3) will be rectified in the preparation of accounts in the future.	It should be accurately accounted.
(b) An amount of Rs.96, 251 received on 12 February 2024 with regard to construction of water tank base tower on the watch hut located in Mudagala waste yard had been understated under industry debtors and industry creditors.	It will be rectified the understatement of an amount of Rs. 96,251 related to the project under industry debtors and industry creditors.	- Do -

1.6.2 Lack of Documentary Evidence for Audit

Subject	Amount Rs	Audit evidences not provided	Comments of the Sabha	Recommendation
(a) Furniture and Fittings	6,789,464	(i) Fixed Assets Registers	A furniture and fittings fixed assets register is being prepared. No evidence can be identified to show the values of the office	The relevant written evidences should be submitted to the audit.
(b) Office Equipment	3,816,344	(ii) Schedules indicated the values as per the items		

				equipment. The action should be taken to value under the prevailing prices.	
(c)	Pension Advance – T.B.Jinadasa	162,274	Balance Confirmations	The necessary action had been taken to find out the required documents on this.	The action should be taken to settle the balance.
(d)	Over payments - Welfare Society	15,070	Balance Confirmations	The answers had not been given.	- Do -
(e)	Shop Advances	19,614	(i) Schedules with the payable parties (ii) Balance confirmations	It will be rectified in the preparation of the future accounts having examined the previous documents on the payable amounts.	- Do -

1.7 Non-Compliances

1.7.1 Non-compliances with rules, laws, regulations and management decisions

The incidents which are not complied with rules, laws, regulations and management decisions are under-mentioned.

Reference to rules, laws, regulations and management decisions	Non-compliances	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Rules 1988 (Financial and Administrative)			
(i) Rule 5(12)	No action had been taken to obtain adequate securities from the responsible persons in charge of subjects of cash and stores.	No answer had been given.	The action should be taken as per Financial and Administrative Rules.
(ii) Rule 218	The action should be taken to inspect the lands and buildings belonging to sabha once in every year, no action was taken accordingly.	The action will be taken in due course.	- Do -

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| (b) | Financial Regulations of Democratic Socialist Republic of Sri Lanka | Financial Regulations 371(2) (b) amended by Public Finance Circular No.01/2020 and dated 28 August 2020 of Secretary to the Treasury | Even though an adhoc sub imprest can be given up to maximum of Rs.100,000 at one incident only for the staff officers for the special purposes, an advance amount of Rs.162,000 had been given to the acting Secretary of Mahaoya Pradeshiya Sabha exceeding the limit on 26 March 2023. | Up to now, an advance had been settled. | The action should be taken as per the Financial Regulations. |
| (c) | Paragraph 3 of Public Administration Circular No.30/2016 dated 29 December 2016 | Even though the vehicle emission tests should be performed annually or after running of 25,000 Km, no action had been taken to carry out the vehicle emission tests for 08 vehicles used by sabha. | It will be performed in 2024. | The action should be taken as per the Circular. | |

2. Financial Review

2.1 Financial Results

As per the financial statements submitted, the recurrent expenditure exceeding the recurrent income of the sabha was Rs.2,088,618 for the year ended 31 December 2023 and correspondingly, the recurrent expenditure exceeding the recurrent income was Rs.2, 479,682 in the preceding year.

2.2 Income Administration

2.2.1 Estimated Income, Billed Income, Collected Income and Outstanding Income

In accordance with the information submitted by the Chairman, the information on estimated income, billed income, collected income and outstanding income is as follows in relation to year under review and the preceding year.

Income source	2023				2022			
	Estimated Income	Billed Income	Collected Income	Total Outstanding as at 31 December	Estimated Income	Billed Income	Collected Income	Total Outstanding as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Assessment Tax and other tax	500,000	364,800	364,800	12,000	500,000	430,200	430,200	12,000
ii. Rents	10,766,956	9,752,078	9,689,409	7,094,943	10,083,402	15,823,744	9,338,219	7,032,274
iii. License fees	350,400	276,845	276,845	-	350,300	298,442	298,442	-
iv. Other Income	9,695,100	5,846,301	5,846,301	-	2,159,912	518,879	518,879	-
Total	<u>21,312,456</u>	<u>16,240,024</u>	<u>16,177,355</u>	<u>7,106,943</u>	<u>13,093,614</u>	<u>17,071,265</u>	<u>10,585,740</u>	<u>7,044,274</u>

2.2.2 Income Collection Performance

Audit Observation	Comments of the sabha	Recommendation
(a) The shop rent income to be received as at 31 December of the year under review was Rs. 5,462,157 and the progress on recovery of the outstanding amount was in a very poor level due to not taking legal action against the persons who do not pay the outstanding.	Currently, the actions are being taken to recover the prevailed outstanding.	The outstanding income should be immediately recovered.
(b) It was observed that 11 outstanding rent balance of Rs.1, 380,286 which had to be recovered from 01 year to 03 years as per outstanding rent register had not been recovered and the steps had not been taken to recover 09 outstanding balances worth of Rs. 155,762.	Up to now, the action is being taken to recover such balances.	- Do -

3. Operational Review

3.1 Non-performing the functions entrusted by the Act

Audit Observation	Comments of sabha	Recommendation
Even though by-laws should be enacted for performing of 20 key matters under section 126 of Pradeshiya Sabha Act, only 05 by-laws had been enacted up to 31 December 2023.	No answers had been given.	The action should be made lawful having enacted by-laws.

3.2 Management Inefficiencies

Audit Observation	Comments of the sabha	Recommendation
(a) Since a work of Rs. 188,494 had been completed up to 31 December of year under review with regard to compost yard extension and improvement project which has a estimated cost of Rs. 1,361,810 commenced in 2021 under the provision of State Ministry of Provincial Council and Local Government, the expected output level had not been achieved in relation to that project.	No answers had been given.	It should be used for sabha activities having completed the work of the project.
(b) A provision of Rs. 34,000,000 had been allocated for construction of 17 roads to Mahaoya Pradeshiya Sabha under rural roads development program 2021 by the Ministry of Rural Roads and Other Infrastructure Facilities and 06 projects worth of Rs.12,000,000 had not been implemented.	The measures will be taken to carry out necessary action by paying attention to these completed projects in carrying out future project activities.	The action should be taken to complete the projects.
(c) The prompt action had not been taken by pradeshiya sabha to be updated the agreements of 26 shops on which the valid agreement period had been exceeded.	The action will be taken by avoiding the weaknesses.	The agreements should be updated.
(d) Even though 12 shops in the first floor and 12 shops in the second floor out of 24 shops in the shopping complex located in Kakirihena area completed incurring an expense of Rs.33, 083,469 under Puraneguma Project in 2015 had been given to the tenants since 2015 and 2017 respectively, it was observed that such shops were in idle without opening such shops since more than 07 years up to 08 May 2024 which is the date of audit. The outstanding rent to be recovered from these shops was Rs. 4,126,533 up to 31 December in the year under review and no legal action was taken on the defaulters of the outstanding amount.	The attention is paid to this project by sabha and the necessary action will be taken to activate the project.	The action should be taken to get legal action on defaulters of rent and tender again after taking over the shops.

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| (e) | Even though it had elapsed more than 01 year of providing a coconut oil extraction machine purchased at a cost of Rs. 385,000 by Mahaoya Pradeshiya Sabha under the project proposal submitted by the women people's representatives of the local authorities to Kelavinna Community Board, the relevant machine had not been used and been idle. | It had been requested to obtain the electricity supply required for implementation of this project .The relevant project will be able to implement after receipt of the electricity supply. | The machine should be utilized having obtained the electricity supply immediately. |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the sbha	Recommendation
The shop rent had been charged from 131 shops belonging to pradeshiya sabha based on an old valuation in 2023.	The valuation activities had been carried out by Valuation Officers up to now and the action will be taken with regard to such valuation after receipt of such reports.	The rent should be charged having valued in timely manner.

3.4 Idle or Under Utilized Property, plants and machinery

Audit Observation	Comments of the sabha	Recommendation
Since necessary steps had not been taken to auction 02 vehicles which are not in reparable condition belonging to sabha , those vehicles had been deteriorating.	It will be auctioned in due course.	The action should be taken to auction without delay.

3.5 Assets Management

Audit Observation	Comments of the sabha	Recommendation
(a) As per the financial statements of pradeshiya sabha, no action had been taken to insert into the fixed assets registers having identified the fixed assets of Rs. 173,812,047 as each item.	The action will be taken to maintain the fixed assets register having identified the value of items.	The values should be accurately included and the fixed assets registers should be maintained in an update manner.
(b) No action had been taken to identify the value of 28 burial grounds belonging to pradeshiya sabha and document and account them.	These burial grounds had been sent for valuation.	It should be accounted having identified the values.
(c) No action had been taken to identify the values of 44 good items received as donations within the year under review and account those goods.	Even though these goods are received, it had not been received a description with values.	- Do -

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| (d) | No action had been taken to repair and use 09 vehicles and machineries up to 31 December in the year under review. | There are no provisions available for the repair of these vehicles | The action should be taken to repair the vehicles. |
| (e) | No steps had been taken to transfer the ownership of 06 vehicles under custody of sabha to the name of sabha even up to the date of audit. | The action will be taken on this matter in due course. | The action should be taken to transfer the ownership of the vehicles to sabha. |

3.6 Human Resource Management

Audit Observation	Comments of the sabha	Recommendation
10 posts of sabha had been vacant at the end of year under review.	The requests had been made having made aware the relevant appointing authority in relation to the existing vacancies.	The necessary action should be taken to fill the vacancy.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comment of the sabha	Recommendation
Even though the recommendations had been prepared for improvement of institutional operational processes and enhancement of the performance by the internal audit in terms of section 40 of the National Audit Act No.19 of 2018 and the Financial Regulation 133(1) and the implementation had been started, it had not been formally carried out covering the all activities of sabha.	Presently, the internal control process is being formally carried out.	The recommendations for improvement of institutional operations processes and enhancement of performance as per the National Audit Act should be prepared and implemented.

4.2 Audit Committee

Audit Observation	Comments of the sabha	Recommendation
In terms of the Circular on Internal Audit Guidelines No. DMA/01-2019 dated 12 January 2019 of Department of Management Audit, no committee meetings had been conducted having established the Audit and Management Committees by sabha in the year under review.	No Audit and Management Committee meetings had been conducted.	The steps should be taken to commence the procedures for Audit and Management Committees and conduct the meetings.

4.3 Environmental Issues

Audit Observation	Comments of the sabha	Recommendation
(a) Even though a valid environmental license should be obtained under Environment Act No.47 of 1980 amended by the Acts No.56 of 1988 and No.53 of 2000 for solid waste management center maintained in Mudagala area by Mahaoya Pradeshiya Sabha from the Central Environmental Authority, the solid waste management center had been maintained without a valid environmental license in 2023 by pradeshiya sabha.	The necessary action had been taken for this. It had been requested to obtain an environmental license from Central Environment Authority and take the steps to pay the money.	A valid environmental license should be obtained.
(b) The non-degradable waste of 21 tons generated monthly on contrary to the additional terms and conditions No.2.2 and 2.3 of environmental license had been disposed in an open area and since a serious environmental damage had occurred from that, the prompt attention of the sabha should have been paid to a formal method of disposing non-degradable waste.	Presently, since there is a shortage of staff in our pradeshiya sabha, there is no possibility of update of waste management project.	The attention should be paid to a method of recycling of non-degradable waste.

4.4 Sustainable Development Goals

Audit Observation	Comments of the sabha	Recommendation
In terms of the Sustainable Development Goals Act No.19 of 2017, no adequate action had been taken by sabha in order to provide the required provision having collected the necessary data for achievement of the Sustainable Development Goals and objectives.	The action had been taken by aiming the Sustainable Development Goals in preparation of the budget.	As per circulars, the steps should be taken by sabha in order to make the required provisions having collected the required data for achievement of Sustainable Development goals and objectives.