

Mawanella Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Mawanella Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, 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 the Mawanella 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 Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Standards, 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:

- 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 the Pradeshiya Sabha's 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.

- (a) 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.
- (b) 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 on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	In the year 2018, a sum of Rs. 787,500 kept as entertainment tax deposit had not been credited to income.	The amount will be settled promptly.	Accounts must be rectified.
(b)	According to the report of the survey board, the value of the library books had been understated by Rs.648,014 in the financial statements and the value of 662 books in 03 libraries had not been accounted.	Actual book value will be adjusted in the year 2024.	-Do-
(c)	A sum of Rs.4,000,000 had been set aside as creditors although there had been no any contractual obligation.	This will be rectified in the year 2024.	-Do-
(d)	Action had not been taken to recover the deficiency of Rs. 182,999, identified from the goods surveys from the year 2021, from the responsible officials or to dispose of that.	The deficiencies will be charged from the officers, who are responsible.	-Do-
(e)	The staff allowance payable for stamp duty amounting to Rs.3,088,210, receivable during the period of 2016 - 2021 had not been accounted.	This will be accounted in the ensuing years.	-Do-

1.6.2 Unreconciled Control Account

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 4,765,765 between the value according to the financial statements of 09 accounting subjects and the balance according to the corresponding reports.	It will be rectified in the year 2024.	The difference should be reconciled.

1.6.3 Written Evidence Not Made Available for Audit

Audit Observation	Comments of the Council	Recommendation
Schedules had not been submitted for non-current assets totalling to Rs.27,882,783.	It will be rectified in the year 2024.	Evidence should be produced.

1.7 Non-compliance

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Pradeshiya Sabhas Act, No. 15 of 1987 -----			
Section I - 24	Action had been taken to gazette only 649 roads, out of 2,364 roads owned by the Council and action had not been taken to identify the number of unidentified roads.	The documents have been completed for gazetting all roads and unidentified roads have to be identified and inventoried.	Actions should be taken according to the Act.
Section 158	A sum of Rs.3,703,229 outstanding from 797 lessees of 15 roads had been old for a period of 03 years to 30 years.	The property will be liable to seizure for arrears of assessment tax, and verification of property will be conducted for arrears of acreage tax.	-Do-
(b) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 371 (2)	Old advances amounting to Rs.375,632 old for a period of 02 years to 24 years had not been settled even by the end of the year 2023.	It should be settled before the end of the year 2024.	Action should be taken in terms of the Financial Regulations.
(c)			

(ii)Financial Regulation 571(3)	Miscellaneous deposits payable and old for more than 03 years, water services, theater deposits and industrial contract security deposit amounting to Rs.1,727,212 had not been credited to revenue.	It will be settled before preparing the financial statements of the year 2024	-Do-
(c) Asset Management Circular No. 05/2020 dated 02 October 2020	Five (05) vehicles worth Rs.22,786,422 and owned by the Council remained inactive since 2017 and a machine had not been disposed of.	All the vehicles owned by the Council will be identified and disposed of.	Action should be taken as per Circulars.
(d) Paragraph 2 of the Circular of the Local Government Commissioner bearing No. 1988/22 dated 17 May 1988	Revenue that could be obtained from a new assessment had been lost due to not carrying out the assessment that should be carried out once in every 5 years subsequent to the year 2009.	The survey of the property related to the new assessment has been started.	-Do-
(e) Paragraph 5 of Local Government Reform Circular No. 8/2010	Highly urbanized areas had not been identified and a sewerage plan had not been prepared.	Officials will be informed to prepare a formal plan in the future.	-Do-

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue of the Council that had exceeded the recurrent expenditure for the year ended 31 December in the year under review had been Rs.56,347,746 and in corresponding to that, revenue of the Council that had exceeded the recurrent expenditure in the previous year had been Rs. 52,521,177.

2.2 Revenue Administration

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

According to the information presented by the Secretary of the Council, the information related to the estimated revenue, billed revenue, collected revenue and revenue arrears related to the year under review and to the previous year are mentioned below.

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	15,972,463	14,522,224	19,000,551	13,646,172	16,176,590	13,181,823	11,900,439	14,009,150
Rents	51,898,279	36,868,961	31,733,747	11,163,365	38,110,150	33,994,565	32,114,790	19,189,954
License Fees	5,875,500	2,401,395	2,158,269	4,916,278	4,260,300	4,303,669	2,645,739	3,875,698
Other Revenue	<u>29,379,000</u>	<u>30,713,688</u>	<u>10,405,778</u>	<u>15,918,578</u>	<u>21,713,500</u>	<u>16,408,056</u>	<u>11,877,377</u>	<u>394,992</u>
Total	<u>103,125,242</u>	<u>84,506,268</u>	<u>63,298,345</u>	<u>45,644,393</u>	<u>80,260,540</u>	<u>67,888,113</u>	<u>58,538,345</u>	<u>37,469,794</u>

2.2.2 Performance in the Collection of Revenue

	Audit Observation	Comments of the Council	Recommendation
(a)	The arrears amounting to Rs. 3,703,228 from 797 assessment taxes had been old for a period of 03 to 30 years.	Seizure of property is currently being carried out in phases.	Revenue arrears should be collected promptly.
(b)	The balance of assessment tax, rent, court fines and stamp duty outstanding as at 31 December 2023 had been Rs.107,320,929, and there had been a balance of Rs.10,040,665, which had been older for more than 05 years, included in it.	Action will be taken to recover the outstanding balances.	-Do-

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The street lamps had been installed without obtaining the necessary approval as per the instructions of the Secretary of the Ministry of Power and Energy, and the number installed had not been submitted to the audit.	Action will be taken accordingly in the future.	Action should be taken to according to the Circulars.
(b)	Action has not yet been taken to transfer 02 plots of land in extent of 08 roods and 36 perches allocated for public utilities.	Activities for transferring the plots are being carried out.	Ownership of assets should be clear.

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|-----|---|--|-------------------------------------|
| (c) | Revenue of Rs.9,038,913 had been lost due to non-submission of tenders for the third time for 12 shops for the year 2023 and 10 lease outs of trading rights. | The minimum bid will be revised and the approval will be obtained. | Revenue must be collected promptly. |
| (d) | A sum of Rs.173,723 which had been outstanding during the period of 2002 to 2018 from shops and from tenderers, to whom the trading rights had been leased out, had not been recovered. It had been submitted to the Assistant Commissioner to write off a sum of Rs. 6,529,521 related to the period of 2020-2021. | Action will be taken according to the fundamental inquiry conducted for this purpose and the approval of the governor had been obtained for writing off the arrears and fines for the years 2020 and 2021. | -Do- |

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation	
(a)	The amount of Rs.1,607,774 that had been accounted as key money, receivable from Hemmathagama shopping complex, which had been expected to be built, had been old for more than 22 years.	Those constructions have stopped midway and the constructions have also become dilapidated.	Construction should be carried out and revenue should be earned.
(b)	Action has not yet been taken to remove the two-storied unauthorized building that is being constructed in a land in extent of 1.12 perches near Mawanella Bus Stand.	The plan has been approved by the Chairman. Since this is not removed even though it has been notified in writing, a non-recompense agreement has been entered into for legalizing it, and the Human Rights Commission is investigating in this regard.	Action should be taken according to the relevant Acts.
(c)	Out of 2364 roads owned by the Council, 1715 roads had not been gazetted.	These roads will be published by the Gazette as roads owned by the Council.	-Do-
(d)	A sum of Rs.4,126,606 receivable by the end of the year 2023 had been old for 3 years and the balance of Rs.455,454 had been old for more than 5 years.	Action will be taken to write off those balances and a preliminary investigation will be conducted in relation to the arrears of shop rents old for 03 years.	Receivable balances must be settled.

- (e) The total of industrial and sundry creditor balances payable had been Rs.17,800,070, and a sum of Rs.959,000, out of that, had been the balances that had exceeded 3 years. Action will be taken to make payments or credit the amounts to revenue by informing those parties. Creditor balances should be settled.

3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
There had been a surplus of 13 employees and 21 vacancies, out of the approved number of employees, and 04 employees had been assigned with other functions that were not related to the permanent position.	The filling of vacancies is carried out by the Chief Ministry and it was not possible to precisely identify the 4 employees, to whom other duties have been assigned, therefore, it is not possible to give a correct answer.	Vacancies should be filled and excess employees should be released to other institutions.

3.4 Asset Management

Audit Observation	Comments of the Council	Recommendation
(a) Employees in other positions had been employed as drivers for 08 vehicles and machines.	There was no sufficient number of drivers.	Permanent drivers should be attached.
(b) A sum of Rs. 171,085 had been spent idly for revenue licenses and insurance for 04 vehicles, which have not been used from the year 2017 to the year 2023 due to not obtaining a certificate of non-use.	As the officers have not been informed in this regard, this idle expenditure has been made and the necessary work is currently being done.	Certificates of non-use must be obtained.
(c) The compactor trailer has been idle for 06 years from the date of receiving it as the road up to the compost yard had not been in a condition to operate the trailer.	Any institution has not yet been come forward to transfer.	Assets should not be left unused.