

**Medawachchiya Pradeshiya Sabha  
Anuradhapura District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year 2018 had been presented to the Audit 02 April 2019 and the summary report of the Auditor General relating to those financial statements had been submitted to the Chairman on 31 May 2019 and the detailed management audit report had been submitted on 12 June 2019.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of this report, the accompanying financial statements give a true and fair view of the financial position of the Medawachchiya Pradeshiya Sabha as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Basis for Qualified Opinion**

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**(a) Accounting Deficiencies**

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	Audit Observation	Recommendation	Comments of the Accounting Officer
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(i)	Although the billed rates and tax income for the year under review amounted to Rs. 2,590,040, it had been stated at Rs. 2,322,613 according to the Income and Expenditure Account. Accordingly, a sum of Rs.267,427 had been understated in the account.	Revenue for the year under review should be properly stated in the financial statements.	According to the P.S.04, the rates and taxes income of the year is Rs. 2,322,613
(ii)	Although the billed public toilet tax revenue for the year under review was Rs. 570,000, , it had been stated at Rs. 191,250 according to the Income and Expenditure Account. Accordingly, a sum of Rs. 378,750 had been understated in the account.	Revenue for the year under review should be properly stated in the financial statements.	This difference was caused by errors in the report of the P.S. 04 in the monthly recovery of billed income of Rs 570,000 for the year under review. I will ensure not to repeat this error in the future.

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| (iii)  | Although the billed tender lease rent and weekly fair revenue for the year under review was Rs. 703,230, it had been stated at Rs. 4,211,226 in the Income and Expenditure Account. Accordingly, a sum of Rs. 492,004 had been understated in the account. | Revenue for the year under review should be properly stated in the financial statements.                                | In case of a change of head in the income register P.S.04, sums of Rs. 492004.00 had not been recorded in the heads and please note that this change was occurred due to a correcting that mistake.   |
| (iv)   | Stamp Duty Revenue was not identified or estimated and accounted for as at December 31, the year under review.   | Stamp duty revenues for the year should be identified or estimated and presented correctly in the financial statements. | Accepted<br><b>Revenue relating to the year under review will be identified and account for.</b>  |
| (v)    | Other Income billed during the year under review was Rs. 670,477, whereas it had been stated at Rs.880,458 in the Income and Expenditure Account. Accordingly, a sum of Rs.209,981 had been overstated.  | Revenue relating to the financial year should be properly stated in the financial statements.                           | This difference has been caused due to changing revenue heads when writing P.S.04. Steps will be taken to account for future revenues on the same head.   |
| (vi)   | Stamp Duty amounting to Rs. 202,585 recovered during the year under review had not been stated as a liability payable to the Commissioner of Inland Revenue.   | The liabilities should be recognized and accurately stated in the financial statements.                                 | This amount has been brought to the income and repaid to the Commissioner General of Inland Revenue correctly on a quarterly basis. This transaction will be correctly brought to account henceforth. |
| (vii)  | A sum of Rs.1,302,352 of interest for the year under review for loans borrowed from the Local Loans and Development Fund had not been shown as an expenditure in the Income and Expenditure Account.   | Loan installments and related interest payments should be accurately identified and accounted for.                      | Accepted . Action will be taken to identify and account for the yearly installment payments and interest payments separately.   |
| (viii) | Employees' pensions and gratuity expenditure for the year under  | Expenditures relating to the financial year and   | The local government pensions, pensions and   |

review amounted to Rs. 48,444 had not been accounted for in the Income and Expenditure Account. Similarly, Rs.1,356,742 of employee pension and gratuity expenses payable as at December 31 had not been shown in the balance sheet as at December 31.

the liability of the balance sheet date should be accurately calculated.

gratuity expenses will be accounted for as expenses (as a creditor) and action will be taken to pay the arrears in installments and to properly pay the monthly installments.

(ix) The unpaid bills of eight projects completed in 2017 amounted to Rs. 2,447,475 had been brought to account as a capital expenditure of the year under review.

Only the expenditures relating to the financial year should be included in the Income and Expenditure account and the expenditure related to previous years should be identified and adjusted.

Accepted.

These balances have not been identified as creditors as at 31.12.2017 and I will correct the mistake.

(x) Deposits amounting to Rs. 80,508 relating to the removed shops at the Public Market and the deposit of Rs.7,874,075.for the shops of the Pura Neguma trade complex had not been stated as liability in the balance sheet as 31 December of the year under review.

All liabilities should be correctly calculated and shown on the balance sheet date.

Accepted. This will be corrected.

(xi) Despite being stated the value of Industrial cash in hand amounting to Rs. 1,946,334 as at 31 December of the year under review as the othrt deposits, that value had been stated as the Industrial Debrots.

The liabilities had been stated twice in the accounts and this should be adjusted and corrected.

Accept. This will be corrected in the future.

(b) Unreconciled Accounts  
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Audit Observation  
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Recommendation  
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Comments of the  
Accounting Officer  
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(i) According to the relevant documents, the value of 05 items of accounts as at 31 December 2018 amounted to Rs. 2,797,831

Action should be taken to reconcile differences of the relevant balances and correct the accounts.

Accepted.

The balance of the relevant documents and financial statements has been changed

and it had been stated at Rs. 12,149,762 in the financial statements. Accordingly, a total difference of Rs. 9,351,931 was observed.

due to the lack of accurate information in the relevant documents and omissions.

- (ii) A sum of Rs. 28,681,424 had been stated in the final account in respect of 02 items of account as at 31 December 2018 and according to the relevant schedule, that balance amounted to Rs. 50,778,291. Accordingly, a total difference of Rs. 22,293,149 was observed.

Action should be taken to reconcile differences of the relevant balances and correct the accounts.

Accepted.

Action will be taken to rectify the changes in the schedules relating to the balances specified in the final account.

- (iii). Although the domestic debt fund balance as at 31 December 2018 was Rs.13,166,875, it had been stated at Rs.11,711,648 in the balance sheet. Accordingly, a difference of Rs. 1,455,227 was observed.

The relevant changes should be identified and corrected.

The balance of the domestic debt fund account is greater than the balance sheet of the domestic debt fund since interest is not accounted for separately with the loan amount. Action will be taken to correct those mistakes when re-setting the accounts.

(c) Accounts Receivable and Payable

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(i) Eight receivable accounts balances amounting to Rs. 19,030,983 which had been brought forward exceeding 05 years as at December 31 of the year under review had not been recovered.	Action should be taken to recover the balances due.	Information on this matter is looking for and these balances will be settled by next year.
(ii) Five payable accounts balances amounting to Rs. 1,062,284 which had continued to exist exceeding a period of 09 years as at December 31 of the year under review had	Action should be taken to settle the payable balances due.	Information on this matter is looking for and this matter will be forwarded to the Minister in charge of the subject through the

not been settled.

Commissioner of Local Government as soon as possible and settle the balance as instructed.

(d) Lack of necessary documentary evidence for audit  
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Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Since asset documents, Title Certificates, Board of Survey Reports and detailed schedules relating to for the 12 item of accounts worth Rs.168,008,715 had not been submitted and they could not be satisfactorily verified in the audit.	Documentary evidence should be forwarded to substantiate the value stated in the financial statements.	Evidence will be furnished along with the accounts 2019.

1.4 Non-compliance  
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Non-compliance with laws, rules, regulations and management decisions  
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Reference to laws, rules, regulations and management decisions. -----	Non-compliance -----	Recommendation -----	Comments of the Accounting Officer -----
(i) Motor Traffic Act No.14 of 1951.	The Taffee tractor and water bowser owned by the council had not been registered.	Action should be taken in accordance with the Act.	Necessary action will be taken to register the vehicles. .
(ii) Section 92 of the Pradeshiya Sabha Act No. 10 of 1987 and Section 18 of (Cap.272) of the Butchers (Amendment) Act No.13 of 2008.	Two cattle slaughter houses were operated without license in private places in the Maha Siyambalagaskada and Muslim Halmillewa areas.	Action should be taken in accordance with the Act.	Beef stalls in Mahasiyambalagaskada and Muslim Halmillewa areas have been tendered in 2018.

- (iii) Pradeshiya Sabhas  
(Financial Administration)  
Rules, 1988

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Rules 217 and 218

The register was not maintained in the form of P.S.46 regarding the land buildings of the Sabha and all land and buildings had not been inspected every year.

Rules should be complied with.1

A register relating to land and buildings is being maintained and necessary action will be taken to assess the lands and buildings as soon as possible and update such register.

- (iv) Financial Regulations of  
the Democratic Socialist  
Republic of Sri Lanka

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F.R. 454(2)

A document had not been maintained on all the buildings and electrical appliances.

Action should be taken in accordance with the Financial regulations.

Even though a document is maintained relating to buildings, not all buildings have been assessed and therefore it cannot be updated.

- (v) Public Administration  
Circulars

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Section 3.1 of the Circular  
No. 30/2016 dated 29  
December 2016

Fuel consumption test had not been performed in respect of 08 vehicles belonging to the Sabha.

Action should be taken in accordance with the Circular.

Accepted. Action is being taken to conduct fuel consumption test relating to the vehicles.

- (vi) Government Procurement  
Procedure and Guidelines

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Section 2.1

While incorporating 20 per cent profit for

Action should be taken in

Employer of this Industry is the Department of Local

the items of goods such as furniture, public address system and curtain valed at Rs. 1,550,950 used for the library in the estimate worth Rs. 5,105,608 of the construction of first floor of the Library of the Pradeshiya Sabha and including inputs relating to two categories in one estimate, the tender had been awarded to a contractor to carry out the construction.

accordance with Guidelines.

Government and Preparation Procurement Technical Evaluation Committee Report too is carried out by it. It is informed that the Secretary of the Pradeshiya Sabha had taken action assuming that the bids presented by the was the lowest bid.

### Section 6.3.3

The Bid Opening Committee of the Pradeshiya Sabha Library's First Floor Construction Project should consist of at least two members approved by the Procurement Committee, but the bids were opened by a Finance Officer of the Department of Local Government.

Action should be taken in accordance with Guidelines.

Employer of this Industry is the Department of Local Government and Preparation Procurement Technical Evaluation Committee Report too is carried out by it. It is informed that the Secretary of the Pradeshiya Sabha had taken action assuming that the bids presented by the was the lowest bid.

(vii) Gazette Notification No. 2045 of the Democratic Socialist Republic of Sri Lanka dated 10 November 2011

No fee of Rs.1,263,950 had been charged for transporting 12639.5 cubes of gravel, sand and stones on roads belonging to the area of authority of Sabha.

Action should be taken according to the gazette notificaion.

Accepted. Action will be taken to correct this and recover the charges.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 320,733 for the year ended 31 December 2018 as against the revenue in excess of the recurrent expenditure amounting to Rs. 8,136,497 for the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Revenue in Arrears

Information on the estimated revenue, billed revenue, collected revenue, and revenue in arrears, presented relating to the year under review and the preceding year, is given below.

Source of Revenue	2018				2017				
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	
(i) Rates and Taxes	2,258,910	2,266,365	2,179,640	1,201,821	2,163,353	2,763,525	3,827,582	1,115,096	
(ii) Rents	13,283,400	6,027,630	6,387,150	2,007,016	9,353,900	10,165,525	7,798,989	2,366,536	
(iii) Licence fees and services	4,776,560	5,178,613	5,178,613	505,700	3,600,900	5,113,661	4,607,961	505,700	
(iv) Other Revenue	2,316,285	2,226,392	7,652,004	2,121,221	3,312,755	3,292,397	503,131	7,546,833	
	<u>22,635,155</u>	<u>15,699,000</u>	<u>21,397,407</u>	<u>5,835,758</u>	<u>18,430,908</u>	<u>21,335,108</u>	<u>16,737,663</u>	<u>11,534,165</u>	

#### 2.2.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) In terms of Rule 33 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988, action had not been taken to collect arrears of assessment tax amounting to Rs. 1,201,821 as at 31 December of the year under review.	Action should be taken to recover the arrears of taxes immediately.	Accepted. Relevant documents have been prepared by now and action will be taken to recover the arrears.
(b) Assessment tax had been levied for the year under review based on the assessment of 2005 and action had not been taken to recover the	According to the circular instructions the property should be assessed once in every five years and rates	Accepted. At the monthly general meeting held on 05.04.2019, Sabha has decided to re-assess



assessments on new constructions carried out during a period of 13 years based on revisions.

should be levied accordingly.

the property and action is being taken accordingly.

### 2.2.3 Rents

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Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Out of the 46 stalls that were given to the Sabha on 20th July 2017 Under the Pura Neguma project by the Department of Local Government, 40 shops had been rented out and as the Sabha had not taken action to supply electricity to the shops, revenue of Rs. 7,015,000 had been lost in the year under review.	The Sabha should promptly provide the necessary electricity connection and other infrastructure facilities and create the conducive environment for the commencement of business.	Accepted. Since electricity has not been provided the shops cannot be opened. Necessary steps have been taken to obtain electricity at present.
(b) Stall rental of Rs. 1,041,843 due from 54 stalls of the Sabha as at 31 December 2018 and arrears of tax due from fish stalls and meat stalls amounting to Rs. 1,037,693 had not been recovered.	Action should be taken to recover the arrears of trade stall rents promptly or to take legal action where necessary	All rentals due for 2018 have been recovered from 54 stalls in the market complex and action is being taken to waive the outstanding balance of Rs. 1042343 over than 05 years.

### 2.2.4 Licence Fees

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Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Action had not been taken to conduct a survey of the billboards in the area and to recover the charges thereon	Action should be taken to conduct surveys at the beginning of the year and to collect charges.	Steps will be taken expeditiously to conduct a survey on the billboards and prepare a document thereon and to recover the charges.
(b) Action had not been taken to conduct a survey on the number of telephone transmission towers erected in the area of authority of Sabha and to recover charges thereon.	Action should be taken to conduct surveys at the beginning of the year and to collect charges.	It has been identified that there are 18 telephone transmission towers within the area of authority and arrangements have already been made to collect the charges.

## 2.2.5 Other Revenue

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## Audit Observation

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Action had not been taken to calculate and recover the amount of stamp duty receivable for the years 2017,2018.

## Recommendation

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Action should be taken to recover stamp duty income immediately.

## Comments of the Accounting Officer

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Accepted.  
Action will be taken to calculate the stamp duty once informed by the Provincial Treasury.

## 03. Operating Review

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## 3.1 Performance

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Matters revealed in 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 to be performed by the Sabha in terms of Section 3 of the Pradeshiya Sabha Act, are as follows.

## (a). By-laws

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## Audit Observation

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In terms of Section 126 of the Pradeshiya Sabha act, by-laws had not been enacted as at 31 December 2018 to fulfill 28 main matters.

## Recommendation

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The Sabha should act to enact by-laws and thereby implement the Pradeshiya Sabha Act.

## Comments of the Accounting Officer

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The by-laws passed by the Provincial Council have been sent for publication in the Gazette.

## (b). Action Plan

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## Audit Observation

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An Action Plan had not been prepared for the year 2018.

## Recommendation

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An Action Plan should be prepared.

## Comments of the Accounting Officer

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All the activities are in progress.

(c) Delays in performing activities  
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Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Since the construction of No.77 Nulana Lindawewa main road under the provisions of Rs.1,000,000 received under the Provincila Specific Development Grants of the year 2018 had not been carried out as at 15 December 2018, provisions had been waived and as a result, a loss of Rs. 440,820 had been incurred to the Sabha Fund.</p>	<p>In the implementation of development projects, the Sabha should work efficiently to complete the projects on the due and agreed date.</p>	<p>We have been informed in writing that the Department of Local Government will provide us with an allocation of Rs.1,000,000 for Provincial Specific Development Grants provisions. But we were informed that the amount would later be reduced to Rs. 500,000.</p>

(d) Sustainable Development Goals  
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Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The Pradeshiya Sabha was unaware of the objectives and targets to be achieved in terms of the United Nations Sustainable Development Agenda 2030 of 2018.</p>	<p>The Sabha must fulfill its duties and functions to achieve the 2030 Sustainable Development Goals.</p>	<p>Sustainable Development Theory 2030 has not been made aware.</p>

3.2 Human Resource Management  
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Audit Observation	Recommendation	Comments of the Accounting Officer
<p>There were 07 vacancies in 04 posts at the primary level, 07 vacancies in the 06 posts at the secondary level and an excess of 02 posts as at 31, December 2018 and 10 casual employees had been recruited.</p>	<p>Operational efficiency should be increased by filling vacancies of the posts.</p>	<p>Ten employees have been recruited in exigency of the service with the approval of the Commissioner of Local Government. One of the two vacant posts is an office worker post. This position has now been</p>

absorbed as an office assistant post.

3.3 Assets Management

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Failure to Document Assets  
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Audit Observation

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No action had been taken to assess and document 18 categories of assets owned by the Sabha in the Fixed Assets Register to be maintained in terms of the Treasury Circular No. 842 of 19 December 1978,

Recommendation

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Fixed assets records should be maintained in an updated manner. All assets owned by the Sabha should be included in the fixed assets register.

Comments of the Accounting Officer

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Fixed assets registers are maintained and necessary steps will be taken to assess those assets and update the registers.

3.4 Irregular Transactions

Audit Observation

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In the year under review, only Rs. 76 cattle slaughtered by the slaughterhouse used for two beef stalls situated at Siyambalagaskada and Moslem Millewa, leased for Rs. 1,903,600. in order to sale meat only in the area of authority of Sabha and 1234 cattle had been slaughtered to transport 105620 kilograms of meat to Colombo. With the use of tender of these two beef stalls, which had been purchased at a very low economic value, the Sabha had allowed the unauthorized trade.

Recommendation

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The Sabha must stop the illegal trade in slaughterhouses for the transportation of meat to other meat stalls and out of the area from the slaughterhouses maintained for the meat stalls that are leased out annually.

Comments of the Accounting Officer

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Permission had been granted to use the slaughterhouses of the two villages- Muslimhalmillawa and Mahasiyambalagaskada to slaughter animals for the above two beef stalls.

### 3.5 Identified Losses

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Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>In forwarding quotation for the supply of 210 equipment belonging to two categories to the library with 20 per cent excessive profit margin and installation of address system relating to overestimate of Rs. 1,627,000, agreement had been entered into by increasing 20 per cent to 40 per cent for the supply of 210 equipment belonging to two categories equipment belonging to two categories and forwarding quotations by decreasing Rs.450,000 or 90 per cent for the address system. Only the 210 units of equipment had been supplied at a cost of Rs.1,550,000 and the address system had not been installed, thus causing a total financial loss of Rs. 1,060,833.</p>	<p>The financial loss should be recovered from the parties who should be responsible for the said loss caused due to negligence.</p>	<p>The procurement for the project was implemented by the Department of Local Government. The Technical Evaluation Committee reports were prepared by the Department of Local Government and the Employer of this work was the Department of Local Government.</p>

### 3.6 Procurement

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#### Procurement Plan

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Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>A Procurement Plan had not been prepared.</p>	<p>A Procurement Plan should be prepared.</p>	<p>Action will be taken to prepare the Procurement Plan in the future.</p>