

## **Mulatiyana Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Mulatiyana Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Performance, Statement of changing 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 accompanying financial statements give a true and fair view of the financial position of the Mulatiyana Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified 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 Principles, 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 skepticism 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**

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) The stamp fees receivable amounting to Rs. 7,452,745 related to the year 2020 had not been accounted as revenue receivable at the end of the year under review.	The action will be taken to rectify in future.	Should be accounted correctly.
(b) The Court fines receivable at the end of the year under review had been understated by Rs.153,461.	In relation to the year 2021, the value of Rs.989,819 received in the year 2022 has been credited to other income receivable.	Should be accounted correctly.
(c) The expenditure incurred amounting to Rs. 620,631 for the development of Land and Building during the year under review had not been capitalized.	The action will be taken to rectify in future.	Should be accounted correctly.
(d) The security deposit of Rs.500,000 paid in the year 2019 and 2022 for obtaining fuel for the council was accounted as an expense in the year under review without offset against the fuel cost.	The relevant amount will be transferred to the fuel deposit account and maintained until offset against the fuel bills in future.	Should be accounted correctly.
(e) Rs.608,237 due from the Ceylon Electricity Board for the sale of electricity generated by the solar panel installed by the council had not been accounted at the end of the year under review.	Action will be taken to rectify in future.	Should be accounted correctly.

### 1.6.2 Non-reconciled Account or Records

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
There was a difference of Rs. 94,548,665 in between the balances of 03 accounting items which totaled Rs. 161,104,352 included in the financial statements and the balances shown in the relevant documents/schedules.	The action will be taken to rectify in future.	The action should be taken to correct the accounts by reconciling the differences in the relevant balances.

### 1.6.3 Lack of Documentary evidence for Audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Due to non-submission of updated fixed asset register, detail schedules etc., 02 accounting items totaling to Rs. 567,814 could not be satisfactorily vouched during the audit.	The action will be taken in this regard in the future.	Evidence should be submitted confirming the account balances shown in the Financial Statements.

## 1.7 Non-compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Non – Compliance Laws, Rules, Regulation and Management Decisions -----	Comment of the Sabha -----	Recommendation -----
The Section 24(1) of the Pradeshiya Sabha Act No. 15 of 1987	Although the signs and limits of the roads should be marked and a list of them should be published, however after the year 2014, by the end of the year under review, 315 newly identified roads in 08 divisions had not been published by the gazette.	A data base is being prepared to the extent that GIS/GPS software is used, and information on non-gazette roads will be collected and all roads will be gazette.
		The action should be taken according to the Act.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December amounted to Rs. 155,125 as against with excess of recurrent expenditure over revenue amounted to Rs. 9,446,679 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, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	1,492,200	22,889	44,354	73,144	1,282,400	22,952	11,062	94,609
(ii) Rent	12,459,200	3,288,425	4,042,085	765,241	9,575,200	3,067,971	3,105,818	1,518,901
(iii) License Fees	540,200	1,508,342	1,571,342	19,450	550,200	1,249,680	1,254,680	82,450
(iv) Other Income	12,668,000	900,713	389,278	772,052	13,304,000	19,872	9,936	260,617
	27,159,600	5,720,369	6,047,059	1,629,887	24,711,800	4,360,475	4,381,496	1,956,577

## 2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the council.

Audit Observation	Comment of the Sabha	Recommendation
(a) According to Section 134 of the Pradeshiya Sabha Act No. 15 of 1987, the developed areas belonging to the area were published in the Gazette No. 2267 dated 11 February 2022 and the approval of the council was done on 21 September 2022. However, the property had not been assessed and recover the taxes up to the year under review.	The Governor has been requested to obtain approval for the imposition of assessment tax in connection with the identified town of Deyendara.	The action should be taken according to the Act.
(b) 58 of the 68 shops owned by the council had been leased by the end of the year under review, rents of Rs.694,714 were to be collected from 35 lessees and in that outstanding balance, there was amount of Rs. 318,850 shop rents could not be collected due to shop rent billing related to the period of 2008-2013 for 10 shops that were closed.	Agreed.	The arrears of income should be collected as soon as possible.
(c) 32 shop rooms belonging to three shopping malls owned by the council had not been updated with new assessment rates and shop rent agreements were not updated, and the council had not taken steps to assess and update the monthly rent of 14 shops.	The agreements are being updated and a new assessment has been requested.	The agreements/ assessment should be updated.

- (d) The Court fines and Stamp fees to be received by the Chief Secretary of the Provincial Council amounted to Rs. 51,583 and Rs. 20,911,183 as at 31 December of the year under review. The action will be taken to collect the arrears. The arrears of income should be collected as soon as possible.

### 3. Operational Review

#### 3.1 Performance of functions assigned by the

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 people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
By laws had not been enacted regarding the approving building plans and subdivision of lands in the non-urban area in terms of sub-section 126 of the Pradeshiya Sabha Act No. 15 of 1987, and the rental of the auditorium and the rental of the Mulatiyana and Makandura playgrounds owned by the council.	The preliminary work is being done regarding the preparation of by-laws	The action should be taken according to the Act.

#### 3.2 Operational inefficiencies

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) In terms of Section 154(1) of the Pradeshiya Sabha Act No. 15 of 1987, a tax equal to one per cent of the proceeds from the sale of land should be levied. However, the council had informally taken an advance of Rs.470,000 from 03 lands.	Agreed.	The action should be taken according to the Act.
(b) Due to non-installation of street lights in accordance with Ministry of Power and Energy and Secretary circular No. PR/01/01 dated 17 August 2010, the expenditure of Rs.763,815 had not been reimbursed.	Agreed.	The action should be taken according to the Circular.
(c) In accordance with Schedule 02 of Gazette Notice No. 2235/54 dated 08 July 2021, which includes the planning and development orders/regulations of the Urban Development Authority regarding 03 buildings that were being constructed without obtaining a development permit within the Urban Sabha area under the jurisdiction of the Council, The	The Urban Development Authority has been referred for legal advice as recommended by the Planning Committee.	The action should be taken in accordance with the Gazette Notification.

fees of Rs.854,400 should be collected and formalized or had not taken action to remove.

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| (d) | The action had not been taken to regularize or remove the 06 buildings that were being constructed without obtaining development permits within the non-urban area under the jurisdiction of the Council. | The preliminary work is being done in relation to the compilation of by-laws. | A by-law should be prepared to regularize or remove unauthorized constructions within the non-urban limits. |
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### 3.3 Human Resource Management

**Audit Observation**  
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Despite completing the approved number of employees for 06 posts belonging to the primary service category, 06 employees were recruited on daily and contract basis and were assigned duties outside of the prescribed duties and paid salaries and allowances of Rs.2,234,086 during the year under review.

**Comment of the Sabha**  
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Such employee recruitment will not be done in future.

**Recommendation**  
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Employees should be engaged in the duties assigned to the position.