

Meerigama Pradeshiya Sabha -2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Meerigama Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in net assets/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 Meerigama Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards 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 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 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

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Property Plant and Equipment purchased of Rs.49,850 in the year 2021 had been stated as an expenditure.		
(b) Key money receivable of Rs.46,591,800 as at 31 December 2021 from the stalls in the Commercial Complex near Meerigama railway Station had not been stated as a receivable income.	Actions would be taken to make it correct.	The Accounts should be accurately made.
(c) Library books of Rs.144,270 received as a donation in the year 2020 had been stated as a donation except for stating it as a Capital Grant, therefore the amortization value of Rs.14,427 had not also been stated.	Actions would be taken to make it correct.	The Accounts should be accurately made.

(d) Library Books of Rs.65,615 received in the year under review had been stated in the accounts as an income except for a Capital Grant.

(e) 05 projects completed and total paid off value of Rs.3,785,927 during the year under review had been stated as an expenditure for the year except for stating them as property plant & equipments.

(f) 214 Projects completed within 3 to 10 years but money not reimbursed total value of Rs.17,186,847 had been stated as debtors and Capital Grants in the financial statements for the year under review but that value should not be stated as Creditors and Property Plant and Equipment.

(g) According to the Circular No.LGD/10A/4/28/2021 dated 04 January 2022 of the Commissioner of Provincial Councils, it had been emphasized that, when calculating the value of the fixed assets if the revaluation or the purchase value of furniture and fittings is less than Rs.5,000 it should be removed from the Furniture and Equipment Assets and entered in to the inventory and should be included in the annual board of survey, and those expenses should be treated as recurrent expenditure for that year and the value, recognized as fixed assets, should be clearly included in the notes to the financial statements. But accumulated value of Rs.213,900 of 83 items of assets in the Pradeshiya Sabha had been stated under the Property Plant and Equipment therefore the Property plant and Equipment value and the balance of the Accumulated Fund had been overstated.

Actions would be taken to make it correct when preparing the final accounts for the year 2022.

The Accounts should be accurately made.

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1.6.2 Accounts Receivable and Payable

Audit Observation

According to the age analysis report as at 31 December 2021 balance of the industrial debtors had been Rs.69,840,302. It had not been recovered as at 12 August 2022 by 290 Central Government Projects of Rs.22,353,012, 28 Provincial Council Projects of Rs.1,557,599 in arrears for 1 to 3 years, 43 Central Government Projects of Rs.4,706,807 in arrears for 3 to 5 years and 42 Central Government Projects of Rs.5,039,397 in arrears for 5 to 10 years.

Comment of the Sabha

All the money here from the Central Government should be the 10 percent retention. The amount receivable from the Provincial Councils had been the 10 percent retention under the provisions from the Ministry. The vouchers had been forwarded to obtain the retentions and the debtors could be redeemed after receiving the reimbursements.

Recommendation

Actions should be taken to recover the debtors that could be recoverable after taking necessary procedures to investigate the supplementary documents of the industrial debtors.

1.6.3 Unreconciled Control Accounts

Audit Observation

There was a difference of Rs.280,296 relevant for 03 item of accounts, between the balances as per the financial statements and the balances as per the schedules

Comment of the Sabha

Actions would be taken to make it correct in the future.

Recommendation

Actions should be taken to correct.

1.6.4 Lack of Evidence for Audit

Audit Observation

A balance of Rs.3,730,340 accumulated to 03 items of accounts could not be satisfactorily vouched due to non- rendition of necessary details.

Comment of the Sabha

A balance of Rs.10,340 had been requested to write-off but still not received the approval. A committee had been appointed to make the corrections in documents registers balances of Rs.2,143,000.

Recommendation

The Accounts should be taken to prepare the supplementary schedules and render.

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 2021 amounted to Rs.7,961,000 as compared with the excess of revenue over recurrent expenditure amounted to Rs.65,540,331 in the preceding year.

2.2 Revenue Administration

2.2.1 Rates and Taxes

Audit Observation	Comment of the Sabha	Recommendation
(a) Actions had not been taken to recover the rates in arrears of Rs.8,388,063 regarding 4926 units of rates which included a balance of Rs.3,442,048 regarding 518 units arrears over 10 years, a balance of Rs.1,027,396 regarding 438 units arrears between 5 to 10 years, a balance of Rs.1,106,851 regarding 622 units arrears between 3 to 5 years, a balance of Rs.1,857,345 regarding 1834 units arrears between 1to 3 years, a balance of Rs.954,423 regarding 1514 units arrears less than 1 year.	A difficult situation had been arisen with the Corona pandemic to recover the rates in arrears because the Office Procedures should be limited therefore the formal procedures could not be followed. Actions would be taken to recover the rates as possible as we can during the year 2022.	Actions should be taken to recover the rates in arrears by recognizing the parties which neglected the payment by following a necessary procedures to investigate the rates in arrears.
(b) The rates of Rs.217,052 form Rates No.102/02 at Keenadeniya, Kandalama Road could not be recovered over 02 years because an objection arisen about the rates assessment.	A committee will be appointed to deal with the issue and actions had been taken to recover arrears amount.	Actions should be taken to recover the arrears.

2.2.2 Lease Rent

Audit Observation

The Lease rent (Tendered Stall Rent) at the Meerigama Sub office as at 31 December 2021 had been Rs.1,140,834 according to the age Analysis it was observed that an amount of Rs.842,334 had been arrears between 1 to 3 years.

Comment of the Sabha

The letters had been sent for the lessees who had been arrears between 1 to 3 years. Finance Committee also had been informed about this on 2019.11.30. Actions would be taken to recover.

Recommendation

Actions should be taken to recover the arrears lease rent by recognizing the parties which neglected the payment by following a necessary procedures to investigate the schedules regarding the arrears lease rent.

2.2.3 Stall Rent

Audit Observation

85 stalls without agreements had been remained since over 03 years in the Meerigama Sub-office due to reasons like the death or emigration of former owner not turning the interim lease, not completion of key money.

Comment of the Sabha

35 Stalls out of this had been in the Commercial Complex in the Railway Station. Agreements had not been signed because the key money had not been paid. The recommendation had been obtained by a Committee appointed regarding to write-off a part of the key money and sent for the Commissioner of Provincial Council. Another 05 had been sent for the Commissioner of Provincial Council to turn the interim tax. Actions would be taken to make agreements after receiving the approval. Actions would be taken regarding the rest of the 45 stalls after sending it to the Sabha.

Recommendation

Actions should be taken to make agreements with the lessees without agreements.

3. Operating Review

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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Actions had not been taken according to the Public Administration Circular No.25/2014 to obtain the approval for 56 Employees of the Staff made permanent to the Department of Management Services therefore the salary reimbursements of Rs.2,634,737 could not be received that could be earned for those employees.	The salary and allowances for the permanent employees had been done by the Sabha Fund for the year 2021, and the reimbursements would be received later. But the salary on the permanent employees would not be completely reimbursed by the Public Administration Circular No.25/2014. Therefore an arrears reimbursement had been remained. Arrears reimbursement had been remained for the preceding years also.	Actions should be taken to make inform the Department of Management Services about the permanent employees and make the salary reimbursed according to the Public Administration Circular No.25/2014.
(b) 557 Public Complaints had been received during the year under review but only 266 Complaints had been resolved out of it as at 08 August 2022.	Most of the Public Complaints were regarding dangerous trees. Third memorandum had been sent for most of those complaints and there is a scarcity of provisions therefore actions would be taken to allocate the provisions and make the trees cut down.	Actions should be taken as soon as possible to resolve the Public Complaints

3.2 Human Resources Management

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) An acting Secretary had been appointed instead of appointing a permanent Secretary for the post after the retirement on the 30 November 2019 of the Secretary in the service.	The Vacancies had been reported to the Department of Provincial Councils, Chief Secretary Office and Ministry of Provincial Councils every 03 months within a year through quarter reports.	Actions should be taken fill up the vacancies.

<p>(b) Arrears of employee loan balance as at 31 December 2021 regarding 02 employees had been Rs.365,762 out of it a balance of one loan had been over 04 years of Rs.131,853.</p>	<p>One employee informed that he would be able to pay back his arrears at once he received the money from the Employee Provident Fund for his temporary service period. Inform that money on the other employee had been recovered monthly by the guarantor.</p>	<p>Actions should be taken recover the employee loans.</p>
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3.3 Assets Management

Audit Observation

Actions had not been taken to acquire 16 Public Lands that used on community purposes to the Sabha as at 12 May 2022 and even the value 06 Lands out of it had not been realized.

Comment of the Sabha

Actions would be taken to realize the value of 06 Lands not valued and Actions would be taken as soon as possible to acquire the 16 Lands not acquired.

Recommendation

Actions should be taken acquire the Lands not acquired.