

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahawa Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial operations, statement of changes in equity, 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 the Provisions 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 Mahawa Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities

1.2 Basis for Qualified Opinion

I express qualified opinion 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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities, 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)

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

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 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

Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
A sum of Rs.76,900, the 10 per cent retention value to be paid for the project of quarrying the road to Rajamaha Vihara, Gurugoda, carried out in the year 2021 under the Provincial Specific Development Grants had not been accounted for under industrial creditors as at 31 December of the year under review.	That will be corrected in the financial statement of the year 2023 .	It should be accurately accounted for.

1.7 Non –compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Section 158 (i) of the Pradeshiya Sabha Act No. 15 of 1987	No action was taken to recover the arrears of rates balance of Rs.4500 in excess of one year in outstanding balances and Rs.7, 407 arrears of acreage tax.	Red notices have been issued to recover the arrears.	Actions should be taken as per the instructions in the relevant Section.
(b) Pradeshiya Sabha (Finance and Administration) Rules, 1988 (i) Rule 218	Although a verification should be carried out on fixed assets including land and buildings annually, it had not been so done.	A survey will be formally conducted in the future	Actions should be taken as per relevant instructions in Rules.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulations 571	A number of 175 lapsed deposits valued at Rs.2,589,413 had not been taken to income.	The deposit releases are being carried out.	Actions should be taken in terms of Regulations.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2022 was Rs. 6,387,653 and the income exceeding the recurrent expenditure of the preceding year was Rs. 25,281,032 .

2.2 Revenue Administration

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

The estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	Year 2022				Year 2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December (from billed income)	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December (from billed income)
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000.
Rates and Taxes	5,432	5,520	4,138	1,382	5,432	5,062	3,500	1,562
Rents	20,201	12,134	8,456	3,678	19,712	8,186	8,186	-
License Fees	830	545	545	-	918	568	568	-
Other Income	8370,	15,565	724	14,841	16,011	9712	1483	8,229
Total	34,833	33,764	13,863	19,901	42,073	23,528	13,737	9,791

2.2.2 Performance on Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) The estimated income was Rs. 106.8 million, the billed income was Rs. 33.7 million and the collected income was Rs. 13.8 million In the year under review and a sum of Rs.19.9 million of the billed income, remained to be recovered by 31 December of the year under review.	Arrangements are being made to make aware, submissions to Conciliation Board and to carryout court proceedings to recover arrears.	Actions should be taken to recover arrears promptly.
(b) Rates and Taxes Actions had not been taken to collect Rs. 1.4 million from the rates and tax income related to the year.	Legal actions are being taken regarding arrears of taxes.	Actions should be taken to collect arrears of rates and taxes promptly.
(c) Rents An arrears of lease rent amounted to Rs.2,601,734 and arrears of shop rent amounted to Rs.1,925,840 in relation to the year under review and previous years had to be received even by 31 December of the year under review.	Arrangements are being made to recover arrears of rent during the year under review, in the current year and legal actions are being taken in respect of some rent arrears.	Actions should be taken to recover arrears of rent promptly.
(d) Court Fines and Stamp Duties The court fines and stamp duties receivable as at 31 December 2022 from the Chief Secretary of the Provincial Council and other authorities were Rs.13,095,130 and Rs.17,012,974 respectively.	Collection of court fines and stamp duty receivable are being done by now.	Actions should be taken to collect of court fines and stamp duty promptly.

3. Operational Review

3.1 Performing of Tasks set by the Act

The matters observed in respect of executing of functions that should have been performed by the Sabha such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 3 of the Pradeshiya Sabha Act are as follows.

Audit Observation	Comments of the Sabha	Recommendation
By-laws Although By-laws could have been enacted to fulfil 30 main tasks , under Section 126 of the Local Council Act, the Sabha had not enacted By-laws on any of the task even by 31 December 2022 .	By-laws have not been enacted during the year under review and only the Standard By-laws have been adopted.	Actions should be taken to identify opportunities for the sabha to generate income and enact By-laws.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the rate should be assessed once in every 5 years, there was no assessment of rate in the Sabha area after the year 2012 .	Arrangements will be made to re-assess the properties.	The assessment of rates should be done promptly.
(b) There was a receivable balance of Rs.64,325,638 in 13 accounts receivable balance items as at 31 December of the year under review and, out of which Rs.844,521 was a balance of more than 5 years related to 7 items.	Arrangements are being made to recover the outstanding balances by now.	Actions should be taken to collect receivables promptly.

(c) There was a payable balance of Rs.27,820,588 relating to 15 items as at 31 December of the year under review and out of which, Rs.844,521 was a balance of more than 5 years related to 7 items.	Arrangements will be made to settle balances of accounts payable in the future.	Actions should be taken to settle outstanding balances.
(d) The value of 04 cemeteries and the value of a plot of land entrusted to the Sabha had not been assessed and accounted for.	Arrangements will be made to assess in the year 2023 and to be adjusted to accounts in the future.	It should be accurately accounted for.
(e) The value of goods which were not inventoried had not been recognized and accounted for as per Board of Survey Reports dated 31 December 2022 .	This will be adjusted through the accounts of the year 2023 .	-do-

3.3 Human Resource Management

Audit Observation	Comments of the Sabha	Recommendation
There was a employee loan balance of Rs.222,644 for which was irrecoverable in respect of 8 employees as at the last date of the year under review.	The Local Government Department has been informed in writing seeking advice on writing off the loans of these employees.	Actions should be taken to recover the loan balances.

3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Actions had not been taken to transfer 10 lands valued at Rs.186,277,627 to the Sabha.	Land acquisition activities are being carried out by now.	Actions should be taken to take over the respective lands to the Sabha.

(b) There were 38 lands and public wells which were not taken over and the value cannot be ascertained as at the last date of the year under review.	The necessary activities are being done to carry out identification.	Necessary activities should be done to identify the properties owned by the Sabha.
(c) Actions had not been taken to clearly identify 02 vehicles and 04 lands used by the Sabha with a value of Rs.2,400,000 and hand them over to the Sabha.	Actions will be taken to carry out settlement activities of these two vehicles and land in the future.	Related activities should be done to take over assets.
(d) Registers of fixed assets had not been maintained for furniture and fixtures, machines and machinery and computer accessories.	Necessary arrangements will be made to maintain fixed asset registers.	Fixed asset registers should be maintained.

3.5 Idle and Underutilized Assets

Audit Observation	Comments of the Sabha	Recommendation
(a) Two tractors in possession of the Sabha valued at Rs. 525,000 had remained inactive on the Pilisaru Centre premises.	The letters have been sent seeking advice from the Local Government Department to dispose of the vehicles.	Assets should be utilized optimally.
(b) There were 216 tube wells belonging to the Sabha and of which, 159 were inactive.	The maintenance activities are carried out according to the requests received from the people.	Maintenance should be done and used.

4. Accountability and Good Governance

Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
There was a variation of 40 to 64 per cent between the estimated and actual income of 03 Income Heads and there was more than 40 per cent variation between the estimated provision and the actual expenditure in 42 Expenditure Heads. Further, the entire provision of estimated provision of 40 expenditure items had been saved without being made any expenditure.	Actions will be taken to use the Budget effectively for the year 2023 .	The Budget should be prepared realistically.