Mahiyanganaya Pradeshiya Sabha – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahiyanganaya 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 changes in Net Assets, 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 Mahiyanganaya Pradeshiya Sabha as at 31 December 2024, and of its financial performance 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 regarding the preparation of financial statements

1.6.1 Accounting deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	For the repair of the roof and construction of the fence of the Ayurveda building during the year under review spent Rs.1,927,237 had not been capitalized.	It will be correc in the future.	The accounts must be corrected.
(b)	The value of two industries for which work had not been completed and bills had not been received during the year under review was Rs.2,138,124 had been accounted for under Industrial Debtors and Industrial Creditors.	That it will be corrected in the final accounts of 2025.	-Do-
(c)	The court fine income for the year under review was Rs.2,806,078 and stamp duty income was under-accounted for by Rs. 1,902,170.	That steps will be taken to adjust the accrual base proportionally in 2025.	-Do-
(d)	As at 31st December of the year under review, the outstanding stamp duty revenue was under-accounted for by Rs. 1,891,410.	-Do-	-Do-
(e)	Fixed deposit interest income for the year under review was Rs.30,000 and the interest income on fixed deposits receivable as at 31st December was under-accounted by Rs. 103,750.	When calculating fixed deposit interest, it is calculated according to the relevant number of days and adjustments are made through the accounts in the coming year.	-Do-

(f)	As at 31st December of the year under review, the staff loan balance had been over-accounted by Rs. 602,048.	That necessary adjustments will be made in the financial statements for the year 2025.	The accounts must be corrected.

1.7 Non- Compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc as follows.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 134(3)	Internal audit reports had not been submitted to the Auditor General for over 05 years.	Internal audit reports are submitted to the Auditor General.	Internal audit reports must be submitted to the Auditor General in accordance with financial regulations.
(b)	Local Government Commissioner Circular No. 1980/46 dated 31st December 1980	Although a new assessment should be obtained at least once every 5 years when leasing out shops and the rent should be charged accordingly, the Council has not done so in relation to the 298 existing shops owned by the Council and has been charging a rent determined by the Council.	Since the shop rent has been found to be high according to the valuation report, the shop owners have refused to pay the rent. It is said that the shop rent will be revised and collected after considering appeals in the future.	Shop rents should be revised and collected on a timely basis.

2. Financial review

2.1 Financial results

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. 15,991,808 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 11,399,724 in the preceding year.

2.2 Revenue Administration

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

The information on estimated income, billed income, collected income and arrears of income submitted by the Council Secretary for the year under review and the previous year is shown below.

	Source of Revenue	2024 Estimated Revenue	2024 Revenue billed	2024 Revenue collected	2024 Total Arrears as at 31 December	2023 Estimated Revenue	2023 Revenue billed	2023 Revenue collected	2023 Total deficit as of December 31
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	5,051,655	4,442,445	3,247,291	3,202,766	5,086,655	4,537,638	3,493,232	3,198,178
(ii)	Rent	47,555,038	28,755,962	27,344,264	21,468,603	43,886,144	24,157,424	14,327,293	22,754,535
(iii)	License fees	1,651,000	1,570,403	1,570,403	-	1,578,270	1,549,830	1,549,830	-
(iv)	Other Revenue	22,211,254	27,278,834	23,877,744	5,529,955	13,352,702	17,180,240	15,169,306	2,969,458
		76,468,947	62,047,644	56,039,702	30,201,324	63,903,771	47,425,132	34,539,661	28,922,171

2.2.2 Performance in Revenue Collection

The following are observations regarding the revenue collection performance of the council.

	Audit Observation	Comments of the council	Recommendation
(a)	As at 31st December 2024, action had not been taken in accordance with the terms of the lease agreements regarding the outstanding rent of Rs. 383,875 from 30 shops belonging to the council, which had not been collected for a period of 05 months to 03 years.	It will take steps to collect outstanding shop rents in the future and take legal action against shop owners who do not pay.	The rent of the arrears shops should be collected.
(b)	The assessment tax revenue in arrears as on 01st of January of the year under review was Rs. 3,198,178, of which only Rs. 1,051,477 had been collected during the year. This was 33 percent as a percentage of the total arrears.	Rs. 1,051,477 has been collected from arrears of assessment taxes, and the balance will be collected in the year 2025.	Arrears of assessed tax revenue should be collected.

(c)	The outstanding water charges as on 01 January of the year under review were Rs. 2,025,086, of which only Rs. 342,226 had been collected during the year. This was 17 percent of the total arrears.	Efforts are being made to raise awareness among consumers regarding outstanding water charges and to collect them, and to disconnect the water supply of non-paying consumers.	The outstanding water charges should be recovered.

3. Operational review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Although the Council should not sell or sub-lease the shop or part of it to another party without the approval of the Council, according to the lease agreements entered into with the lessees when leasing the shop premises,There were 9 instances where the original lessee had sub-leased the shop premises to another party without the approval of the council, and the council had not taken the necessary action against it in accordance with the agreements.	Necessary action will be taken in the future regarding shops leased without approval.	Agreements must be followed.
(b)	According to the lease agreements entered into between the council and the lessees, no additional construction was allowed on the buildings without the council's permission.There were 12 cases where tenants had illegally constructed upper floors of shops, even though no removal or new additions were required.	Inspect the relevant shops and verify their legality., that will be resolved.	-Do-

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The Vidanagamage Shopping Complex, which has been built on land belonging to the council, has a total of 31 shops, 20 on the upper floor and 11 on the ground floor.People have been engaged in trading activities in those stalls since 2012. Out of these 31 stalls, 27 stalls had not entered into agreements with the council.	In the future, after bringing in shop owners, discussing and reaching an agreement, agreements will be made and shop rents will be collected correctly.	Shops should be leased under formal agreements and rent should be collected.

(b)	The public market, which was built at private expense at the site of the public market stalls in the center of Mahiyangana town, belonged to the council and consisted of 20 ground floor stalls and 20 upper floor stalls. While a monthly rent of Rs. 250 was being charged from the upper floor stalls, no rent was being charged as per the agreements with the ground floor stall owners. Although the stalls were being used for trading activities since 2014, almost 10 years had passed up to 31 December 2024, no appropriate action had been taken.	Since the new shop rent assessment has become high, action will be taken to charge a revised shop rent, taking into account the appeals of the tenants.	Shop rent should be revised and collected on a timely basis.
(c)	The area near the Budhdhagayawa, measuring 0.91 hectares, belonging to the Mahiyangana Rajamaha Viharaya, had been acquired by the Pradeshiya Sabha on a lease basis under lease agreements from 2012 to 2024 and had been tendered annually and leased as the Mahiyangana Budhdhagaya weekly market. In respect of the years 2021, 2022 and 2024, a lease income of Rs. 8,749,431 had not been collected from the tenants who had leased the Mahiyangana weekly market land up to 31 December 2024.	It is expected that legal action will be taken to recover the outstanding rent for the years 2021 and 2022.	Arrears of rent must be collected.
(d)	As at 31st December of the year under review, the backhoe loader, rock roller and motor grader had been used for 205.58 hours and the arrears of Rs. 1,074,050 had not been collected in the years 2021 and 2024.	Arrangements have already been made for the collection of arrears. At present, when machinery is rented, agreements are made and deposits are taken and paid.	Arrears in machine rental income should be recovered.
(e)	As at 31^{st} December of the year under review, outstanding assessment fees of Rs. 3,202,766 had not been collected from 2080 assessment units, and assessments had been collected for the last time based on the assessment of the year 2012.	Requests have been made to the Valuation Department for a shop valuation.	The assessment should be carried out promptly and the assessed tax should be collected.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
As at 31st December of the year under review, the annual amount of biodegradable waste collected in the council area was 468 metric tons and nearly 108 metric tons of non-biodegradable waste. Eight years before the year under review, a permanent garbage yard was constructed by allocating a land of about 05 acres in Dehigolla village, Mahiyangana for waste recycling activities at a cost of Rs. 16,203,454 an office building had been constructed and the necessary electrical connections for the buildings had also been obtained. However, the relevant project had now been abandoned as an idle asset.	That steps are being taken to allocate the Dehigolla garbage dump land for the operation of an agricultural farm.	The property belonging to the council should be used for productive purposes.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
Estimated income and expenditure according to the budget prepared by the Pradeshiya Sabha for the year under review, when comparing the actual income and expenditure for the year, there was a variation of 29 percent to 80 percent in 05 income items and 27 percent to 57 percent in 05 expenditure items. Accordingly, the budget document had not been used as an effective control instrument.	Efforts will be made to keep the budget variance in 2025 to a minimum.	Variability should be minimized.

4.2 Environmental Problems

Audit Observation	Comments of the Council	Recommendation
In 2021, a garbage dump was constructed in the area where the Dodamwatte Cemetery is located under the Provincial Council's Standard-Based Development Program at a cost of Rs. 38,284,828. However, due to the irregular disposal of biodegradable and non-biodegradable garbage and the dumping of sewage at the site, there was a risk that the mixed wastewater would be washed away during the rainy season and join the Mahaweli River flowing near the garbage dump.	Garbage is collected separately from biodegradable and non-biodegradable waste, and plans are underway to construct a gully processing unit.	Garbage should be disposed of in a proper manner.