

Mirigama Pradeshiya Sabha - 2023

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Mirigama 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 Mirigama 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 Sub-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 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 the preparation of Financial Statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Audit Observation	Comments of the Council	Recommendation
In terms of Chapter 2.5 of the Standard, the financial statements should be accounted on accrual basis. Nevertheless, the value of court fines and stamp duty amounting to Rs.93,393,701 received in the year under review relating to prior years, had been brought to account as a revenue of the year under review.	That action will be taken to rectify through the accounts of the year 2024	Should be brought to account accurately in terms of the Standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
A sum totalling Rs.773,628 relating to a project under Council funds of Rs.200,000 not implemented as at the end of the year under review and a project of Rs.573,628 for which funds have been received and payments made in the year 2017, had been brought to account as industrial debtors.	That action will be taken to rectify through the accounts of the year 2024	Should be brought to account accurately.

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
According to the financial statements, a difference of Rs.49,316 was observed when comparing the rates receivable with the age analysis relating thereto.	That action will be taken for rectification	Action should be taken to identify differences and to rectify accordingly.

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 Laws, Rules, Regulations and Management Decisions	Non-compliance	Comments of the Council	Recommendation
(a)	Section 20 of the Rating and Valuation Ordinance No.30 of 1946	Rates had been recovered for the current year based on the assessment of the year 2009.	That a new assessment has been carried out in the year 2023	Rates should be recovered at the new assessment rates.
(b)	Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka	Action had not been taken relating to a value of Rs.5,407,708 of 24 unsettled advance balances which remained from the year 1991 to the year 2010.	That necessary action is being taken for settlement	Action should be taken in terms of the Financial Regulation.
(c)	Circular No. LGD/13/2016(i)dated 03December 2020 of the Commissioner of Local Government (Western)	Action had not been taken in terms of the circular in sub-letting 02 stalls.	That transfer of a leasehold of a stall is in progress and, previous rentals relating to a stall has not been paid	Action should be taken in terms of the circular.

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.34,416,743 as compared with excess of revenue over expenditure amounting to Rs.62,390,419 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 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	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	15,018,493	9,641,896	9,641,896	7,129,899	14,817,700	12,178,416	13,073,421	7,327,151
(ii) Rentals	30,101,325	33,903,698	33,903,698	6,032,943	38,066,600	29,586,530	33,614,763	5,061,651
(iii) Licence Fees	2,150,000	1,770,900	1,770,900	59,725	2,150,000	1,640,045	1,640,045	59,725
(iv) Other Revenue	224,187,711	240,904,080	240,922,717	346,232	205,557,000	251,372,651	240,124,295	10,308,076
	<u>271,457,529</u>	<u>286,220,574</u>	<u>286,239,211</u>	<u>13,568,799</u>	<u>260,591,300</u>	<u>294,777,642</u>	<u>288,452,524</u>	<u>22,756,603</u>

2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) According to the Age Analysis Report, the arrears of rates as at the end of the year under review were Rs. 637,158 for a period over 10 years, Rs.3,277,459 for a period between 5 and 10 years, Rs.594,253 for a period between 3 and 5 years, Rs.1,059,329 for a period between 1 and 3 years and Rs. 1,410,173, for a period less than 1 year while 55 per cent of the total arrears belonged to one sub-office.	That action will be taken to recover rates	Action should be taken to recover arrears of rates and taxes.

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| (ii) | Of the arrears of rates amounting to Rs.7,244,396 as at the commencement of the year under review, recoveries were Rs.1,978,834 thus representing the percentage of recovery as 27 per cent and, of the value billed relating to the year under review amounting to Rs.6,029,825, recoveries were Rs.4,182,446, thus representing the percentage of recovery as 69 percent. | -do- | Action should be taken to recover arrears of rates and taxes and current rates. |
| (iii) | Of the balance of acreage tax amounting to Rs.38,426 as at the commencement of the year under review, the value recovered during the year was Rs.3,070, thus representing a percentage of recovery as 8 per cent, and, as the value relating to the year amounted to Rs.40,440, the value recovered was Rs.12,131, thus representing the percentage of recovery as 30 per cent. | That action will be taken to conduct a survey during the year 2024 | Action should be taken to recover arrears of acreage tax. |
| (iv) | Arrears of industrial tax amounting to Rs. 44,330 had not been recovered for over a period of 10 years. | Has been forwarded for approval to write off. | Arrears of industrial tax should be recovered. |
| (b) Rentals | | | |
| (i) | The arrears of stall rentals as at the end of the year under review were Rs. 33,000 for a period between 5 and 10 years, Rs.217,500 for a period between 3 and 5 years, Rs.1,563,650 for a period between 1 and 3 years and Rs.3,479,275, for a period less than 1 year. | That action will be taken for recovery | Arrears of stall rentals should be recovered. |
| (ii) | Arrears of tender rentals of meat stalls and fish stalls amounting to Rs. 262,084 had remained for a period between 3 and 5 years. | -do- | -do- |
| (c) Licence Fees | | | |
| | The balance of trade licence fees amounting to Rs.59,725 receivable from the years 2010 and 2011 had not been recovered. | That it has been forwarded for approval to write off. | Action should be taken to recover arrears. |

(d) **Other Revenue**

Even though 31 stalls rented out in the year 2019 were carrying out business activities, arrears of key money amounting Rs. 41,510,174 could not be recovered as the keys to the stalls were not provided after recovery of key money and entering into agreements.	That action will be taken to enter into agreements and to recover key money.	Arrears of stall rentals should be recovered.
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3. **Operating Review**

3.1 **Performance of Functions assigned by the Act**

Audit Observation	Comments of the Council	Recommendation
According to Gazette Extraordinary No. 2264/18 of 27 January 2022, an environmental licence had not been obtained relating to the crematorium maintained by the Council.	That action will be taken to obtain same	An environmental licence should be obtained.

3.2 **Management Inefficiencies**

Audit Observation	Comments of the Council	Recommendation
(a) The industrial debtors' balance had been Rs.3,241,131 for a period between 5 and 6 years, Rs.2,627,571 for a period between 3 and 5 years and Rs.631,026 for a period between 1 and 3 years.	That action will be taken after receiving the decision of the Decision Committee	Debtors' balances should be settled.
(b) The industrial creditors' balance had been Rs. 1,459,352 for a period between 5 and 10 years, Rs.4,917,440 for a period between 3 and 5 years and Rs.850,129 for a period between 1 and 3 years.	-do-	Action should be taken to settle balances.
(c) The deficiencies observed during the audit test check on the new marketing complex, appear below.		

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| i. | The extent of 4 stalls had been increased by 9,186 square feet without approval of the Council. | That action will be taken to notify to remove unauthorized constructions without approval | Unauthorized constructions without approval should be removed. |
| ii. | Even though a sum of Rs. 1,672,270 had been recovered for the extent of square feet increased, the agreement had not been revised. | That action is being taken to enter into agreements with the lessor again. | The agreement should be revised for the extent of square feet increased. |
| iii. | Even though the agreements of 5 stalls have expired, agreements had not been entered into. | That agreements will be entered according to the new assessment. | Agreements should be entered into. |

3.3 Human Resource Management

Staff Loans

Audit Observation

Loans and advances balances totalling Rs.457,222 relating to 4 employees who had deceased, retired and left the service had remained outstanding as at 31 March 2024.

Comments of the Recommendation Council

That action will be taken to recover staff loans
Staff loans should be recovered.