

Medagama Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Medagama 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 reported 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 Medagama 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) 03 equipment worth of Rs. 500,000 which was capitalized Last year, had been recapitalized under land and buildings in the year under review.	The mistake will be corrected during the preparation of the final account of the year 2023	Adjustments should be made to the accounts and the financial statements should be corrected.
(b) The value of the chairs which were purchased in the year under review amounting to Rs.1,599,620 had been accounted for twice under furniture and equipment and under land and buildings.	The mistake will be corrected during the preparation of the final account of the year 2023	Financial statements should be prepared not to create double counting errors.
(c) In the reviewed year, Rs. 8,341,743 spent on 05 construction industries had been understated and Rs.179,834 spent on one industry had been overstated.	The mistake will be corrected during the preparation of the final account of the year 2023	Correct values of assets should be capitalized.
(d) The expenditure of Rs.76,500 incurred during the year under review for obtaining electricity and water connections for the mutton shop, pork shop at Satipola and children's park had not been capitalized.	That the expense will be capitalized and the account will be corrected in the preparation of the final account for the year	Expenses should be correctly entered in the financial statements.
(e) The cost of sound control system worth Rs.767,050 purchased for the conference hall during the year under review was accounted twice under land and buildings and under machinery and equipment.	The mistake will be corrected during the preparation of the final account of the year 2023	Values should be entered in financial statements correctly to avoid double counting errors.
(f) The amount of Rs.100,000 spent on the development of the toilet system in the stadium was stated as Rs.10,000,000 in the statement of financial position.	In preparing the final account of the year 2023, the increased amount will be removed and recorded to correct the account.	Values must be correctly entered in the financial statements.
(g) 02 cases sued by the Sabha to external parties and 02 cases sued against the Sabha by external parties were not disclosed in the financial statements.	The information will be disclosed during the preparation of the final account of the year 2023	Disclosures should be made correctly in preparing financial statements.

1.6.2 Unauthorized Transactions

Audit Observation

An officer of the Sabha had participated in a training course implemented under the United Nations Development Programme, and in relation to that, fifty percent of the course fee amounted to Rs.19,750 had to be borne personally by the trainee had been paid from the fund of Sabha.

Comments of the Sabha

The money will be recovered from the officer's monthly salary in the future.

Recommendation

The fee to be borne personally related to the course should be paid by the concerned officer.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation

The value of the 05 asset subjects with a total value of Rs.1,709,864,049, could not be satisfactorily verified during the audit due to non-submission of the recognized professional Assessors' reports, title deeds, fixed asset registries and the registries of arrears in machine income.

Comments of the Sabha

Action will be taken to assess and settle the lands belonging to the Sabha and update other documents and schedules in the future.

Recommendation

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
(a) Gazette No. 1816/43 dated 28 June 2013 of Democratic Socialist Republic of Sri Lanka	There were 5966 readers registered in 03 libraries owned by the Sabha and the library deposit of Rs.100 which should be collected from them when lending the books had not been collected.	Necessary instructions will be taken in this regard and corrections will be made in the future.	The Pradeshiya Sabha should act according to the by-laws related to libraries that are currently in place.
(b) Section 8 of the Urban Development Authority Act No. 41 of 1978 and Special Gazette No. 1597/8 dated 17 April 2009	137 building plans that had been approved by the Sabha during the period from 2017 to 2021 had not been checked and conformity certificates had not been issued.	36 Conformity certificates have been issued for the approved building plans in the years 2017-2021 and it has been informed to obtain conformity certificates if the	In relation to the approved building plans, the construction should be inspected and certificates of conformity issued.

construction works related to the approved building plans have been completed.

- (c) Circular dated 17th August 2010 of the Secretary, Ministry of Power and Energy According to the street lights registry maintained by the Sabha, although 690 street lights were installed in the Sabha area, there was no contract with the Ceylon Electricity Board regarding street lighting. Our Sabha has not yet entered into any agreement with the Ceylon Electricity Board and the issue has also been submitted to the District Coordination Committee. It should act according to the circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December of the reviewed year amounted to Rs. 11,588,389 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 13,897,043 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.
(i) Rates and Taxes	825,538	1,400,095	1,035,237	364,858	955,538	858,399	591,750	266,648
(ii) Rent	23,900,017	33,162,510	24,373,574	8,788,936	22,568,300	30,248,347	23,592,018	6,656,329
(iii) License Fees	532,320	216,708	216,708	-	733,312	253,628	253,628	-
(iv) Other revenue	17,797,300	9,290,194	6,289,744	3,000,450	21,616,020	7,310,751	5,913,110	1,397,642
Total	43,055,175	44,069,507	31,915,263	12,154,244	45,873,170	38,671,125	30,350,506	8,320,619

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.44,069,507 in the year under review, Rs.12,154,244 was uncollected at the end of the year, which was 27 percent of the total billed revenue.	Necessary steps have been taken to recover the arrears in the future .	Arrangement should be made to collect the billed income for the year by the Sabha.
(b) Out of the tender property tax revenue of Rs.16,733,475 due for the lease of 12 properties owned by the Sabha in the year under review, the outstanding tender tax revenue as on December 31, 2022 was Rs.2,239,152. Also, the percentage of outstanding tender property tax collection at the beginning of the year under review was as low as 7 percent.	Action will be taken to recover the arrears and legal action will be taken.	The arrears due to the Sabha should be recovered promptly.
(c) Out of 143 stalls that were leased in the year under review, the outstanding shop rent as on 31st December 2022 was Rs.2,120,390.	Revenue Inspector and Store Administrator have been informed and arrangements are being made to recover the arrears promptly.	According to the agreement, the arrears due to the Sabha should be recovered promptly.
(d) In the business tax and trade license survey conducted in the year under review, 876 trade businesses were identified to be subject to trade license and business tax and only 363 business units were given business tax and trade license.	Based on the business survey in 2022 and the new business locations identified in 2023, we will continue to increase our tax revenues.	Industries and businesses run by the Sabha, in the area of authority should be regulated.
(e) Rs.368,960 due on December 31 of the year under review by renting 03 machines belonging to the Sabha had not been recovered.	Legal action has been taken to recover the arrears.	Arrangements should be made to recover the arrears of income as soon as possible.
(f) As of December 31 of the year under review, court fines amounting to Rs.69,667, and stamp duty amounting to Rs.1,266,529 were due from the Chief Secretary of the Provincial Council and other authorities.	Action will be taken to recover the relevant arrears promptly.	Arrears of court fines and stamp duty should be collected.

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.

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of 98 activities included in the annual action plan, 70 activities were not completed in the year 2022 and Rs.985,000 was spent for the completion of 06 activities that were not included in the plan.	70 activities included in the action plan could not be implemented in the year 2022 due to the bad economic condition in the country. As some of the roads in the area were washed away due to the heavy rain during that year, road development works were carried out as a matter of urgency according to the requests made by the members of the public and 06 such activities were carried out outside the action plan.	The objectives and activities indicated in the annual action plan should be accomplished during the year.
(b) During the period 2021-2022, Rs.1,114,807 had been spent for the development of the Medagama waste recycling centre belonging to the Pradeshiya Sabha, but it was observed during the physical inspection conducted on September 23, 2022 that compost fertilizer is not being produced and non-biodegradable waste is being disposed of irregularly.	700 kg of compost has been produced at the waste recycling centre belonging to the Medagama Pradeshiya Sabha. It has been referred to the Uva university to check the progress of the compost, but no reply has been received so far. Action will be taken to further formalize these activities in the future.	Arrangement should be made to produce compost and a system should be developed for proper disposal of non-biodegradable waste.
(c) The validity period of 25 environmental protection licenses granted by the Pradeshiya Sabha had expired, but the licenses had not been renewed.	Due to the Corona epidemic in the country since 2019 and the subsequent fuel problem, it was not possible to formally conduct an industry inspection and It is expected to formalize those activities in the future.	The Sabha should regulate the businesses and industries run in the area.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
The value of Medagama bus station building, Monaravana pre-school building and Amunekandura community hall which were established in the lands belonging to the Pradeshiya Sabha had not been assessed and accounted for.	In the preparation of the final account in the year 2023, a provisional assessment of the buildings will be made and those values will be accounted for	The value of assets owned by the Sabha should be assessed and accounted for.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the developed areas were last identified in the year 2015, the attention of the Sabha was not focused on expanding the area where assessment tax can be levied.	The related activities are being carried out to expand the developed areas, and our council is discussing to expand the developed areas by paying the relevant fees either in instalments to the surveying department.	Arrangement should be made to expand the taxable area.
(b) The assessment tax was last assessed in the year 2015 and assessments were not done time to time.	The lists of properties required to be assessed were sent to the assessment department in 2015 and the full assessment report was received by the council in 2020. Subject to the approval of the General Assembly, assessment objections have been called and objection investigations have been completed in the year 2022 and implemented in the year 2023. Therefore, no timely assessment has been done.	Assessment of assessment tax should be done on time.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
On April 27 of the year under review, Rs. 767,050 had been spent on the purchase of a loudspeaker system for the conference hall of Sabha and by January 20, 2023, it had not been installed in the conference hall and the one-year warranty period of the respective loudspeaker system was also being exceeded before being used.	The loudspeaker system is currently being installed.	The assets belongs to the Sabha should be utilized with maximum effectiveness and efficiency.

3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
As on 31st December of the year under review, there was a shortage of 06 employees in relation to 05 positions in the Sabha according to the approved staff, and even by 23rd January 2023, the said vacancies had not been filled.	These shortages are communicated through the monthly staff information report.	Arrangements should be made to fill the staff vacancies.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As there are significant variations between the estimated income and the actual income of the year from 7 percent to 86 percent, and between the estimated expenditure and the actual expenditure of the year from 3 percent to 68 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.	In the year under review, due to the bad economic difficulties in the country, the expected amount of income and receipts was not received, and the amount of expenditure has increased more than the expected amount of expenditure in several expenditure heads. Arrangements will be made to control the budget with proper understanding, regarding income and expenditure so that such variations are minimized in the future.	A proper budget should be prepared and the goals specified in it should be met.