

Mahara Pradeshiya Sabha - 2023

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Mahara Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of Changes in Net Assets/Equity, Cash Flow Statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies 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 Sub-Section 172 (1) of the Pradeshiya Sabhas 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 Mahara Pradeshiya Sabha as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified 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 to be prepared.

1.4. Scope of Audit (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:

- Identified and assessed 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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 is also extended to examine the following, as far as possible and as far as 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 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 year 2022 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 Non-compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

| Non-compliance with reference to the relevant Standard | Comments of the Council | Recommendation |
|---|---|--|
| (a) In terms of Chapter 3.28 of the Standard, in the computation of cash flow from operating activities, addition of receivables from employees in less of Rs.27,680, deduction of stocks in excess of Rs.880,740 and non-addition of receivables from exchange transactions amounting to Rs.117,706, have been recorded. | Has been rectified through the revised final account. | The cash flow statement should be accurately prepared. |
| (b) In preparing the cash flow statement in terms of the Standard, the balance of cash and cash equivalents as at the end of the year had been understated by Rs.35,938,557. | -do- | -do- |

1.6.2 Accounting Deficiencies

| | Audit Observation | Comments of the Council | Recommendation |
|-----|--|--|---------------------------------|
| (a) | The value of 02 lands for common amenities valued at Rs.600,000 received to the Council had not been accounted as donations. | That action will be taken to rectify through the final accounts of year 2024 | Should be accurately accounted. |
| (b) | According to the Trial Balance, the credit balance of Rs.22,621 in the Suspense Account had not been shown in the financial statement. | That action will be taken to rectify through the final accounts of year 2024 | -do- |

1.6.3 Unreconciled Control Accounts or Records

| | Audit Observation | Comments of the Council | Recommendation |
|-----|--|---|---|
| (a) | According to financial statements, 11 Items of Accounts totalled Rs.944,323,032. However, according to schedules, the total was Rs.640,214,469, and as such, a difference of Rs.304,108,563 was observed. | That the revised schedule will be submitted together with the final accounts. | Non-reconciliations should be identified and rectified. |
| (b) | As per Note 16, the net value of property, plant and equipment was Rs.1,075,673,962 while according to the statement of assets and liabilities it was Rs.1,075,005,310 and as such, a difference of Rs.668,652 was observed. | That the schedules will be submitted together with the final accounts. | -do- |
| (c) | The deposit value was Rs.55,603,221 according to the Trial Balance and Rs.55,769,875 according to the Statement of Assets and Liabilities and as such, a difference of Rs.166,654 was observed. | -do- | -do- |

- (d) As the value of net assets amounted to Rs.1,152,123,799 after deducting total liabilities from total assets and, the value of accumulated surplus, reserves, provisions and grants amounted to Rs.1,152,267,634. As such, a difference of Rs.143,835 was observed.

-do-

-do-

1.6.4 Lack of Documentary Evidence for Audit

| Item | Amount Rs. | Audit evidence not made available | Comments of the Council | Recommendation |
|------------------|---------------|--------------------------------------|-------------------------------------|------------------------------------|
| Work-In-Progress | 104,006,357 | Registers | That it will be rectified in future | Evidence should be made available. |

1.7 Non-compliances

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions appear below.

| Reference to Non-compliance Laws, Rules, Regulations and Management Decisions | Comments of the Council | Recommendation |
|---|----------------------------|----------------|
|---|----------------------------|----------------|

- (a) Rules relating to accounting activities of Financial Administration of Pradeshiya Sabhas

| | | | |
|------------|--|--|---|
| (i) No. 8 | The financial statements should be presented to the Auditor General on or before 28 February of the following financial year. However, they have been presented only on 21 May 2024. | That revised financial statements have been presented on 21 May 2024 | Action should be taken in terms of Rules. |
| (ii) No.90 | Even though it has been indicated that the financial statements should be accounted on accrual basis, court fines and stamp duty had been accounted on cash basis. | That it will be rectified in future | -do- |

- (iii) No.83(ii) No separate advances That action will be -do-
account had been maintained taken to maintain
for staff loans. continuously
- (b) Financial The value of deposits That future action Action should be
Regulation 571 of amounting to Rs.1,056,630 will be taken taken in terms of
the Democratic elapsed 2 years, had not been Financial
Socialist Republic disposed of. Regulations.
of Sri Lanka

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 2023 amounted to Rs. 98,414,694 as compared with excess of revenue over expenditure amounting to Rs.77,588,762 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Secretary, details on revenue estimated, billed, collected and in arrears relating to the year under review and the preceding year are as follows.

| Source of Revenue | Estimated Revenue | 2023 | | | 2022 | | | Total Arrears as at 31 December |
|---------------------|-------------------|----------------|-------------------|---------------------------------|-------------------|----------------|-------------------|---------------------------------|
| | | Billed Revenue | Collected Revenue | Total Arrears as at 31 December | Estimated Revenue | Billed Revenue | Collected Revenue | |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| (i) Rates and Taxes | 87,729,240 | 83,279,471 | 56,865,314 | 130,966,854 | 82,957,140 | 84,062,374 | 41,841,917 | 106,046,680 |
| (ii) Rentals | 5,112,000 | 4,320,386 | 4,265,939 | 183,265 | 4,289,700 | 4,266,074 | 3,985,605 | 128,818 |
| (iii) Licence Fees | 2,230,000 | 1,633,493 | 1,633,493 | | 2,225,000 | 1,516,884 | 1,516,884 | |
| (iv) Other Revenue | 27,549,000 | | 32,671,763 | | 29,394,100 | | 26,575,313 | |
| Total | 122,620,240 | 89,233,350 | 95,436,509 | 131,150,119 | 118,865,940 | 89,845,332 | 73,919,719 | 106,175,498 |

2.2.2 Performance of Revenue Collection

| Audit Observation | Comments of the Council | Recommendation |
|--|--|---|
| Rates and Taxes | | |
| (a) Of the arrears of rates amounting to Rs.103,578,993 as at the commencement of the year under review, recoveries were Rs.25,143,780 and the percentage of recovery was 24 per cent and it comprised balances of Rs.1,385,052 for a period over 10 years, Rs.1,480,426 for a period between 5 and 10 years and Rs.70,973,040 for a period between 3 and 5 years. | That action will be taken to recover in future | Arrears of revenue in rates should be recovered. |
| (b) Of the value of rates billed in the year under review amounting to Rs.80,173,971, a sum of Rs.16,929,327 had been recovered, thus representing a percentage of 21 per cent. | That action will be taken to recover in future | The current revenue in rates should be recovered. |

3. Operating Review

3.1 Performance of Functions assigned by the Act

| Audit Observation | Comments of the Council | Recommendation |
|--|--|---|
| As specified by the Gazette Extraordinary No. 2264/18 of 27 January 2022, licences had not been obtained relating to 4 crematoriums maintained by the Council. | That it has been submitted for approval of the committee for payment of fees | Action should be taken in terms of the Gazette. |

3.2 Idle and Underutilized Assets

| Audit Observation | Comments of the Council | Recommendation |
|--|---|--|
| The hand tractor and water bowser to the value totalling Rs.1,742,000 belonging to the Council, had remained without being used. | That action will be taken to auction the hand tractor and to use the water bowser as a gully bowser | Action should be taken either to repair or to dispose of properly. |

3.3 Assets Management

| Audit Observation | Comments of the Council | Recommendation |
|--|---|-------------------------------------|
| The ownership of the backhoe machine valued at Rs.3,500,000 had not been taken over. | That applications have been handed over to the relevant institution | The ownership should be taken over. |

3.4 Human Resource Management

| Audit Observation | Comments of the Council | Recommendation |
|--|--|----------------------------------|
| The loan advances balance amounting to Rs.401,591 of three officers who had deceased and retired, had been in arrears. | That recoveries will be made from the death gratuity and the pensions gratuity | Staff loans should be recovered. |