

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Manmunai Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Balance Sheet as at 31 December 2022, Income and Expenditure Account, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Manmunai 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 Practices.

### **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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	The value of Kirankulam Rural Shop Complex, which was constructed and handed over to the council at a contract value of Rs. 4.151 million out of the financial provision under the Local Government Development Support Project (LDSP) had not been accounted for the year under review.	That the value of this will be disclosed in the accounts of the year 2023.	Values of assets should be shown in financial statements.
(b)	At the end of the year under review, there was an inventory of Rs. 60,551 in the warehouse and that inventory had not been shown as assets in the financial statements.	That the value of warehouse inventory was not disclosed as an asset, due to not presenting the value.	- Do -

- (c) The value of 106 books received as donations for the libraries administered by the council till the end of the year under review amounting to Rs. 41,190 had not been shown as assets in the financial statements. That the value of these books will be recorded in the future. Donated books should be shown as assets in the financial statements.

### 1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
As at 31 December of the year under review, 07 account balances worth Rs. 69,475,965 could not be satisfactorily monitored during the audit due to non-submission of title deeds, fixed asset registers, Schedules and balance confirmations.	Actions will be made to account for the value of the assets by the temporary assessments in the future and to obtain deeds for the lands that do not have title deeds.	Actions should be taken to collect the documents related to the assets and enter them in the ledger.

## 1.7 Non- Compliances

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

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Sub-Section 150 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and 59 of the Local Council Rules of 1988 (Finance and Administration)	The license fees had not been billed based on survey conducted on the businesses located in the local council area.	From the year 2023 it is being updated as per instructions.	Actions should be taken to fully collect the trade license fees for the year.

## 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 2022 amounted to Rs. 18,381,968 as against with excess of expenditure over recurrent revenue amounted to Rs. 18,837,813 in the preceding year.

### 2.2 Revenue Administration

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

The details 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	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	2,210,000	3,242,960	3,280,635	525,197	2,100,000	5,919,359	3,544,211	562,872
ii. Rent Income	9,644,600	9,378,800	8,083,000	1,861,447	6,573,760	5,534,947	4,267,825	565,647
iii. License Fees	1,895,000	1,507,250	1,554,690	--	--	1,789,585	1,789,585	47,440
iv. Other revenue	<u>28,020,000</u>	<u>4,057,170</u>	<u>48,355,585</u>	<u>3,430,939</u>	<u>19,425,317</u>	<u>48,591,937</u>	<u>48,660,266</u>	<u>3,729,355</u>
<b>Total</b>	<b><u>41,769,600</u></b>	<b><u>62,186,180</u></b>	<b><u>61,273,910</u></b>	<b><u>5,817,583</u></b>	<b><u>28,099,077</u></b>	<b><u>61,835,828</u></b>	<b><u>58,261,887</u></b>	<b><u>4,905,314</u></b>

#### 2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observation	Comment of the Council	Recommendation
<b>(a) Rent</b> As of the last day of the year under review, the arrears of rent and lease income amounted to Rs. 761,197 and Rs. 1,100,250 respectively. Also, the age analysis for these arrears had not been submitted to the audit.	Actions have been taken to recover the arrears. Also, that the age analysis has been prepared by now.	Actions should be taken to collect rents and leases.

**(b) Stamp Duty**

Stamp duty receivable from the Chief Secretary of the Provincial Council and other officials was Rs.8,126,950 as at 31 December of the year under review.

Actions have been taken to recover stamp duty.

Actions should be taken to collect stamp duty.

**3. Operational Review**

**3.1 Management inefficiencies**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Building approval</b>		
(i) According to Public Circular No. 1769 issued by the Deputy Director General of the Director General of Health Services dated 30 September 1992, even though, a Public Health Inspector can draw plans of a building only for single storied houses, the council had been approved 03 plans of two storied buildings drawn by the Public Health Inspector during the year under review.	Instructions have been given as per the circular and action has been taken for it.	Payment should be made as per the circular.
(ii) Even though, a report must be obtained from the Public Health Inspector to verify whether the building is ventilated, 16 building applications had been approved without obtaining reports from the Public Health Inspector in the year under review.	That building applications will be sent for recommendations of the Public Health Inspector without further delay.	Actions should be taken to obtain reports from the Public Health Inspector for building applications.
(b) 62 lands belonging to the council had not been valued and shown as assets in the accounts.	Since the value of the land has not been assessed till now, the value of the assets has not been shown separately in the accounts.	Land should be shown in the financial statements as an asset.

### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Actions had not been taken to transfer the 09 vehicles, 02 tractor boxes and a water bowser used by the council to the name of the council.	That the vehicles used by the council will be taken over.	Actions should be taken to take over the vehicles.

### 3.3 Procurement Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
As per Guideline 4.2.1 of Government Procurement Guidelines 2006 and National Budget Department Circular No. 128 dated 26 March 2006, a procurement plan for supply activities had not been prepared.	That appropriate actions are taken to prepare the procurement plan.	Actions should be taken to prepare a procurement plan for supply activities.

### 3.4 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
There were 11 vacancies and 06 excess in 08 posts of approved staff in the Department of Management Services.	That monthly staff detail report is sent to Local Government Office and Assistant Local Government Office.	Appropriate action should be taken on vacancies and excess employees.

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

##### **4.1 Submission of Financial Statements**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
According to sub-section 16 (2) of the National Audit Act No. 19 of 2018, the annual performance report had not been submitted along with the financial statements.	That the annual performance report will be presented in the future.	The annual performance report should be submitted along with the financial statements.

##### **4.2 Annual Action Plan**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
According to the annual budget, the council had not been prepared an action plan for 31 activities to be implemented.	The annual action plan will be prepared in the future as per your instructions.	Annual action plan should be prepared according to the budget.

##### **4.3 Environmental Issues**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) According to National Environment Act No. 47 of 1980 as amended by No. 56 of 1988, Act No. 53 of 2000 and Act No. 01 of 2008 Act and Section "B" of Special Gazette No. 2264/18 dated 27 January 2022, the council had not been obtained environmental permits for the slaughterhouse at Keechchan Pallam.	That attention will be paid to this in the future.	Actions should be taken to obtain environmental permits.
(b) 06 toilets were constructed for the women and men businessmen engaged in daily trade in Arayampadi public market, but the maintenance of the toilets had not been implemented by the council as per section 85(c) of the Pradeshiya Sabha Act No. 15 of 1987 Due to this, 04 toilets remained unusable.	Actions have been taken to make public toilets suitable for use and 75% of the work has been completed.	Action should be taken to maintain toilets.