

Mahaoya Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahaoya Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, 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 Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and Sub-section 10 (1) of the National Audit Act, No. 19 of 2018. 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 Mahaoya 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 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 Scope of Audit (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

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)	Although all advances had been settled as per the advance register as of 31 December of the year under review, an amount of Rs.1,842,094 was observed as further advances to be settled.	That the steps are being taken to correct this accounting error.	Advances should be accounted for correctly.
(b)	Although the annual surplus should have been recorded as Rs.4,793,542 in the statement of changes in equity for the year under review, it has incorrectly recorded as Rs.12,162,461, therefore, equity is overstated by Rs.7,368,919.	Due to a calculation error that occurred while preparing the statement of change in equity, there has been a change in the net asset value. Action is being taken to correct it.	Changes in net assets should be accounted for correctly.
(c)	The outstanding stamp duty as at 31 December of the year under review had been overstated in the financial statements by Rs. 205,950.	While preparing the schedule, the stamp duty income for the previous year amounting to Rs.20,700 had not been identified. Action will be taken to correct this.	Stamp duty income should be accounted for correctly.

1.6.2 Lack of Written Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
It was not possible to satisfactorily examine 07 accounting items totalling Rs.14,091,286 as stated in the financial statements due to non-submission of fixed asset register, detailed schedules and balance confirmations.	These assets will be revalued and identified separately.	Relevant written evidence confirming assets must be submitted to the audit.

1.7 Non-compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

	Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Pradeshiya Sabha (Finance and Administration) Rules, 1988			
	(i) Rule 5(xii)	Steps had not been taken to obtain adequate security deposits from the officers responsible for financial and stores.	That the steps will be taken to obtain sufficient securities from the officers who are required to obtain securities.	Financial and administrative rules should be followed.
	(ii) Rule 59	Although at the beginning of each year, the Revenue Inspector of the Sabha or an officer authorized by the Chairman should conduct a survey within the Sabha area and prepare a list of trade, business and industry and submit it to the Secretary of the Sabha on or before 31 March, no action had been taken in this regard in respect of the year 2024.	Arrangements have been made to survey commercial businesses by an authorized officer.	Financial and administrative rules should be followed.
(b)	Paragraph 3 of Public Administration Circular No. 30/2016 dated 29 December 2016	No steps had been taken to check the fuel combustion of 08 vehicles used by the Sabha.	The meter on one vehicle is inoperative and fuel testing cannot be performed on 3 vehicles until repairs are made.	The Milometer should be reset and the fuel combustion test should be carried out as per the circular.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.4,793,542 against with the excess of recurrent expenditure over income (shortage) amounted to Rs.2,088,617 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, 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	2024				2023			
	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	350,000	411,200	411,200	12,000	500,000	364,800	364,800	12,000
ii. Rent	9,945,812	10,362,794	10,362,794	6,775,602	10,766,956	9,752,078	9,689,409	7,094,943
iii. License Fee	315,400	336,184	336,184	–	350,400	276,845	276,845	–
iv. Other Revenue	480,000	262,026	262,026	–	9,695,100	5,846,301	5,846,301	–
Total	11,091,212	11,372,204	13,372,204	6,787,602	21,312,456	16,240,024	16,177,355	7,106,943
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2.2.2 Performance in Collecting Revenue

The following are observations made on the performance in collecting revenue.

	Audit Observation	Comments of the Council	Recommendation
(a)	The rent income due as at 31 December of the year under review was Rs. 6,754,535 and the recovery of arrears remained at a very poor level due to the lack of legal action taken against those who had not paid rent in arrears.	Letters have been sent to the shop owners to collect this shop rent income. The shop rent has been collected properly for the year under review.	Arrears of revenue should be recovered promptly.
(b)	According to the arrears rent register, it was observed that 11 outstanding balances amounted to Rs.1,380,286, which were due to be recovered for a period of 02 to 04 years, remained unrecovered, and legal action had not been taken to recover 09 of these balances, valued at Rs.155,762.	Not answered.	Arrears of revenue should be recovered promptly.

3. Operational Review

3.1 Performing the Functions assigned by Act

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

Audit Observation	Comments of the Council	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws should have been enacted to address 20 main matters, but only 05 by-laws had been enacted by 31 December 2024.	03 by-laws have been submitted for approval and that steps will be taken to expedite the future work related to by-laws.	The proceedings of the council should be legalized by enacting by-laws.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The Pradeshiya Sabha had collected 360 tons of waste in the year 2024, consisting of 09 tons of biodegradable waste and 21 tons of non-biodegradable waste monthly, incurring an expenditure of Rs.6,414,635. From the biodegradable waste, 13,850 kg of compost had been produced, and only 1,324 kg from that stock was sold, generating an income of only Rs.33,400.	It was stated that steps will be taken to prepare a formal program for the disposal of non-biodegradable waste, but due to a shortage of staff in carrying out these tasks, they are facing great difficulty.	A program to increase the production and sale of compost should be developed and implemented.
(b)	Due to not disconnecting the unused telephone connection since the year 2022, a sum of Rs. 144,000 has to be paid annually as of now.	Steps will be taken to disconnect the telephone connection number 063-2030600.	Action should be taken to disconnect telephone connections that are not being used.
(c)	It was observed that 24 shops in the trade complex located in the Kekirihena area, which was completed in the year 2015 under the Pura Neguma project at a cost of Rs.33,083,469, remained closed and idle for a period of over 7 years, despite the 12 shops on the first floor being handed over to shop owners since 2015, and the 12 shops on the second floor since 2017. No legal action had been taken against the defaulters regarding the rent due from these shops as at 31 December of the year under review.	A penalty has been charged to these shop owners for the arrears. Several shop owners have expressed their willingness to operate the shops and have informed the council in writing. Also, on several occasions, the shop owners have made payments for the arrears.	Legal action should be taken to promptly recover outstanding amounts.

3.3 Idle or Under Utilized Property, Plant and Equipment

Audit Observation

It was observed that two vehicles owned by the council that were beyond repair were rapidly deteriorating due to the failure to take the necessary steps to auction them.

Comments of the Council

Steps will be taken to auction these two vehicles.

Recommendation

Action should be taken to auction the relevant vehicles promptly.

3.4 Assets Management

Audit Observation

- (a) According to the financial statements of the Pradeshiya Sabha, the fixed assets valued at Rs.251,988,056 had not been itemized by value and included in the fixed asset registers.

Comments of the Council

Steps will be taken to separately identify the value of the fixed assets and document them.

Recommendation

The fixed asset registers should be maintained by correctly including the values and keeping them updated.

- (b) Steps had not been taken to identify, document and account for the value of 28 cemeteries belonging to the Pradeshiya Sabha.

After the measurement of these cemeteries has been completed, work is underway to value and account for them.

The value of cemeteries should be identified and accounted for.

- (c) The value of 29 equipment received as donations during the year under review had not been identified and accounted for.

Since the value of the donated items could not be determined, no accounting was done.

The value of donations must be identified and accounted for.

- (d) 09 vehicles and machinery that needed repair as of 31 December of the year under review had not been repaired and brought into use.

Immediate steps will be taken to properly repair vehicles and machinery.

Vehicles should be repaired and put into use.

- (e) Action had not been taken to transfer the ownership of 06 vehicles under the purview of the Sabha to the name of the Sabha even at the date of audit.

Steps will be taken in the future to take over the ownership.

Steps should be taken to transfer the ownership of the vehicle to the name of the Sabha.

3.5 Human Resource Management

Audit Observation

There were 11 vacancies in 08 positions in the Sabha and one driver position and 08 health assistant positions were in excess of the approved cadre as at the end of the year under review.

Comments of the Council

Requests have been made for vacant positions and excess staffs have been assigned to vacant positions.

Recommendation

Necessary steps should be taken to fill the vacancy and excess staff should be approved.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation

Although the Internal Audit Department had initiated the preparation and implementation of recommendations to improve institutional operational processes and enhance performance in accordance with Section 40 of the National Audit Act No. 19 of 2018 and Financial Regulations 133(1), it had not been carried out systematically to cover all the functions of the Council.

Comments of the Council

Relevant steps will be taken to conduct a proper internal audit.

Recommendation

Recommendations for improving organizational operational processes and enhancing performance should be formulated and implemented in accordance with the National Audit Act.

4.2 Audit Committee

Audit Observation

In accordance with the Internal Audit Guidelines Circular No. DMA/01–2019 dated 12 January 2019 of the Department of Management Audit, the Sabha had not established Audit and Management Committees and held committee meetings during the year under review.

Comments of the Council

That further steps will be taken to establish audit and management committees and hold meetings.

Recommendation

Steps should be taken to initiate procedures and hold meetings for the Audit and Management Committee.

4.3 Environmental issues

Audit Observation

In contradiction to the additional terms and conditions numbered 2.2 and 2.3 of the environmental license, approximately 21 metric tons of non-biodegradable waste generated monthly had been disposed of in an open area, which was causing severe environmental damage. Therefore, the immediate attention of the Sabha should have been directed towards a formal program for the disposal of non-biodegradable waste.

Comments of the Council

I will take steps to prepare a formal program for the disposal of non-biodegradable waste. However, due to a shortage of staff in carrying out these tasks, it is stated that we are facing great difficulty.

Recommendation

Attention should be paid to a waste recycling program.

4.4 Sustainable Development Goals

Audit Observation

The Sabha had not taken sufficient measures to collect the necessary data and provide the necessary financial provisions for achieving the Sustainable Development Goals and Objectives in accordance with the Sustainable Development Act No. 19 of 2017.

Comments of the Council

That we will take action to achieve development goals and objectives, focusing on sustainable development goals.

Recommendation

The Sabha should take action to collect the necessary data and provide the necessary financial provisions to achieve the sustainable development goals and objectives as per the circular.

