

## **Madulla Pradeshiya Sabha – 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Madulla 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 net assets, 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 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 Madulla 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.

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

I expressed qualified opinion 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 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 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 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   | Comments of the Sabha   | Recommendation  |
|---|---|---|
| (a) During the year under review, the amount of Rs.13,331,465 received for the local development supporting project was not shown as capital receipts in the statement of financial operations and the expenditure of Rs. 14,429,080 was also spent therein had not been included in the statement of financial operations.             | Such mistakes will not be made in the preparation of accounts in the coming years. .  | The income and expenditure of the year under review should be correctly recognized and accounted for. |
| (b) Direct remittances of Rs.109,750 received during the month of December of the year under review were not identified and accounted for.  | Since the direct remittance received in the month of December of the year under review was recognized in the month of March, it was recognized as income in that month. | Direct remittances should be recognized and accounted for in time.                                    |
| (c) Due to the inclusion of the non-refundable initial deposit collected in the leasing of stalls in the public deposit register from the year 2020, the public deposit balance as on December 31 of the reviewed year had been overstated by Rs. 2,543,196 and the income of the reviewed year had been understated by Rs. 1,571,528 . | Action has been taken to identify Rs.1,571,528 currently in the deposit register as income.   | Income and deposit balances should be accurately identified and accounted for.                        |
| (d) As on December 31 of the year under review, the remaining stock of street lighting equipment amounting to Rs.182,255 had not been included in the statement of financial position.  | The stock of street lamps will also be included in the remaining stock in the preparation of future accounts  | Stock values should be accounted for correctly.   |
| (e) During the year under review office equipment and furniture worth Rs.676,109 purchased under local development supporting project , had not been capitalized.   | That value will be added to the value of furniture and equipment in the preparation of accounts in the year 2023.   | Accounts should be prepared correctly.  |

|     |  |   |  |
|-----|--|---|--|
| (f) | Swan boats worth Rs.500,000 purchased for Madulla Children's Park in the year under review had been capitalized twice under machinery and equipment and under land and buildings.  | This error will be corrected in the preparation of accounts for the next year.        | Accounts should be arranged so that double counting errors do not occur.   |
| (g) | During the year under review, 02 industries with total value of completed works of Rs.2,283,541 had not been accounted under property, plant and equipment.  | The industry value will be accounted for in the coming year.                          | The value of the industry completed during the year should be accounted for.   |
| (h) | Rs.2,271,675 capitalized in the year 2021 related to development of the tourist resort belonging to the Predeshiya Sabha, and Rs.698,795 spent for the Kahagolla Bulathwel Ara water project, were recapitalized in the year under review. | The over capitalized amount will be removed in the next year.                         | Accounts should be prepared correctly not to occur double counting errors.   |
| (i) | As on 31st December of the year under review, the sum due for 02 industries of Rs. 498,991, and outstanding shop fines of Rs. 100,092 had not been shown in the statement of financial position.   | That this error will be rectified in the preparation of accounts for the coming year. | Provision should be made for the payables in respect of the year under review and all receivables should be accounted for. |

### 1.6.2 Unauthorized Transactions

| <b>Description of unauthorized transaction</b>  | <b>Comments of the Sabha</b>   | <b>Recommendation</b>                         |
|---|--|---|
| As of December 31, 2022, Rs.108,250, which was paid to officers without formal approval as a 50 percent allowance of environmental protection permit survey fees for the period from 2014 to 2019 and 2021, had not been recovered. | Action will be taken to promptly recover environmental protection permit survey fees paid to officers without approval, in installments. | Allowances must be paid with formal approval. |

### 1.6.3 Documentary Evidences not made available for Audit

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>   | <b>Recommendation</b>   |
|---|--|---|
| The total value is Rs. 442,915,431, in respect of one subject of assets and 02 subjects of liabilities could not be satisfactorily examined during the audit due to non-submission of professional assessors' reports, title deeds and documents. | Action will be taken to carry out professional valuation of land and to keep documents and schedules up-to-date. | Evidence should be submitted to confirm the account balances shown in the financial statements. |

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Below are the instances where laws, rules, regulations and management decisions were not complied with.

| Reference to Laws, Rules Regulations etc.                                      | Non-compliance  | Comments of the Sabha  | Recommendation   |
|--|---|--|--|
| Circular dated 17th August 2010 of the Secretary, Ministry of Power and Energy | According to the registry maintained by the Sabha, although 1276 street lights were installed in the area, there was no contract with the Ceylon Electricity Board regarding street lighting. | It is in the negotiation stage to enter into an agreement with the Ceylon Electricity Board, regarding the lighting of street lights, in the future. | An agreement should be entered into as per the circular. |

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over recurrent revenue of the Sabha for the year ended 31 December of reviewed year amounted to Rs.3,002,306 as against the excess of revenue over recurrent expenditure amounted to Rs. 6,778,709 in the preceding year.

### 2.2 Revenue Administration

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

According to the information presented by the Chairman relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

| Source of Revenue | <u>2022</u>       |                   |                   |                           | <u>2021</u>       |                  |                   |                           |
|-------------------|-------------------|-------------------|-------------------|---------------------------|-------------------|------------------|-------------------|---------------------------|
|                   | Estimated Revenue | Revenue billed    | Revenue Collected | Arrears as at 31 December | Estimated Revenue | Revenue billed   | Revenue Collected | Arrears as at 31 December |
|                   | Rs.               | Rs.               | Rs.               | Rs.                       | Rs.               | Rs.              | Rs.               | Rs.                       |
| Rates and Taxes   | 194,400           | 226,500           | 226,500           | -                         | 194,400           | 156,900          | 156,900           | -                         |
| Rent              | 6,658,931         | 7,048,711         | 6,643,767         | 404,944                   | 19,866,100        | 8,109,700        | 2,177,916         | 5,931,784                 |
| License Fees      | 699,400           | 254,027           | 255,176           | -1,149                    | 769,430           | 211,706          | 196,708           | 14,998                    |
| Other revenue     | 15,266,900        | 10,851,502        | 7,969,816         | 2,881,685                 | 9,043,520         | -                | 10,001,963        | 10,001,963                |
| <b>Total</b>      | <b>22,819,631</b> | <b>18,380,740</b> | <b>15,095,259</b> | <b>3,285,480</b>          | <b>29,873,450</b> | <b>8,478,306</b> | <b>12,533,487</b> | <b>15,948,745</b>         |

### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

| Audit Observation   | Comments of the Sabha   | Recommendation  |
|---|---|---|
| (a) Out of the total billed revenue of Rs.18,380,740 in the year under review, Rs.3,285,480 was uncollected at the end of the year which was 18 percent of the total billed revenue.  | Action will be taken to collect the arrears of income in the future.                                | Arrangements should be made to recover the arrears of income promptly.                |
| (b) Out of the shop rent income of Rs.561,000 to be collected from 28 stalls that were leased in the year under review, the outstanding shop rent of Rs.264,548 had to be collected as of December 31, 2022. It was 47 percent of the total billed revenue. | Arrangements will be made to collect the arrears of shop rent promptly.                             | Arrears of shop rent should be recovered promptly.                                    |
| (c) As on December 31 of the year under review, outstanding water charges of Rs.126,839 due to the Pradeshiya Sabha had not been collected.   | Arrangements will be made to collect the arrears.   | Arrangements should be made to recover the arrears of income promptly.                |
| (d) The court fine which should have been received from the Chief Secretary of the Provincial Council and other authorities on December 31 of the year under review was Rs. 137,167, and stamp duty was Rs.2,452,723.                                       | Arrangements will be made to promptly collect outstanding court fines and stamp duty in the future. | Outstanding stamp duty and court fines should be remitted.                            |
| (e) Arrears of machine rental income of Rs.925,270 due for the period 2017 to 2021 and Rs.588,482 due for the year under review had not been recovered as of February 07, 2023.   | That the arrears of machine rents will be promptly recovered in the future.                         | Arrangements should be made to promptly recover the arrears of machine rental income. |

## 3. Operational Review

### 3.1 Fulfilment of functions assigned by the Act

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.

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>  |
|---|---|--|
| The council had started the solid waste management centre in the year 2020 and by December 31, 2022, the environmental protection license had not been obtained for it. | The Solid Waste Management Center has been inspected by the Central Environment Authority, and since a lot of money is needed to implement the conditions they have presented, the provisions will be fulfilled and working to obtain the environmental permit. | Arrangements should be made to obtain Environmental Protection Permit for solid waste management Centre. |

### 3.2 Operational Inefficiencies

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>  |
|---|---|--|
| According to Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987, the developed areas should be identified and tax should be levied, but the Madulla Pradeshiya Sabha had identified the developed areas in May 2021 and obtained approval from the relevant parties, no assessment tax was levied. | The Magandana-Dambagalle area has been identified and gazetted as a developed area and the approval of the minister incharge of assessment tax has been obtained and the preliminary work is being planned to physically mark the boundaries of the developed area and call for periodic reports. | In respect of developed areas, assessment tax should be declared and charges should be levied. |

### 3.3 Assets Management

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>   | <b>Recommendation</b>  |
|---|--|--|
| (a) The survey of 26 lands of various sizes belonging to the Sabha had not been carried out and legal ownership of 63 lands had not been taken over.  | The letters have been sent to the Madulla Divisional Secretary requesting to take over the legal ownership of the lands and cemetery lands belonging to the Sabha.   | Lands belonging to the Sabha should be surveyed and legal ownership should be obtained.                          |
| (b) The Mahendra cab owned by the sabha has been inactive since December 30, 2021 and was sent to a private garage for repairs. As of 27 April 2023, the cab had not been repaired, although about 16 months had passed since it was referred for repair. | The Provincial Mechanical Director has been informed to come and check and give a recommendation for the repair work of the vehicle, and that the repair work will be carried out as soon as the recommendation is received. | The vehicles owned by the council should be promptly repaired and put to use and their safety should be ensured. |

- (c) The tractor belonging to the Sabha has been inactive since 15th November 2022 and till 27th April 2023 almost 06 months had passed but the tractor had not been repaired.
- Arrangements are being made to call for quotations related to repairs. The repairs will be carried out promptly after the relevant quotations are received.
- The vehicles owned by the sabha should be repaired and put to use as soon as possible.

### 3.4 Human Resources Management

#### Audit Observation

As on December 31 of the year under review, there was an excess of 14 employees over the approved staff in relation to 02 positions in the Sabha and the excess number of employees had not been approved.

#### Comments of the Sabha

At the time of inquiries from the Local Government Department, it was informed that it will be balanced in the future at the ministerial level.

#### Recommendation

Excess of staff, should be approved.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

#### Audit Observation

As there are significant variations between the estimated income and the actual income of the year from 5 percent to 100 percent, and between the estimated expenditure and the actual expenditure of the year from 3 percent to 99 percent in the budget prepared for the year by the Pradeshiya Sabha; the budget was not used as an effective control instrument in controlling the income and expenditure.

#### Comments of the Sabha

Action will be taken to minimize the variation between the estimated income and expenses and the actual income and expenses in the coming years.

#### Recommendation

Budget should be used as an effective control tool so as to minimize variances.