

## **Mawanella Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Mawanella Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations 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. 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 accompanying financial statements give a true and fair view of the financial position of the Mawanella Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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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**

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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 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 **Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)**

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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 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

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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 Act.
- (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 Act.

## 1.6 Audit Observations on the preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the Council	Recommendation
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When allotting lands at the divisional area of the Sabha, 09 plots of land valued at Rs.6,875,000 allocated to the Sabha for public facilities had not been capitalized.	Informed that the value of these 09 plots of land will be capitalized in the final accounts for the year 2021.	Lands belonging to the Sabha should be capitalized.

### 1.6.2 Unreconciled Control Accounts

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Audit Observation	Comments of the Council	Recommendation
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There was a difference of Rs. 311,461 since the value as per the financial statements pertaining to 02 account subjects was amounted to Rs.109,799,630 and Rs.109,554,279 as per the schedules.	Action is being taken to rectify the difference in the employees' loan account by now and informed that the Provincial Council creditor balance and the Provincial Council current account balance have been shown as the total value.	Balances stated in the financial statements should be compared with the relevant supporting documents.

## 1.7 Non Compliances

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

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The instances of non-compliance with the provisions of the laws, rules, regulations and management decisions were given below.

References to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Council	Recommendation
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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Financial Regulation 571(3)	Action had not been taken in terms of the referred regulations regarding non-refundable contract agreement deposits, meat/fish stall and entertainment tax deposits amounting to Rs.1,253,375.	Informed that action will be taken regarding these matters in the future.	Should act as per the Financial regulations.
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## 2. Financial Review

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### 2.1 Financial Result

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.200,260,359 as compared with the excess of revenue over recurrent expenditure amounted to Rs.124,649,146 in the preceding year.

### 2.2 Revenue Administration

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Performance in Revenue Collection

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Audit Observation	Comments of the Council	Recommendation
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(a) Rates and Taxes		
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(i) The outstanding rates and tax balance at the end of the year under review was amounted to Rs.11,617,565 and action had not been taken to recover these balances.	Informed that there has been some delay in the recovery due to the Corona pandemic that has prevailed throughout the year 2020 and all efforts will be made during this year to recover with the arrears of rates and to reach to the optimum level of rates and taxes.	Action should be taken in accordance with the Act and the arrears of rates should be recovered.

(ii)	The outstanding acreage tax balance at the end of the year under review was amounted to Rs.189,217.	Informed that there has been a reduction in the collection of these revenues due to the Corona situation that has prevailed in the country for about two years.	Action should be taken to recover the arrears of acreage tax.
(b)	Rent ----- Action had not been taken to recover the outstanding rentals of Rs.12,618,066 at the end of the year under review.	Informed that further investigations will be carried out in the future.	Action should be taken as per the Act and recover the outstanding rent.
(c)	Court Fines ----- The balance of court fines due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2020 was amounted to Rs.15,165,945. Even though the Provincial Council had been informed through regular letters to obtain this money, it had not been received.	Informed that the Provincial Council has been informed through regular letters to recover the court fines and stamp duty.	Action should be taken to recover the revenue due to the Council.

### 3. Operational Review

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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 Operational Inefficiencies

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Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Even though 24 rent-based shops in the new weekly fair building on Mawanella Baladaksha Mawatha had been closed, an incorrect income of Rs.2,153,520 had been recorded in the accounts due to continuous billing.	Informed that it will be forwarded to the general meeting in March 2021 to take necessary action to recover the new weekly fair stall rent and take back non-contracted stalls.	Necessary actions should be taken to earn income.

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| (b) | Lot No. 03 of the Bulugollewatta and Dellagahamula Watta land bearing plan No. 10217A/2016 had not been permitted for development and this swampy land had been confirmed as unsuitable for construction as per the recommendations given by the National Building Research Organization. However, that part had been sold and a house had been built there and there was no proper supervision of the Council in this regard.   | Informed that a permit has been issued only for the development of the land and approval has not been granted to carry out any construction.   | The Council should take appropriate action regarding illegal activities.  |
| (c) | While the block sale of Wagollahena land bearing plan No. 9806/2015, the access road and drainage system for 5 plots and the adjoining drainage system for 8 plots had not been constructed and the adjoining drainage system for 6 plots had been constructed with defects. Accordingly, the primary conditions 4.3 of National Building Research Organization had not been implemented and bio fence or formal retaining wall had not been constructed to minimize bank erosion as recommended in 5.3.1 of it.   | Informed that this matter will be considered after submitting for the approval of the Sabha once again for the construction of buildings when carrying out constructions in land lots. | Should comply with the terms and recommendations of the National Building Research Organization.                              |
| (d) | When selling the plots of the land bearing plan No. 9655/2015, development activities had been permitted disregarding conditions, conclusions and recommendations of the National Building Research Organization and despite the recommendation of the Technical Officer that Lot No. 54 was not suitable for development, it had been displayed that the land had been sold. Action had not been taken in terms of the Conditions Nos. 07, 14 and 15 of the Urban Development Authority and Conditions Nos. 07 and 2.2 of the Central Environmental Authority in this regard. Accordingly, plots 1 to 39 of the land had been sold without the recommendations of the relevant institutions and as the total land is more than 01 hectare, the plots of land to be transferred to the Council for public purposes had not been transferred. | Informed that the approval had been granted only for the development of plots of land and that there was nothing that could be done by the Sabha to rectify the shortcomings.          | Action should be taken as per the conditions, conclusions and recommendations of the National Building Research Organization. |

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

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Audit Observation -----	Comments of the Council -----	Recommendation -----
Since the new weekly fair had not been constructed in an area that would be easily accessible to the public, buildings valued at Rs.5,111,180 remained idle.	Informed that special attention will be paid to this matter in the future as pointed out by the audit.	Assets should be utilized effectively.

### 3.3 Assets Management

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Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) In case of more than 01 hectare of land block for sale in the Sabha area, land with an extent of 01 acre, 02 roods and 24.38 perches to be allotted to the Sabha for public facilities had not been taken over legally.	The relevant companies have been informed to take over the relevant land plots and informed that special attention will be paid to this work in future.	Action should be taken to acquire lands to be allocated to the Sabha for public facilities.
(b) While the sale of plots of the land bearing plan No. 3700 in Bulugollahena Gondiwela, unauthorized acquisition had been allowed as no security fence had been constructed for 39.9 perches of land allotted to the Sabha for public purposes.	Informed that action would be taken to fence off the section reserved for public works and take over to the Council in the future.	Action should be taken to ensure the security of the assets of the Sabha.