

## **Mawathagama Pradeshiya Sabha - 2021**

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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 Mawathagama Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, and cash flow statement including a summary of significant accounting policies and other explanatory 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 Sub-section 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Mawathagama Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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

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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**

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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 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 Sub-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.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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 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

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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 are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(d)(iv) of the National Audit Act, No. 19 of 2018.

## 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	Comment of the Sabha	Recommendation
(a) Since the 09 industrial creditor balances worth Rs. 4,457,821 paid during the preceding years had been stated as re-payables, creditors and capital expenditure had been overstated by that amount in the financial statements.	Corrections will be made in the ensuing year.	Accuracy should be ensured in accounting.
(b) The value of 02 industrial creditor balances payable as at 31 December of the year under review had been understated by Rs. 4,526,626 and an amount of Rs. 11,396,889 payable for the construction of 02 <sup>nd</sup> phase of the Mawathagama bus stand had been twice stated in the financial statements as the industrial creditors.		
(c) Even though 05 industries worth Rs. 1,124,400 on the provision of the year 2019 had not been implemented up to the year 2021, it had been brought to account as an implemented industry. As action had not been taken to correct that error even in the year 2021, industrial creditors had been overstated and accumulated fund account had been understated by that amount in the financial statements.		
(d) Expenditure of Rs.160,000 incurred on the development of lands and buildings during the year under review had been understated in the financial statements.		

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 31,592,419 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 25,025,832.

### 2.2 Revenue Administration

#### 2.2.1 Rates and Taxes

Audit Observation	Comment of the Sabha	Recommendation
The arrears of Rates to be recovered from 4,708 units as at 31 December 2021 was Rs. 1,719,891.	A part of the arrears has been recovered. Action is being taken to recover the total arrears in the future.	Action should be taken to recover the revenue in arrears expeditiously.

## 3. Operating Review

### Performance

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

### 3.1 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Having obtained a development licence in January 2020, a private company had developed a land containing 03 acres 02 roods and 36.55 perches. The land of about 60 perches to be received by the Sabha for the public purposes from this land had not been given to the Sabha. Further, roads, drains and culverts had not been properly constructed. Although it has been informed to remove the safety wall built with the cement blocks around this auctioned land and construct a concrete wall, this auctioneer had not followed those instructions.	It is informed that action has been taken to refer the deed relating to the common portion of the land for registration. The relevant institution has been informed to construct the concrete wall and it has been stated in writing that the legal action will be taken if the relevant task is not carried out.	Having obtained the lands to be received for the public purposes and after the implementation of recommendations made by the Sabha on the infrastructure facilities, approval should be given to sell the lands by issuing the Certificate of Conformity.

### 3.2 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
<p>The Paragahadeniya Veewiwatta land owned by the Sabha is about 04 acres, 03 roods, 32 perches, and a slaughterhouse, a playground, a clinic center and a pre-school had been constructed on the land. Due to failure to ensure the protection of this land, an outside party had encroached the land of the Sabha near the slaughterhouse and erected a fence. It was further observed that an unauthorized shop had been constructed by encroaching about 02 perches of this land owned by the Sabha near the Kandy-Kurunegala road.</p>	<p>It is kindly informed that a reminder had been referred to the Divisional Secretary on 05 April 2022 making request to expedite the land transfer activities.</p>	<p>Action should be taken to use the land by ensuring the ownership of the relevant land.</p>

### 3.3 Apparent Irregularities

Audit Observation	Comment of the Sabha	Recommendation
<p>The auction of the Daisymount land had been carried out in 1997 in 08 phases and the extent of the land auctioned was 29 acres 15 roods 882 perches. Although a total of 546 perches of land should have been obtained from this land auction for public purposes, it was observed at the physical audit test check conducted on 10 March 2022 that no common land had been obtained from this land auction. It was observed that a community hall and a playground had been constructed by obtaining a plot of land of about 20 perches on a request made to the finance company.</p>	<p>It is informed that action will be taken to search old files and inform the relevant institutions to find out deeds and further, to bring the deeds relating to the common lands of the lands currently being divided into blocks.</p>	<p>Action should be taken to obtain the common plots of lands to be obtained from the auctioned lands.</p>