

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Mahawa Pradeshiya Sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement and notes to the financial statements including material accounting policy 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 read in conjunction with provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, the sub section 172(1) of 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 financial statements give a true and fair view of the financial position of the Mahawa Pradeshiya Sabha as at 31 December 2024, 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**

I expressed qualified opinion regarding financial statement 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 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 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 include 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 of this report 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 Non-Compliance with Generally Accepted Accounting Principles

<b>Non Compliance with the reference to particular Standard</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) During the year under review, Rs. 126,335 had been spent from the council funds but 05 pending cases had not been disclosed in the financial statements.	Details of cases not concluded in 2024 will be included in the financial statements prepared next year.	Transactions with related parties should be disclosed in the financial statements.
(b) Although assets should be classified and accounted for based on factors such as the existence, life, value, and nature of the asset, items such as knives, funnels, and small containers for holding flags that could be identified as consumer goods were accounted for under fixed assets.	Even though those items are of low value, they have been inventoried due to their long-term use.	Accounting should be done in accordance with generally accepted accounting principles.

### 1.6.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The fixed deposit interest income receivable of Rs. 198,877 for the year under review had not been adjusted in the financial statements.	That value will be adjusted from the 2025 financial statement.	The correct value of the income receivable should be recorded.
(b) The value of the 4 cemeteries and the Kadurugahamula Pitiya land that had been assigned to the council had not been assessed and accounted for.	That the assets that have not been valued will be corrected in the future.	The lands owned by the council should be assessed and accounted for correctly.

### 1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of the necessary documents and supporting documents to verify the balance, it was not possible to satisfactorily verify the value added tax of Rs. 406,337.	Agreed.	Sufficient written evidence must be submitted.

## 1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions as follows.

Reference to Laws, Rules Regulations etc.	Comments of the Council	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987		
Section 143	Although a temporary valuation had been made for new buildings constructed within the assessment area after the assessment conducted in 2012, steps had not been taken to levy assessment tax accordingly.	No new property valuations were conducted after the 2008 and 2012 valuations, and all new properties were assessed by the 2024 new valuation.
(b) Pradeshiya Sabha (Finance and Administration) Rules, 1988		
(i) Rule 153	Although a statement of monthly income totals and income arrears should be maintained in every Pradeshiya Sabha head office and every sub-office as per Form PR.S.07, the Ambanpola sub-office had not prepared such a statement.	Assessments should be carried out and measures should be taken to collect the assessments in accordance with the Act.
	Aagreed.	Actions should be taken according to the rules of the Pradeshiya Sabha.

(ii)	Rule 154	Although an accounting record of all collections in respect of subsidies should be maintained at the Pradeshiya Sabha head office in accordance with Form PR.S.09, such a record had not been maintained.	It will be done to prepare it from next month.	Actions should be taken in accordance with the rules of the Pradeshiya Sabha.
(iii)	From 180 to 184 rules	No bail had been obtained from 10 officers who were required to deposit employee bail.	That steps will be taken to obtain bail from all officers who are required to deposit bail.	Actions should be taken in accordance with the rules of the Pradeshiya Sabha.
(c)	<b>Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b> F.R 571	Action had not been taken in accordance with the financial regulations regarding 241 deposits exceeding 02 years, worth Rs. 6,420,300.	That steps will be taken to recover deposits that have been uncollectible for more than 2 years.	Financial regulations must be followed.
(d)	<b>Local Government Circular No. 2010/02 dated 30th July 2010</b>			
(i)	Section 05(iv)	Notices of foreclosure of properties for which assessment tax had not been paid properly had not been issued and implemented in a timely manner.	Arrangements have been made to carry out a property prohibit program in 2025.	Action should be taken according to the circular instructions.
(ii)	Section 05 (x)	Although by-laws should be formulated regarding revenue generation, sufficient attention had not been paid to it.	Accept.	Steps should be taken to formulate by-laws.

## 2. Financial Review

### 2.1.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 1,864,605 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 4,802,960 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 submitted by the Council Secretary, the estimated income, billed income, collected income and arrears of income for the year under review and the previous year are shown below.

Source of income	2024 Year				2023 Year			
	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
(i) Rates and Taxes	6,025	5,638	4,617	1,021	5,569	5,458	4,605	852
(ii) Rent	9,157	9,034	8,583	451	9,788	8,320	5,242	3,078
(iii) License fees	700	964	964	-	728	634	634	-
(iv) Other Revenue	22,500	22,923	6,866	16,057	22,070	19,174	14,810	4,364
Total	<u>38,382</u>	<u>38,559</u>	<u>21,030</u>	<u>17,529</u>	<u>38,155</u>	<u>33,586</u>	<u>25,291</u>	<u>8,294</u>

### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) The estimated revenue for the year under review was Rs. 38.38 million, the billed revenue was Rs. 38.56 million and the collected revenue was Rs. 21.03 million, and Rs. 17.53 million of the billed revenue was still to be recovered as of December 31 of the year under review.	Agreed.	Steps should be taken to recover arrears of revenue promptly.
(b) <b>Rates and Taxes</b>		
There was a arrears of Rs. 1,020,797 in assessed tax revenue for the year as on 31st December of the year under review.	A program to property prohibit to recover the relevant arrears of revenue has been planned.	Steps should be taken to recover arrears of revenue promptly.

**(c) Rent**

The arrears of rent of Rs. 2,101,964 and the arrears shop rent of Rs. 407,782, which were to be recovered as on 31 December 2023, had not been recovered even during the reporting year.	Legal action has been taken to recover the outstanding tax money that is due, and after informing the owners about the outstanding rent, the arrears were paid and the property was taken over and re-tendered. Legal action has been taken for the outstanding rent that is still due.	Steps should be taken to collect the arrears of rent.
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**(d) License Fees**

Although the estimated revenue from license fees for the year under review was Rs. 754,000, the actual collection was Rs. 1,110,815, a variation of more than 47 percent. Realistic estimates should have been prepared and efforts should have been made to collect revenue in the most efficient manner.	Letters have been sent to obtain the relevant funds.	Estimates should be prepared realistically.
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**3. Operational Review**

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

**3.1 Performing of Functions Enacted by the Act**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Under Section 126 of the Pradeshiya Sabha Act, by-laws were to be enacted to carry out 30 key matters, but as of December 31, 2024, the council had not enacted by-laws on any of the matters.	No comments.	Efforts should be made to generate revenue by enacting by-laws.

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) It is observed that due to the failure to assess the value of land and property in a timely manner, The actual financial position is not reflected due to the fact that land is shown in the financial statements at very low value such as RS. 50 and Rs. 100.	That work will be done to assess land and buildings in the future through the valuation Department.	Assets should be accounted for at their fair value.
(b) As of December 31st of the year under review, there was a balance of Rs. 29,876,953 in 10 accounts receivable and Rs. 873,272 related to 04 accounts were more than 5 years old.	No comments were made.	Action should be taken to recover outstanding balances due.
(c) The total value of 16 accounts payable as of December 31st of the year under review was Rs. 29,816,694 out of which Rs. 1,431,580 was older than 05 years in 6 accounts.	No comments were made.	Action should be taken to check the existence of account balances and settle outstanding balances.

### 3.3 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) A program had not been prepared and implemented to follow up on building applications rejected by the council for various reasons and to verify whether the construction had been completed.	Agreed.	Follow-up work should be carried out and the information should be confirmed.
(b) Although the Pradeshiya Sabha had been given powers regarding the supervision and control of community-based organizations according to the guidelines introduced by the North Western Provincial Water Supply and Environmental Sanitation Unit for community-based organizations, the council had not paid attention to it.	Agreed.	Action should be taken according to the guidelines.



### 3.4 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Due to the failure to identify optimal stock levels and implement proper warehouse management, 10 types of stationery items worth Rs. 100,640, 12 types of printed documents worth Rs. 11,970 and 10 street light items worth Rs. 99,145 remained unused in the warehouse for more than 5 years.	Since the printers were taken out of use, the toner that had been imported for those printers remained in the warehouse and was put up for auction as per the decisions of the board of survey. The printed document format is not being used due to lack of space and has been stored for use in case the need arises in the future.	Needs should be accurately identified and actions taken to purchase goods.

### 3.5 Assets Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Ownership had not been confirmed for 07 plots of land included in the council's fixed assets.	The Divisional Secretariat has been informed again regarding the transfer of the land.	Steps should be taken to acquire unclaimed lands.
(b) Out of 48 lands valued at Rs. 206,070,846 and 181 cemeteries maintained by the council, 166 had not been acquired by the council.	The Mahawa and Ambanpola Divisional Secretariats are carrying out the process of transferring 48 lands that have not been transferred to the Pradeshiya Sabha.	Steps should be taken to reclaim the acquired lands.
(c) Although it had been confirmed that 4 documented cemeteries were not physically used for that purpose, steps had not been taken to formally clear them from the asset records.	The Divisional Secretary has informed that the transfer of 04 cemeteries belonging to the Ambanpola Divisional Secretariat Division, which have been requested, cannot be done as they are not in the final village plan and since no cemetery is currently being used.	The land did not takeover should be take over.
(d) The Rs. 125,000 Laurel hand tractor, which had been recommended for disposal by the Boards of Survey in previous years, had not been disposed of as of December 31 of the year under review.	No comments.	Action should be taken to dispose of idle assets.

### 3.6 Defects in Contract Administration

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The capital expenditure for the year under review was estimated at Rs. 2,178,912 and Rs. 17,223,834 was spent. Accordingly, the capital expenditure was incurred by Rs. 15,044,922 or 690 percent over the estimate.	No comments.	Efforts should be made to prepare estimates rationally.
(b) Three industries, which had been budgeted for a provision amount of Rs. 5,450,000, were completely completed during the year under review at a cost of Rs. 1,746,825. Accordingly, I point out that the failure to prepare realistic estimates is a weakness in management.	The above change has occurred due to the fact that it was built under construction and the plan proposed for the construction of the parking lot has changed.	Budget estimates should be prepared on a realistic basis.

### 3.7 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) As of December 31st of the year under review, there were 30 vacancies and 42 surplus in the total staff. During the year under review, Rs. 148,650 in salaries and allowances had been paid to 03 pre-school assistants who were recruited in excess of the approved staff.	Agreed.	Human resources should be directed to achieve the goals and objectives of the institution through the most efficient and effective utilization, and steps should be taken to approve surplus staff.
(b) As at 31 <sup>st</sup> of December of the year under review, there was an outstanding balance of Rs. 342,860 from 09 employees for over a year.	Agreed.	Action should be taken to recover the arrears.

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The activities and goals identified in the annual plans prepared for the year 2024 were not specified and there was no formal coordination between the development plan and sectoral plans.	Relevant activities will be carried out to prepare for the future.	Needs should be identified and plans should be prepared with proper coordination.

## 4.2 Budgetary Control

### Audit Observation

There was a variation of 13 to 47 percent between the estimated and actual revenues of 4 revenue heads and variation of 15 to 690 percent between the estimated and actual expenditures of 6 expenditure subjects. Accordingly, it is observed that the budget has not been used as a financial control instrument.

### Comments of the Council

No comments.

### Recommendation

The budget should be utilized as a financial control tool.

## 4.3 Sustainable Development Goals

### Audit Observation

The Council was not sufficiently aware of the 2030 Agenda for Sustainable Development and had not prepared and approved a sustainable development plan. As a result, it was not possible to measure sustainable development progress.

### Comments of the Council

That work will be done to correct it next year.

### Recommendation

A sustainable development plan should be prepared.