

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Morawewa Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of 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 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, 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 Morawewa Pradeshiya Sabha as at 31 December 2023 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**

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 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 Requirements**

National Audit Act, No. 19 of 2018 includes 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 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) No allocations were made for audit fees of Rs.13,800, 24,600 and 59,400 for the years 2020, 2021, 2022 respectively and for the year under review.	Accept. In preparing the accounts for 2024, provision will be made for audit fees	Accounts should be correctly prepared.

- (b) During the year under review, an RO plant worth Rs.5,900,000 received as donation under World Bank assistance was not accounted for. Accept. In preparing the Accounts for 2024, relevant adjustments will be made prepared. Accounts should be correctly prepared.
- (c) The goods purchased at a cost of Rs.511,600 In 04 cases were not capitalized. Accept. This information has been omitted in the preparation of the final accounts for 2023. That will be corrected in the future. Accounts should be correctly prepared.
- (d) The remaining stock of the warehouse valued at Rs.662,475 was not accounted for. Accept. This information has been omitted in the preparation of the final accounts for 2023. That will be corrected in the future. Accounts should be correctly prepared.

### 1.6.2 Suspense Accounts

Subject	Amount Rs.	Period in suspense	Comments of the Sabha	Recommendation
Suspence Account	7,864,759	Since the year 2011	No answers provided.	Arrangements should be made to settle the suspense account.

### 1.6.3 Documentary Evidences not made available for Audit

Subject	Amount Rs.	Unsubscribed Audit evidences	Comments of the Sabha	Recommendation
(a) Land and buildings	62,490,213	Land licenses or deeds, survey plans	Information is currently being collected and	Accurate information related to

				complete information will be provided when the preliminary accounts are prepared in 2024	accounting subjects should be submitted.
(b)	Motor Vehicles and garages	51,305,881	Fixed assets registry	- Do -	- Do -
(c)	Furniture, Fittings & equipment	2,167,079		- Do -	- Do -
(d)	Stock	216,165	Stock valuation report	- Do -	- Do -
(e)	Advance payments	1,826,036	Age analysis and individual balance list	- Do -	- Do -
(f)	Revenue debtors	6,016,297	Debtor register, age analysis	- Do -	- Do -
(g)	Expenses Creditors	3,689,700	Age analysis and individual balance list	- Do -	- Do -

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a)	Pradeshiya Sabha Act No. 15 of 1987			
(i)	Section 24	All the roads owned by the Sabha had not been identified and inventoried or gazetted.	It will be corrected in the future	All existing roads should be inventoried and gazetted.

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|-------|---|--|---|--|
| (ii)  | Section 126   | There were no by-laws enacted to generate new income in the Sabha  | It will be corrected in the future  | Section 126 of the Pradeshiya Sabha Act should be followed.    |
| (iii) | Section 134   | The developed areas within the Sabha area of authority were not specifically identified and assessed and levied taxes from time to time. | 3 developed areas have been identified. They are planned to be gazetted and levied assessment taxes.                  | The provisions of the Pradeshiya Sabha Act should be followed. |
| (iv)  | Section 159   | The arrears of Rs.2,245,703 due at the end of the year under review had not been recovered.  | Part of the arrears has already been recovered. That necessary steps will be taken to recover the outstanding balance | - Do -   |
| (b)   | Section 16(2) of the National Audit Act No. 19 of 2018            | The performance reports to be submitted with the accounts had not been submitted by the Accounting Officer.                              | It will be corrected in the future  | The provisions of the National Audit Act should be followed.   |
| (c)   | Ministry of Public Administration and Management Circular 02/2018 | According to the circular, there was no has been taken to prepare a human resource development plan                                      | It will be corrected in the future  | The circular provision should be followed.                     |

and enter into performance agreements.

- (d) Provisions of the National Environment Act No. 47 of 1980 and Gazette No. 1533/16 dated 25 February 2008 There were cases of businesses running without a valid environmental permit. Businesses that have not obtained environmental licenses will be identified and the relevant licenses will be issued Acts and the provisions of the Gazette should be followed.
- (e) Circular No. 04/1994 of the Secretary of the Ministry of Justice and dated 18 February 1994 Every executive officer is required to declare his assets and liabilities annually but this was not accomplished. The relevant statements for the year 2024 will be provided The circular provisions should be followed.

## **2. Financial Review**

### **2.1 Financial Result**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs. 176,105 as against the excess of recurrent expenditure over revenue amounted to Rs. 280,387 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 of the Sabha 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	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rent	6,200	3,862	3,836	495	5,100	2,882	3,193	469
License fee	425	243	244	-	250	1,115	1,128	-
Other Revenue	=	<u>1,366</u>	<u>1,002</u>	<u>364</u>	=	=	=	=
<b>Total\</b>	<b><u>6,625</u></b>	<b><u>5,471</u></b>	<b><u>5,082</u></b>	<b><u>859</u></b>	<b><u>5,350</u></b>	<b><u>3,997</u></b>	<b><u>4,321</u></b>	<b><u>469</u></b>

### 2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) The revenue of the Sabha had declined due to the fact that the areas within the Sabha area of authority had not been identified, assessment and taxes levied from time to time.	3 developed areas have been identified. They are planned to be gazetted and levied assessment taxes.	Action should be taken to improve revenue
(b) Rent		
i. At the end of the year under review, shop rents amounting to Rs.198,138 were in arrears, of which Rs.58,336 were due for the previous year.	A portion of the rent in arrears has already been recovered. That necessary steps will be taken to recover the outstanding balance	Actions should be taken to recover the arrears.
ii. As on December 31 of the year under review, the vehicle rental in arrears was Rs.299,650, out of which vehicle rental of Rs.287,780 had been in arrears for many years.	A portion of the rent arrears has already been recovered. That necessary step will be taken to recover the outstanding balance.	- Do -

- (c) The Sabha had not identified other new sources of income and charged fees. Several new sources of income have been identified. Action should be taken to improve revenue. For example, transmission towers and the registration of three-wheeler parking in the area of three-wheeler parking lots will be levied and started charged.

### 3. Operational Review

#### 3.1 Performance

Audit Observation	Comments of the Sabha	Recommendation
According to Section 126 of the Pradeshiya Sabha Act, by-laws should have been enacted for 28 main matters, but by December 31, 2023, the by-laws had not been enacted.	Actions will be taken to enact by-laws.	By-laws should be formally enacted.

#### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The installment payment for the loan received from the local credit development department was not made even for the current year. Therefore, the outstanding loan balance was stated as Rs.3,300,000.	Due to non-receipt of income as planned, the relevant loan installments could not be paid and the part of the outstanding loan balance will be paid this year	A proper financial management should be maintained.
(b) In the year 2017, Rs.1,826,485 had been given as advance and the said advance had not been settled.	It will be corrected in the future	Good control over advances should be maintained.

### 3.3 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The JCB machine, which cost Rs.16,695,000 in the year 2015, has been idle for about 05 years now.	This situation existed because it costs a lot of money to repair the vehicle and the Sabha does not have such a large amount of money	Asset management should be formalized.
(b) 02 vehicles and 02 tailors received by asset management projects No. 02/2017 dated December 21, 2017 were not taken over by the Pradeshiya Sabha.	Only 02 vehicles will be taken over	Assets should be taken over.

### 3.4 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Rs.1,764,413 had been paid to the initially selected contractor of the market building, which was built at an estimated cost of Rs.10 million, and the original contractor had withdrawn from the construction due to the fact that the price variation was not granted despite applying for a price variation. Later the construction was handed over to another contractor but joint measurement	The relevant activities were carried out under the complete supervision of the Project Engineer and that such mistakes will not be made in the future.	Project monitoring and planning should be done properly.

was not obtained while making payments. This was against the Standard Building Documents.

- (b) During the inspection of 11 procurement cases of Rs.1,308,800 in the current year, only the Secretary had signed the opening of the quotations, and no technical evaluation was made for that either. It will be corrected in the future Procurement should be formalized.

### 3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Considering the approved staff and the actual number of employees in the Sabha, there were 10 vacancies in 09 posts.	Although there was a strong need to fill the relevant vacancies, it has not been possible to fill the vacancies as the recruitment has been suspended due to the policy decision of the government not to make new appointments.	Vacancies should be filled.
(b) According to the Eastern Province Financial Circular PT/03/2021, 11 officers who were required to post bail had not provided sufficient bail.	All relevant officials will be arranged to deposit the bail in the year 2024	It should be complied with the Financial regulations and circulars.
(c) The loan balance of Rs.100,146, which was given to 04 officer2s many years ago, was not recovered.	It will be corrected in the future	Arrangements should be made to recover the loan balance.

#### **4. Accountability and Good Governance**

##### **4.1 Annual Action Plan**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
The local council had not prepared an annual action plan for the year 2023 and was engaged in activities based on the budget document relevant for the year under review.	Accept. The action plan will be prepared from the coming years	An annual action plan should be prepared.

##### **4.2 Internal Audit**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Although internal audits were implemented, the division only organized and implements audit and management committees, but not in accordance with a formal audit program.	It will be corrected in the future	Internal audits should be formalized.

##### **4.3 Budgetary Control**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
According to the budget document prepared for the reviewed year, when comparing the estimated income and expenses with the actual income and expenses, there was a variation from 19.83 percent to 83.25 percent in 05 income subjects and from 19.81 percent to 46.42 percent in 05 expenditure subjects.	It will be corrected in the future	The budget should be prepared realistically.

#### 4.4 Sustainable Development Goals

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
During the year under review, the Sabha had not gained a proper understanding of the identification of sustainable development objectives, targets and relevant criteria included in the Sustainable Development Act No. 19 of 2017, but only two sustainable development goals had been implemented.	It will be corrected in the future	Sustainable development goals, targets and relevant criteria should be achieved.