

Morawewa Pradeshiya Sabha – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Morawewa Pradeshiya Sabha for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 sub-section 10 (1) of 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 2024, and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.2 Basis for qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 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 exercise professional judgement and maintain professional scepticism 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 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
- 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 company
- 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

National Audit Act, No. 19 of 2018 includes specific provisions for following 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 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

Audit Observation	Comments of the Sabha	Recommendation
(a) Donations received from 2022 to 31st December 2024 amounting to Rs. 179,330 had not been accounted for.	There was an omission to include donations received when preparing the final accounts, and action will be taken to correct this when preparing the final accounts for the next year.	Donations should be duly accepted, and they should be recorded and accounted for.
(b) The value of completed work of Rs. 27,303,708 in the current year, had not been capitalized in relation to construction projects under the Regional Development Assistance Project.	Do	Capital expenditure should be accounted for correctly.
(c) The receivables and payables for the Regional Development Assistance Project amounting to Rs. 22,273,540 had not been shown as debtors and creditors.	Do	Do

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 14,000,000 when the balances as per the financial statements of the year 2023 were taken into account as the opening balances of the current year.	Action will be taken to correct the amount mentioned in the schedule as Rs. 65,305,881.	Action should be taken to correct differences and reconcile accounts.

1.6.3 Suspense Accounts

Audit Observation	Comments of the Sabha	Recommendation
The credit balance of the suspense account of Rs. 7,864,759, which had brought forward since 2011, had been shown under the accumulated fund and reserves in the balance sheet without taking actions to identify and settle it.	This balance was first recorded in the 2011 final account and has been recorded in every final account since then. Due to the lack of relevant information, it has not been possible to resolve this. Action will be taken to resolve it promptly.	Action should be taken to resolve the suspense account balance.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to the non-submission of land license deeds, survey plans, fixed asset registry, and stock valuation reports for 04 account subjects totaling Rs. 133,366,378 as stated in the financial statements, it was not possible to satisfactory verify.	This situation has arisen because there is no information that can clearly identify the original cost or value of certain assets. Information is currently being collected and work will be done to update the relevant records as soon as possible.	Accurate information that can verify account balances should be submitted.

1.7 Non- Compliances

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

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987 (i) Section 24	Action had not been taken to identify and inventory all the roads owned by the Sabha and publish them in the Gazette.	Roads have been inventoried and newly developed road details have not been updated. It is planned to gazette at the Grama Niladhari division level.	Action should be taken in accordance with the Pradeshiya Sabha Act.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	(ii) Section 134	The developed areas within the Sabha are of authority had not been identified from time to time and measures had not been taken to assess and impose taxes.	Three developed areas have been identified. It had been planned to gazette them levy assessment tax.	Action should be taken in accordance with the Pradeshiya Sabha Act.
	(iii) Section 159	Action had not been taken to recover the arrears of Rs. 3,297,883 revenue due at the end of the year under review.	A portion of the arrears revenue has already been recovered. Necessary actions are being taken to recover the remaining balance and legal action has also been taken.	Action should be taken in accordance with the Pradeshiya Sabha Act..
	(i) Financial regulation 139(8)	Purchases worth Rs. 635,160 made on two occasions had not been recorded in the stock registry	This has happened due to the negligence of the subject officers. In the future, we will ensure that this does not happen again. In future, action will be taken care of to prevent that from happening.	Financial regulations should be followed.
	(ii) Financial regulation 1645	Daily running charts and monthly summaries should be submitted before the 15th of the following month at the end of each month, but running charts for the first six months had been submitted for only 5 of the 12 vehicles owned by the Sabha.	Do	According to financial regulations, the running charts of all vehicles owned by the Sabha should be submitted.
	(iii) Financial regulation 1646	The repairs, servicing and spare parts		Financial regulations should be followed.

		purchases worth Rs. 282,103 carried out by the Sabha on vehicles were not included in the log book.	Do.	
(c)	Section 16(2) of the National Audit Act, No. 19 of 2018	Performance reports to be submitted with the accounts had not been submitted by the Accounting Officer.	Action will be taken to present them properly in the future.	Action should be taken in accordance with the National Audit Act.
(d)	Ministry of Public Administration and Management Circular 02/2018	A human resource development plan had not been prepared in accordance with the circular. Furthermore, performance agreements had not been entered into for the current year.	Performance agreements have been reached. A human resources development plan has not been prepared. Action will be taken to correct in the future.	Action should be taken in accordance with the provisions of the circular.
(e)	Public Administration Circular No. 30/2016 and Circular 29 December 2016, Paragraph 3.1	A fuel combustion test had not been conducted on 10 vehicles owned by the Sabha as per the provisions of the circular.	Action will be made to conduct fuel combustion test of all vehicles within next year.	Action should be taken in accordance with the provisions of the circular.
(f)	Circular No. 04/1994 of the Secretary to the Ministry of Justice and dated 18th February 1994	Although every executive officer is required to declare his assets and liabilities annually, this had not been done accordingly.	Action will be taken to submit asset and liability statements before the due date.	Action should be taken in accordance with the provisions of the circular.

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 2024 amounted to Rs. 2,820,596 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 176,105 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 Chairman 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	2024				2023			
	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	6,400	5,532	5,329	698	6,200	3,862	3,836	495
License Fees	375	174	174	-	425	243	244	-
Other revenue (Water)	<u>3,100</u>	<u>1,796</u>	<u>1,796</u>	<u>364</u>	<u>-</u>	<u>1,366</u>	<u>1,002</u>	<u>364</u>
Total	<u>9,875</u>	<u>7,502</u>	<u>7,299</u>	<u>1,062</u>	<u>6,625</u>	<u>5,471</u>	<u>5,082</u>	<u>859</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
As of December 31st of the year under review, the arrears vehicle rent was Rs. 416,240, of which it was observed that Rs. 188,730 was an arrears that had been carrying forward for many years.	A portion of the arrears of rent has already been recovered. Necessary actions are being taken to recover the remaining balance.	Actions should be taken to recover arrears of revenue in a proper manner.

3. Operational Review

3.1 Fulfilment of functions assigned by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the Public and amenities by the Sabha under Section 3 of Pradeshiya Sabha Act are shown below

Audit Observation	Comments of the Sabha	Recommendation
According to Section 126 of the Pradeshiya Sabha Act, by-laws were to be enacted for 28 main matters, but as of 31 December, 2024, by-laws had not been enacted and only 05 by-laws introduced by the Provincial Sabha had been approved.	Some of draft by-laws are being submitted to the Hon. Governor for approval by the Office of the Local Government Commissioner.	Actions should be taken in accordance with the Pradeshiya Sabha Act.

3.2 Management inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Although one of the main functions of a Pradeshiya Sabha is to regulate land development activities within the area of authority, this has not been done.	It has been difficult to regulate land development activities due to the absence of a Revenue Inspector, and the relevant activities have been carried out by the Development Officer and actions have been taken to issue permits.	Land development activities should be regulated.

3.3 Operational inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Due to non-payment of the loan obtained from the Department of Local Credit Development, an overdue loan balance of Rs. 3,125,000 remained to be paid during the current year.	The period for paying outstanding loan installments has been revised from November 2024. Accordingly, loan installments are being paid monthly from November 2024.	A proper financial management should be maintained.
(b) In the year 2017, Rs. 1,826,485 had been given as an advance and no action had been taken to settle those advances. .	The relevant advances have been paid as contract advances to the community boards under the Sabha. Although the relevant advances have been collected when the final bills of those contracts are paid, they have not been adjusted in the final accounts, and therefore this amount is shown as unpaid advances.	Better control should be maintained regarding advances.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
(a) The JCB machine, which had been purchased in 2015 at a cost of Rs. 16,695,000, had been idle for about 5 years.	This situation exists because a large amount of money is needed to repair such vehicle, and the Sabha does not have such a large amount of money.	Asset management should be formalized.

(b) No action had been taken to take over 02 vehicles and 02 trailers received by the Pradeshiya Sabha through the Asset Management Project No. 02/2017 dated 21st December 2017.	Out of the vehicles owned by the Sabha, only 2 vehicles have not been taken over by the Sabha so far, while all other vehicles have been taken over by the Sabha.	Action should be taken to take over the assets in the name of the Sabha.
(c) The compost raw material grinding machine, which was purchased at a cost of Rs. 485,500 in the year 2021, remains inactive due to shortage of raw materials. It is observed that this machine remains idle due to the fact that a feasibility study was not conducted before purchasing this machine.	Since the compost grinding machine was purchased based on the needs of the government at the time, regardless of the needs of the Sabha, the machine is malfunctioning due to the lack of sufficient raw materials required for the machine.	Asset management should be formalized.

3.5 Delays in projects, tasks or capital works

Audit Observation	Comments of the Sabha	Recommendation
Late charges of Rs. 435,625, which were to be charged in relation to two projects carried out in the year 2016, had not been collected so far	This incident happened many years ago and the officers who served at that time are no longer in the office. Therefore, the technical officer who was in charge at the time was questioned about this and it was revealed that the delay charges were levied only for the amount recommended by the engineer in charge of the relevant project and there is no note or letter in the files mentioning the engineer's recommendation. Therefore, the collection of late charges has become a practical problem.	Payments and collections should be made regularly.

3.6 Resources released to other organizations

Audit Observation	Comments of the Sabha	Recommendation
According to Section 19(XII) of the Pradeshiya Sabha Act No. 15 of 1987, the prior approval of the Minister in charge of Local Government Affairs was required to be obtained when granting a portion of the land or building	It was informed that the Hon. Governor has approved the signing of a 20-year agreement with the relevant company regarding the installation of a solar power system, and the Local Government Commissioner has given written	Agreements should be amended in a way that generates income and legal advice should be followed.

belonging to the Sabha on a long-term lease basis for a period exceeding 03 years. However, the installation of a solar power system on the roof of the Sabha building on the basis of long-term lease agreements for 20 years was granted to Sino Lanka Power General Private Limited without the prior approval of the Minister in charge of the relevant subject.

instructions to sign the agreements, therefore action has been taken in accordance with those instructions.

3.7 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) When considering the approved staffing of the Sabha and the actual number of employees, it was revealed that there were 09 vacancies in 06 posts and 03 surplus employees exceeding the approved number in 02 posts.	Although there is a strong need to fill the relevant vacancies, it has not been possible to fill those vacancies as recruitment has been suspended due to the government's policy decision not to make new appointments.	Actions should be taken to fill vacancies, highlighting the importance of the need.
(b) According to Eastern Province Financial Circular PT/ 03/2021 , 11 officers who were required to provide security deposit had not provided adequate security.	Action will be taken to have all relevant officers provide security deposits during this year.	Actions should be taken in accordance with financial regulations and circulars.
(c) No action had been taken to recover the loan balance of Rs. 335,396 , which had been given to 5 officers many years ago.	Information is being collected about the relevant debtors. Action will be taken to recover outstanding loans promptly.	Actions should be taken in accordance with regulations and circulars.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Sabha	Recommendation
The Pradeshiya Sabha had not prepared an annual action plan for the year 2024 and had been engaged in activities based on the budget document for the year under review.	Actions are being taken to prepare an action plan for the coming years.	An annual action plan should be prepared.

4.2 Internal Audit

Audit Observation	Comments of the Sabha	Recommendation
Although internal audits had been implemented, the division only organized and maintained the audit and management committees, but it was not observed that they were implemented according to a formal audit program. Furthermore, no actions had been taken to submit the internal audit plan to the National Audit Office for approval.	Proper internal audit work is currently being carried out.	The issues raised in the observation should be corrected and the internal audit should be formalized.

4.3 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As per the budget prepared for the year under review, when comparing the estimated income and expenditure with the actual income and expenditure, a variation of 9 percent to 74 percent was observed in 05 income subjects and 2 percent to 25 percent in 04 expenditure subjects, therefore, the budget had not been used as an effective control instrument.	This situation has arisen due to the failure to receive income as planned. Due to the decrease in income, expenditure has had to be limited.	The budget should be prepared realistically.

4.4 Sustainable Development Goals

Audit Observation	Comments of the Sabha	Recommendation
The Sabha had not gained a proper understanding of the identification of sustainable development goals, targets and relevant criteria included in the Sustainable Development Act No. 19 of 2017 during the year under review, but had implemented only two sustainable development goals.	This situation has arisen due to the lack of proper understanding among officials about identifying sustainable development goals, targets and relevant criteria.	Sustainable development goals, targets and related criteria should be achieved.