

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 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in net equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the Provisions of the 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 Mahara Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its 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.

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 include specific provisions for following requirements.

- 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.
- The following recommendations made by me during the previous year regarding the financial statements as requirement by Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 were not implemented.

Reference No.	Observation	Recommendation
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1.6.2 (e)	While preparing ayurvedic stock account, the value of stock consumed in the conversion year was recorded as Rs.1,108,230, but actual consumption stock was Rs.1,033,609 and the difference was Rs.74,621.	Should be maintained stock records correctly.
1.6.2 (f)	Although opening balances were accounted through journal entry 1, an opening balance of Rs.26,364,842 was recorded in the provision of non-existing reserves and allocations account. There was a balance of Rs.69,203,620 receivable and Rs.42,388,781 payable in that and the statement of changes in equity had been adjusted contrary to the provisions of Accounting Standards for Local Authorities Nos. 15.13 and 15.1.	The statement of changes in equity was prepared in accordance with the training programmes and meetings held on the new accounting policies and accounting rules.

1.6. Audit Observations on the Preparation of Financial Statements

1.6.1. Non-compliances with Sri Lanka Public Sector Accounting Standard for Local Authorities

Accounting Standard	Non-compliance	Comments of the Sabha	Recommendation
6.20	The percentage of asset depreciation in the year under review was not disclosed.	It will be corrected from the year 2022.	Should be disclosed in the financial statements as per accounting standards
9.3 and 9.4	According to the garbage tax register, 105 institutions were related in the year 2021, but the amount of uncollected garbage tax amounting to Rs.559,950 was not recognized as revenue in the period under review.		The revenue and receivables relating to the year and balances at the end of the reporting date should be identified and properly accounted.
3.6	Comparable information relating to the previous comparable period for all amounts presented in the financial statements for the comparative year was not provided in the balancing statement of comprehensive income and the cash flow statement.		Should be disclosed in the financial statements as per accounting standards.

1.6.2. Accounting Deficiencies

Audit Observation

Comments of the Sabha

Recommendation

(a) Although the value of transfers made by the government for non-recurrent expenditure for the year under review should be Rs.18,283,287, as it was stated as Rs.18,370,206, the surplus of the year overstated by Rs.86,919.		The revenue related to the accounting period should be correctly identified and accounted
(b) Rs.55,970 of ayurvedic stock losses in the year under review was accounted as consumable ayurvedic stock instead of classifying and accounting as stock losses in the statement of assets and liabilities and statement of comprehensive income.	Action will be taken to correct from the 2022 final account.	Stock transactions should be accounted under the correct classification.
(c) The amount of allocated buildings was Rs.8,400,000 and machinery was Rs.10,300,000 under creditors as at 31 December 2020. As the creditor value of Rs.1,161,777, the building value of Rs.1,079,600 and the machinery value of Rs.82,177 were overstated in the financial statements.		Should be accounted correctly.
(d) Depreciation of library books was under accounted by Rs. 1,359,070.	Action will be taken to correct from the 2022 final account.	Should be accounted correctly.

1.6.3 Receivable and Payable Accounts

Audit Observation

Comments of the Sabha

Recommendation

(a) According to the documents submitted as on the last date of the year under review, the outstanding balance between 1 to 3 years was Rs.13,396,032 out of the debt balance of Rs.18,399,337. These outstanding balances were not recovered.	debtor balances will be collected in future.	Should be act to collect the debtor balance.
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| (b) | Out of the nation building tax and value added tax payable of Rs.2,061,792 on 31 December 2021, action had not been paid the value of Rs.1,827,851 over one year. | payment will be made in future. | The collected tax value should be paid to the Inland Revenue Department. |
| (c) | It was observed that there was Rs.59,016,015 less per year, Rs.57,084,443 between 1 to 3 years in the sundry creditors value of Rs.116,100,458 according to the documents submitted as at the last date of the year under review and action was not taken to paid. | cut off the creditor balances as on the last date of the year under review. | The creditor balances should be checked and arrangements should be made to pay the balances to be payable and to remove the balances identified as wrongly accounted from the accounts. |

1.6.4 Un reconciled control Accounts or Reports

----- Audit Observation -----	----- Comments of the Sabha -----	----- Recommendation -----
Although the total balance of 04 accounting items was Rs.109,362,584 according to the financial statements, there was a difference of Rs.31,886,366 due to that the total balance value was Rs.77,476,218 according to the schedule.	2 accounting items have been changed since previous years, revenue heads have changed during the issuance of receipts for 2 accounting items, correct them in future.	Accounts reports along with related documents and sub-documents should be maintained accurate balances.

1.7 Non-compliances

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Section 24 (1) of the Pradeshiya Sabha Act No. 15 of 1987.	A survey of new roads belonging to Sabha's justification was conducted and a list of names was published in a gazette and all the roads were to be handed over to the Sabha , but this was not done.	As lots of money spend for the measuring of roads, only 10 roads can be gazette per year. Necessary activities for measuring 10 roads for the year 2022 are ongoing.	It should be done according to the Act.
(b) Rule 73 on accounting matters related to control of the Pradeshiya Sabha	It was observed that 12 suppliers had been paid before receiving goods and services of Rs.433,986 without confirmation by a certificate as per the financial rules and out of that, Rs.385,466 was a balance from 31 December 2020.	Information is being searched and settled	Financial control should be done according to the rules
(c) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	The financial regulations had not followed regarding 113 balance deposit as 10 percent of 08 retention money in hand with the value of Rs.2,984,734 overdue above 02 years and 75 tender deposits.	The depositors related to the deposit balances of the years 2017 and 2018 have been informed and arrangements are being made to collect the retention money in these days. I will take action to get these balance money to the income with the approval of the Sabha	Should be act as per the financial regulations.

2. Financial Review

2.1. Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.85,829,929 as compared with the excess of revenue over recurrent expenditure amounted to Rs.2,463,249 in the preceding year.

2.2. Revenue Administration

Performance of the Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) According to the analysis of arrears of revenue as at 31 December 2021, the Rates and Taxes value for more than one year was Rs.28,838,295 and out of that, assessed value between 1 to 3 years, between 3 to 5 years, between 5 to 10 years and more than 10 years was Rs.25,136,980, Rs.763,279, Rs.624,337 and Rs.2,313,700 respectively and it was not observed that any legal action was taken to recover the said values including issuance of warrants.	Corrections are still being made in the assessment documents (missing properties, billing of unused numbers, billing of the same property in twice, assessment of the same property for 2 road) due to the mistakes in entering new data and deficiencies in assessment documents. Officers have been deployed in the field to collect the remaining arrears now.	Steps should be taken to recover the arrears of assessment and tax revenue.
(b) Business tax was not collected from the institutions belonging to the wave transmission installed to the telephone towers in the council area and arrears of Rs.36,000 in 12 transmission towers in the council area had not been recovered by 19 May 2022.	Due to the corona epidemic situation in 2021, tax money could not be collected as Rs.15,000 from Bharthi Airtel, Rs.3,000 from Lanka Bell company and Rs.18,000 from Sri Lanka Mobitel. Informed by letters to pay the money and informed by telephone that cheques have been mailed.	Action should be taken to collect the arrears revenue.

3. Operational Review

3.1. Operational Inefficiencies

Audit Observation

Although the number of roads in the jurisdiction was 7,943 as per the road register as at 31 December 2021, it was observed that there were private roads too, which were not identified in separately. It was observed that by 31 December 2021, only 24 roads had been gazette, and only 10 roads had been prepared plans by 31 May 2022 and 10 roads were being prepared plans.

Comments of the Sabha

Council roads are being identified in these days. 24 roads have been gazette now. Plans for 10 roads are being prepared for the year 2022.

Recommendation

Steps should be taken to identify the private and council roads and prepare plans and gazette them.

3.2 Human Resource Management

Audit Observation

(a) Employee Vacancies

The approved number of staff in the council was 154 and the actual number was 131 and due to that there was 23 vacancies as at 31 December 2021.

Comments of the Sabha

Ayurvedic medical officer, librarian, crematorium operator vacancies have been referred to Local Government Commissioner for approval through quarterly reports.

The approval of the Local Government Commissioner has been received on 22 April 2021 to fill the pre-school teacher vacancy, but the recruitment is not possible to do due to that recruitment has been suspended. Pre-school Assistant posts are vacant from 28 February 2012. No re-recruitment can be made as the post holder has been approved as personally in the approved staff.

Recommendation

Arrangements should be made to fill the staff vacancies.

(b) **Employee Loans**

The loan and advance arrears of Rs.799,729 from 06 officers who retired from June 2017 to December 2021 and Rs.633,635 from three officers who died during the period from January to November 2021 remained outstanding.

The loan balance of 6 officers is being recovered from the retirement gratuity.

Action should be taken to recover the outstanding employee loans.