

## **Mawathagama Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Mawathagama Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations and 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 Subsection 172 (1) of the Pradeshiya Sabhas Act No. 15 of 1987 and 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 accompanying financial statements give a true and fair view of the financial position of Mawathagama 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

#### **1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Pradeshiya Sabha;
- 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 Other Legal Requirements

National Audit Act, No. 19 of 2018 includes 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 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 regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Expenditure of Rs.4,607,251 of 16 industries, which had finalized payments had been again accounted as creditors.	Creditors prevailed from the years 2018 and 2019 will be investigated and removed from the books.	Accounting should be carried out accurately.
(b) Inventory Stock worth Rs.893,029 as at 31 December of the year under review had not been accounted.	There is a difference of Rs.893,029 according to the way the stock is made up in the schedules. That the matter will be looked into and rectified in the financial statement of the next year.	-Do-
(c) Tender tax receipts of Rs.135,843 and employee guarantee deposits of Rs.319,803 had not been accounted under current liabilities.	It will be rectified in the financial statement of the next year.	-Do-
(d) Although the overtime payable to a employee of the Pradeshiya Sabha in December of the year under review had been Rs.7,962, it had been overstated as Rs. 79,624.	That the error of indicating the overtime payment as Rs.79,621 by a printing mistake, which had been Rs.7,962 paid to an employee in the month of December of the year under review will be rectified.	Accounts should be rectified.

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| (e) | Even though the land value of Thibbatulanda Estate had been Rs. 150,000, it had been accounted as Rs.15,000.  | The value of the land of Thibbatulanda Estate had been recorded as Rs.15,000 owing to a printing mistake and it will be rectified in the final account of the year 2023. | Should be accounted accurately. |
| (f) | A land in extent of 02 roods 10 perches worth Rs.50,000 included in the fixed assets register had not been accounted.   | That the value of the land worth Rs.50,000 that had not been accounted will be rectified in the final account of this year.  | -Do-                            |
| (g) | Creditors worth Rs. 1,553,182 related to 45 objects, nation building taxes amounting to Rs.61,746 and stamp duty payable amounting to Rs.84,548 had not been accounted. | That the creditors worth Rs.1,553,182, which had not been recorded due to a printing mistake, will be rectified in the final account of the year 2023.                   | -Do-                            |

### 1.6.2 Unreconciled Control Account

Audit Observation	Comment of the Sabha	Recommendation
There had been a difference of Rs.33,722,746 between the balances related to 12 accounting subjects and schedules totalling to RS. 534,510,700 indicated in the financial statements as at 31 December in the year under review and the balances indicated in the schedules.	That the difference of stamp duty between the financial statement and the schedule was a printing mistake.	The balance indicated in the financial statements and schedules should be similar.

### 1.6.3 Documentary Evidence not made available for audit

Audit Observation	Comment of the Sabha	Recommendation
Five (05) account balances worth Rs.49,201,526 as at 31 December of the year under review could not be satisfactorily examined in the audit as schedules, documents and balance confirmations required to substantiate the way that those balances had been made had not been submitted.	These balances have been recorded in the financial statements for a long time, and we do not have documents on the way how those balances were made.	Adequate evidence must be submitted.

## 1.7 Non-compliance

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

Instances of non-compliances with Laws, Rules, Regulations and Management decisions are mentioned below.

	<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka - FR 177	The money collected from the physical wellness centre had been kept by the officer for a long time.	As the officer had been keeping money in his hand for a long time, we have informed the officer again to pay money to the office. That action will be taken accurately in the future.	Only officials authorized to collect revenue should do so and the collected revenue should be promptly banked.
(b)	Section ii of the Circular of the Commissioner of Local Government bearing No. 2019/02 dated 10 January 2019.	A nominal rent of Rs. 500 per month had been charged instead of charging an assessed lease for 06 shops, which had been provided by charging an outright amount of Rs. 1,500,000 by the tender.	The Department of Valuation has assessed the nominal shop rent and has submitted the necessary documents for the assessment in the year 2022.	Assessment should be done promptly.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue, which exceeded the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2022, had been Rs. 10,000,841 as against the revenue, which had exceeded the recurrent expenditure in the previous year had been Rs.31,592,419.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

Information about estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year is mentioned below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	₹.000	₹.000	₹.000	₹.000	₹.000	₹.000	₹.000	₹.000
Rates and Taxes	5,110	5,130	3,947	6,541	5,560	4,782	4,049	7,044
Rents	8,670	9,323	9,403	553	13,916	6,832	8,007	8,554
License Charges	600	217	217	-	401	217	217	-
Other Revenue	110,231	167,636	167,636	19,208	380,500	49,798	42,853	68,144
<b>Total</b>	<b>124,611</b>	<b>182,306</b>	<b>181,203</b>	<b>26,302</b>	<b>400,377</b>	<b>61,629</b>	<b>55,126</b>	<b>83,742</b>

## 2.2.2 Performance of the Collection of Revenue

Audit Observation	Comment of the Sabha	Recommendation
<p><b>(a) Rates and Taxes</b></p> <p>There had been an outstanding assessment tax balances amounting to Rs.6,541,691 from 4,708 properties as at 31 December of the year under review.</p>	That recovery will be made in terms of Pradeshiya Sabha Rules of 1988 (Finance and Administration) 32 – 42	Arrears of revenue should be recovered as per the provisions of the Act.
<p><b>(b) Acreage Tax</b></p> <p>There had been an outstanding acreage tax of Rs.656,138 as at 31 December of the year under review.</p>	That notification has already been made by letters for the recovery of arrears.	Action should be taken to recover the revenue
<p><b>(c) Rentals</b></p> <p>Action had not been taken to recover an arrears of shop rent and asset lease amounting to Rs.668,674 as at 31 December of the year under review and the outright amount of Rs.6,674,500 to be obtained in leasing out 05 shops on the first floor of the bus stand had to be recovered.</p>	That letters have been sent to pay the arrears related to the remaining 04 shops and if the payments are not made so, the tender will be cancelled.	Action should be taken to recover the remaining revenue arrears, which had not been recovered.

### 3. Operational Review

#### 3.1 Solid Waste Management

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(i) The sewage treatment centre is not in working condition and the Ramp, which had been prepared at a cost of Rs. 600,000 to dump sewage had not been in a condition that a tractor could enter it.	Considering the amount of space available on this land, this ramp was built by incurring a low cost, and the ramp was constructed by avoiding the blocking of the way to dump garbage due to the existing buildings. Furthermore, the surrounding area has been filled with gravel to enable the tractor to enter the ramp.	A feasibility study should be done before starting an industry.
(ii) Action had not been taken to transfer the Denver Estate land with an area of 04 acres and 90 perches used for waste recycling even by 13 March 2023.	That steps have been taken to acquire the Denver Estate land by the year 2023.	Arrangements should be made to transfer the land.

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) Action had not been taken to settle 09 advance balances amounting to Rs. 93,989 which had been existed for more than 10 years.	It was a balance that had been prevailing from the year 2017. Information is being found in this regard. That action will be taken to settle it in the future.	Arrangements should be made to settle the advance balances.
(b) Although the assessment of assessment tax property should be carried out once in every 05 years, the assessment tax had been collected according to the assessment done in the year 2012. Due to this, the Council had lost assessment revenue of nearly 227 properties, for which compliance certificates had been obtained from the year 2012 to the year 2022.	We have been informed in writing that a property valuation will be carried out in the year 2023, and that we have provided the list of properties required for that to the Department of Valuation.	Action should be taken to assess newly added assessable properties and to enter them in the register and to charge the assessment taxes.

### 3.3 Operational Inefficiencies

	<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a)	A CAT 2020 software had been introduced to report the revenue and expenditure of the Pradeshiya Sabhas with the co-ordination of the Wayamba Development Authority on the instructions of the Department of Local Government. An agreement had been entered in to on 26 August 2021 for the installation of this software, and even though the Pradeshiya Sabha had spent a sum of Rs. 970,000 for this purpose, the software had not been executed even by January 2022 though it had been stipulated in the agreement that action would be taken to start and conduct the functions of the software within a period of one year.	The Department of Local Government has paid an aid amount of Rs.400,000 in the year 2021 to the Wayamba Development Authority on behalf of Mawathagama Pradeshiya Sabha. Even though there had been no adequate computers and officers with computer literacy to start CAT 2020 by January 2022, CAT 2020 was started in August 2020 before completion of one year. Billing started using CAT 2020 software in July 2020 and is currently being executed in 8 sections.	Action should be taken to fulfil the desired functions by overcoming the existing defects of the software.
(b)	Inquiries had been made by the audit query No. KRG/E/MPS/22/52 dated 30 May 2022 on the damage occurred to the cab of the Sabha on 09 May 2022, and this vehicle had not been repaired and handed over to the Sabha even by 05 November 2022, the date of audit.	As there had been a legal proceeding regarding the damage occurred to the cab in the Magistrate's Court of Negombo, the vehicle had been parked at the Magistrate's Court for over a month and as a result, the repair work had been late.	Action should be taken to recover the loss occurred by the damage to the vehicle from the officers responsible for that.
(c)	Five (05) shops on the first floor of Mawathagama bus stand had been leased out over a decision of the Sabha on 02 March 2022 on the basis of paying in 24 installments. The Sabha had lost the monthly rent for that period as the outright amount had been collected in installments almost for 02 years.	It has been informed that the tender of those, who had not paid the relevant instalments has to be cancelled even though a grace period has been offered to pay in 24 instalments. That charging of shop rent has been done from the year 2023.	Action should be taken to recover arrears.

### 3.4 Asset Management

	<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
	Even though there had been a piece of land with a commercial value in extent of about 40 perches near the public library owned by the Sabha, it was observed that it had not been utilized and had remained in an unsafe condition.	That it has been tendered on lease basis from the year 2022 and given for business activities.	Action should be taken to get maximum benefits from the properties owned by the Sabha.



### 3.5 Idle and Underutilized Assets

	<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a)	Two vehicles worth Rs.10,100,000 belonging to the Sabha remained unused and idle.	Disposal activities are being carried out.	Action should be taken to expedite the disposal activities and to achieve the favourable conditions that can be obtained in the disposal.
(b)	Even though Kubota mini tractor trailer had been removed from use as it had been in a dilapidated condition even prior to 05 years, action had not been taken to dispose of it.	That action will be taken to dispose of or to auction by the future goods survey committee under the full supervision of the Mechanical Engineer of the Department of Local Government.	-Do-

### 3.6 Procurement Management

	<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a)	Action should be taken to publish a procurement notice and to lease out in the leasing out of properties annually as per the Circular of the Commissioner of the Local Government bearing No. 2019/01 dated 10.01.2019, leasing out had been done for the same 3 persons by renewing the contracts at Rs.1,500 each from the year 2019 without following the procurement process in the lease of shop No. s 1, 2, 3 of the weekly fair restaurant for the year 2022.	That 10 per cent will be added to the monthly rent of Rs.1,500 for these three canteens and the rent will be collected.	Arrangements should be made to lease out the shops in accordance with the Procurement Guidelines.
(b)	Although the procurement process should be followed in leasing out the Tavern building bearing No. 36 owned by the Council on annual basis, in contrary to that, it had been leased to the same party for a monthly amount of Rs.26,000 for a long time on the basis of a written document provided annually by the Council and the Sabha had not entered in to an agreement with that institution.	The Sabha has given the tavern building owned by the Council to one party for a business purpose for a long time. Therefore, I am taking action to enter in to an agreement with the relevant institution.	Action should be taken to lease out the building as per the procurement procedure.

#### **04. Accountability and Good Governance**

##### **Environmental Issues**

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The Pradeshiya Sabha had spent Rs. 5,149,260 in the year 2017 to construct a gully treatment centre. It was observed to the audit that the area is very dirty and smelly due to the disposal of gullies of the area to this system, which is not built with proper standards. Although the system had not been in the proper standard, 571 gully bowsers had been disposed of in the year 2021 and until October 2022.	Plans and specifications provided by the National Solid Waste Management Support Centre were used to construct this system. However, this system is not working properly.	Disposal of gullies should be carried out in a way that the environment is protected.