

Malimbada Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Malimbada Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and significant accounting policies and other explanatory 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 which should be 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 reported to the parliament are appeared 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 Malimbada Pradeshiya Sabha as at 31 December 2023, 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing 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

Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- (a) In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Pradeshiya Sabha are consistent with the preceding year.
- (b) In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Audit observations related to the preparation of financial statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The miscellaneous creditor balance and capital creditor balance had increased due to over accounting of member fuel allowance of Rs.68,400 and creditor balance of Rs.2,558,373 related to 07 industries.	Actions will be taken to correct in the future.	Actions should be taken to account accurately.
(b)	The expenditure of Rs.1,540,117 incurred for the development of 2 buildings had not been capitalized under land and buildings.	Actions will be taken to correct in the future.	Actions should be taken to account accurately.
(c)	Stamp duty of Rs.1,734,322 receivable and court fines of Rs.207,131 receivable had been understated.	Actions will be taken to correct in the future.	Actions should be taken to account accurately.
(d)	The value of Community Hall in the Bokatugahahena Jana Udana Village, which was valued at Rs.185,000 had not been accounted under land and buildings.	Actions will be taken to correct in the future.	Actions should be taken to account accurately.

1.6.2 Un-reconciled control accounts or records

Audit Observation	Comments of the Sabha	Recommendation
Among the financial statement balances related to 04 accounting subjects and the balances shown in the related subsidiary documents/schedules, There was a difference of Rs.106,941,520.	Actions will be taken to correct in the future.	Actions should be taken to compare and correct the differences in the respective balances and the accounts.

1.6.3 Absence of written evidence for audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of required information, 6 accounting subjects totaling Rs.94,146 could not be satisfactorily examined during the audit.	Actions will be taken to correct in the future.	Actions should be taken to submit the evidence to confirm the account balances shown in the financial statements.

2. Financial Review

2.1 Financial Results

According to the financial statements submitted, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December was **Rs. 15,269,110** and corresponding to the revenue exceeding recurrent expenditure of the previous year was Rs.8,459,120.

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

	Source of income	2023			2022			Total deficiency as at 31 December	
		Estimated income	Billed income	Collected income	Estimated income	Billed income	Collected income		
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i)	Rate and Taxes	4,335,700	1,994,663	1,909,010	218,547	3,935,700	262,074	304,902	132,894
(ii)	Rents	9,147,500	3,173,969	3,097,857	304,513	7,647,500	2,883,350	3,481,238	228,401

(iii)	License Charges	1,363,000	980,675	1,108,875	-	907,000	1,239,140	1,337,940	128,200
(iv)	Other income	7,764,300	11,300,079	11,304,599	195,912	4,626,400	4,223,865	4,518,905	200,432
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		22,610,500	17,449,386	17,420,341	718,972	17,116,600	8,608,429	9,642,985	689,927
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2.2.2 Performance in Revenue collection

	Audit Observation	Comments of the Sabha	Recommendation
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(a)	The outstanding balance related to 68 assessment units was Rs.67,844 of which Rs.32,383 was more than 2 years.	An amount of Rs. 25,247 has been recovered as of 31 March 2024 from the relevant deficit.	Outstanding revenues should be collected promptly.
(b)	According to Section 134 (1) of the Pradeshiya Sabhas Act No. 15 of 1987, Extent of 30 square kilometers belonging to 17 Grama Niladhari Divisions had been identified as developed areas under the jurisdiction of the Sabha and had been published through Gazette No. 2300 and 30 dated September 2022. Around 600 properties had been identified for charging assessment tax. By the end of the year under review, Although it had passed more than a year since the gazette notification was published, the assessment tax could not be collected due to the delay in assessment.	The Valuation department has been requested in writing to carry out the assessment related to the expansion of the new assessment jurisdictions.	The assessment should be obtained expeditiously and arrangements should be made to collect the assessment.
(c)	42 shops out of 43 shops in 2 shopping malls owned by the council had been leased out of which 18 shops had to collect arrears of Rs.267,830, out of which a balance of Rs.34,125 was due for more than 2 years.	A sum of Rs.23,575 has been collected by 01 April 2023 and the rest will be collected through field visits and awareness letters.	Outstanding revenues should be collected promptly.
(d)	14 shops owned by the council had been closed without any use and there was only one staircase to access the upper floor and as the shops were restricted by the main road and consequently customers were not coming, which led to the closure. A rent of Rs. 133,235 was payable from 07 shops at the end of the year under review.	An amount of Rs. 128,150 has been collected by 1 April 2023 and the rest will be collected through field trips and awareness letters.	Outstanding revenues should be collected promptly.

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| (e) | 03 shop rooms in the shop complex owned by the council had been sub-leased to other parties, contrary to the provisions of Southern Province, Local Government Commissioner No. S.P.G/L. G. Co/2010/01 and paragraph 11 of the circular dated 27 December 2010. | Legal action will be taken against shop lease holders who violate the agreements. | Actions should be taken to act as per the agreement. |
| (f) | The balance to be collected from the market and butcher's lease was Rs. 36,683 and the balance was over 5 years. | Actions are taken to renew the case records related to outstanding balances and recover. | Outstanding revenues should be collected promptly. |
| (g) | Court fines of Rs. 415,120 and stamp duty of Rs. 40,516,304 which should have been received from the Chief Secretary of the Provincial Council and other authorities by 31 December 2023. | Stamp duty and court fines are being received monthly. | Outstanding revenues should be collected promptly. |

3. Operational Review

3.1 Performance of functions assigned by the Act

Under section 3 of the Pradeshiya Sabha Act, the following are the facts that were observed regarding the performance of the Sabha's duties of regularizing and controlling the matters of public health, public utility services and public roads, comfort, convenience and welfare of the people.

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) The audit observed that the council did not have a formal arrangement to dispose of non-commercial non-biodegradable waste and therefore there were covered with soil at the compost site itself.	The necessary arrangements are being made to direct the non-biodegradable waste to the Monroviyawatta Waste Management Unit.	Actions should be taken to implement a formal waste management plan.
(b) In the year 2013, the council had started the waste management project in the area of Rood 03 in Kekilla area of Sulthanagoda and although almost 11 years had passed, the environmental protection license from the Central Environment Authority had not been obtained by the end of the year under review.	Actions will be taken to obtain the environmental protection license promptly.	Arrangements should be made to obtain the environmental protection license.

3.2 Operational Inefficiencies

	Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a)	Although a chartered engineer's report had been obtained that the roads were prepared to the required standards during the sale of a land of 01 acre and 36 perches located in the jurisdiction of the local council, the 24.5m to 27.5m section tarmac from the beginning of the internal access road of the land had sunk.	That the concrete paving is done in the part where the asphalt pavement is sunk.	Actions should be taken to carry out the Development work as per the proper standards.
(b)	The planning committee bearing No. 209 dated 09 June 2022 had decided unconditionally to divide the land in extent of Rood 01 and 37 perches in the local council jurisdiction for residential use and started selling the land by displaying advertisement notices without obtaining the compliance certificate. This was in violation of the provisions of Part II, 27(1) and 27(3) of Gazette Notice No. 2235/54 dated 08 July 2021 including Urban Development Orders/Regulations.	The advertisement hoardings have been removed and no sale of plots has taken place.	Actions should be taken to proceed as per gazette notification.
(c)	Although a period between 03 and 07 years had passed since 576 building applications were approved and building development permits were granted during the period from 2016 to 2020 in terms of Urban Development Authority Act No. 41 of 1978, only 12 buildings had received certificates of compliance, which was 2 percent of the number of approved building applications.	That notifications have been made to obtain compliance certificates.	Actions should be taken to act in accordance with the Act.
(d)	Even though the roads belonging to the 05 Divisions out of 29 Grama Niladhari Divisions within the local Council had been identified and the surveying work had been completed, the mapping work had not been completed by the end of the year under review.	Actions will be taken to complete the road mapping work soon.	Actions should be taken to complete the road mapping work as soon as possible.

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| (e) | According to the provisions of Section 28(1) of the Gazette Notification No. 2235/54 dated 08 July 2021 containing the Planning and Development Orders/Regulations of the Urban Development Authority 2021, development permits had not been obtained for 08 buildings that had been constructed or were being constructed in the local council area. In course of the construction of 6 buildings, the construction had not been done in accordance with the building boundaries and planning and development orders/regulations of the Urban Development Authority. | The revised plans have been notified to be submitted. | Actions should be taken to proceed as per gazette notification. |
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3.3 Disputed transactions

Audit Observation -----	Comments of the Sabha -----	Recommendation -----	
(a)	A sum of Rs.100,100 had been paid to an external party in the years 2022 and 2023 for providing transportation facilities for the officers of the council for a conference. Even though no legal provision had been made for such payments, making payments from council funds to private parties to provide transport facilities for officials to attend trade union conventions in this way was not a legal payment.	Actions were taken to act according to the Governor's letter of instruction.	Actions should be taken to act in accordance with Establishments Code, Financial Regulations and Circular provisions.
(b)	Although the term of office of the members of the local council passed from 09 March 2018 to 09 March 2023 was extended to 18 March 2023 and the term of office of the council ends on 19 March 2023, the member allowances should be paid proportionately for the month of March 2023, due to not doing so, Rs.52,254 had been overpaid to 09 members.	That reminder letters have been sent for recovery.	Actions should be taken to make payments accurately.

3.4 Asset Management

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
The Road rollers received by the council in 2015 had been unused and parked in Telijjawila old local council building premises since 2017 without being used and unprotected.	Since no response has been received from any government institution for the exchange of the machine, the Southern Provincial Road Development Authority has been informed in that regard.	Actions should be taken to use Council owned vehicles effectively.

3.5 Deficiencies in contract administration

Audit Observation	Comments of the Sabha	Recommendation
2 fish planks out of 08 whose construction cost was Rs. 327,326 had collapsed and the concerned parties had not been able to construct the collapsed roofs or recover the losses even by the end of the year under review.	Although the relevant contract society has been informed for the repair, they have not agreed to it.	Actions should be taken complete the contract works with the prescribed standard.

3.6 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
A health employee who had been hired on contract basis by the council had been assigned the duties of a tipper truck driver on 16 January 2022 and during the period from January 2023 to December 2023, Rs.396,817 had been spent from the council fund as salaries and allowances.	The salary and allowances have been paid related to the post recruited.	Actions should be taken to assign duties related to the recruited position.