

Monaragala Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Monaragala 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 Monaragala 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) From the year 2018 to the year 2021, the non-refundable shop deposit amount of Rs. 5,443,933 had been included in the general deposit account.	This accounting error had already been corrected.	Accounts should be prepared correctly.
(b) Although the initial deposit amount of the shops related to the reviewed year was Rs.9,250,000, it was accounted as Rs.23,109,706 in the tender shop rental income account.	To prevent such errors from happening in the future, the relevant subject officers were informed.	Accounts should be prepared correctly
(c) As on 31st December of the year under review, the value of remaining stock of brooms was Rs.11,480 but in the statement of financial position it was shown as Rs.93,480.	To prevent such errors from happening in the future, the relevant subject officers were informed.	stock values should be accurately accounted for.
(d) Although the amount payable to the Urban Development Authority was mentioned as Rs.2,552,912, As the outstanding loan amount for construction of bus station and purchase of machinery was Rs.65,291,000, the related loan balance was understated by Rs.62,738,088.	No schedule or age analysis was presented to confirm the balance and no written confirmation of the balances could be obtained from the Urban Development Authority. The necessary further action will be taken in this regard, after confirming the balance in the future.	financial statements should be prepared correctly.
(e) The value of 11 industries worth Rs.18,039,097 completed in the year 2022 was not capitalized under property plant equipment.	This accounting error has already been corrected.	The value of the properties completed during the year under review should be capitalized.
(f) Capital assistance of Rs.27,801,385 and capital payments of Rs.22,100,654 received under the Local Development Supporting Project were not shown in the statement financial operations.	To prevent such errors from happening in the future, the relevant subject officers were informed.	All income and expenditure related to the year under review should be accounted for.

- (g) As on December 31 of the year under review, the arrears due for lease of weekly fair was Rs.7,634,289 but it was stated as Rs.6,727,204 in the statement of financial position. This mistake will be corrected in the preparation of financial statements in the future. financial statements should be prepared correctly.
- (h) There was no disclosure in the financial statements regarding one case sued by the Pradeshiya Sabha against an external party and 06 cases sued against the Sabha by external parties. The relevant subject officers were informed to act upon the disclosures in the financial statements. Relevant disclosures should be made in the financial statements.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.98,750 in the outstanding water charges and outstanding shop rent balance shown in the financial statements compared to the balances shown in the documents and schedules provided for them.	Since it is a balancing error of document, It will be rectified in the future.	Documents and schedules should be properly updated and The reasons for non-conformities should be found and corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
04 asset subjects and 02 liability subjects with a total value of Rs.1,242,047,851 could not be satisfactorily verified during the audit due to non-submission of professional assessors' reports, fixed asset register, schedules and balance confirmation letters.	That the lands belonging to the Sabha will be assessed and settled and other documents and schedules will be updated in the future	Evidence supporting the account balances shown in the financial statements should be submitted.

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) Pradeshiya Sabha Act No. 15 of 1987 Section 24(1) (a).	454 roads included in the road inventory maintained	So far publication for gazetting all the roads	Roads included in the road inventory should

by the Sabha had not been published in the gazette. has been translated into Sinhala, Tamil and English languages. be gazetted.

- (b) Circular dated 17th August 2010 of the Secretary, Ministry of Power and Energy According to the registry of street lights maintained by the Sabha, although 2881 street lights were installed in the Sabha area of Authority, there was no contract had been entered with the Ceylon Electricity Board regarding street lighting. There are many factors affecting not to enter into an agreement with the Electricity Board, and if necessary, action will be taken to enter into an agreement. Arrangements should be made to enter into a contract with the Electricity Board.

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. 15,924,624 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 15,843,956 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	2022				2021			
	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	13,045,000	13,586,447	6,653,012	6,933,435	13,075,800	13,677,904	6,833,377	6,844,527
(ii) Rent	19,427,450	43,694,679	24,958,554	18,736,125	33,602,500	18,532,148	9,950,256	8,581,892
(iii) License Fees	1,770,100	1,641,262	1,641,262	-	1,430,100	1,622,408	1,622,408	-
(iv) Other revenue	30,255,275	24,061,822	17,250,585	6,811,237	21,151,355	29,460,025	18,100,480	11,359,545
Total	64,497,825	82,984,210	50,503,413	32,480,797	69,259,755	63,292,485	36,506,521	26,785,964

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.82,984,211 in the year under review, Rs.32,480,798 was uncollected at the end of the year, which was 39 percent of the total billed revenue.	This includes arrears submitted for approval for deduction from income. Regarding the arrears due from public properties and public institutions, the relevant institutions have made requests and will take further steps to recover the arrears.	Arrangements should be made to collect the billed income.
(b) Out of the assessment tax revenue of Rs.13,586,448 billed in the year under review, the outstanding assessment tax as on 31 December 2022 was Rs.7,315,384, which was 54 percent of the total billed value.	The most of the arrears is in public property and various programs are being implemented to recover the arrears promptly.	Arrangements should be made to collect the billed income.
(c) Out of the outstanding tender property tax revenue of Rs.10,500,880 at the beginning of the year under review, an outstanding tax revenue of Rs.8,784,462 was still to be recovered as of December 31, 2022. Accordingly, the percentage of collection of outstanding tender property tax revenue was as low as 16 percent.	Relevant actions will be taken to recover the arrears	Arrangements should be made to collect the arrears of income promptly.
(d) Out of the shop rent revenue of Rs.8,945,904 to be collected from 145 stalls leased in the year under review, as of December 31, 2022, outstanding shop rent of Rs.3,375,675 had to be collected. It was 38 percent of the total billed revenue.	Steps will be taken to recover the arrears of income promptly	Arrangements should be made to collect the billed income.
(e) Out of the arrear rent income of Rs.4,413,634 at the beginning of the year under review, as on December 31, 2022, the rent in arrears of Rs.1,144,593 were to be collected.	Steps will be taken to recover the arrears of income promptly	Arrangements should be made to collect rent in arrears immediately.

- (f) Court fines amounting to Rs.2,574,461, and stamp duty amounting to Rs.12,380,810 were due from the Chief Secretary of the Provincial Council and other authorities as on December 31 of the year under review. For recovery of court fine in arrears, requests have been made continuously from the Commissioner of Local Government and arrangements will be made to collect the arrears of court fines and stamp duty expeditiously. Arrangements should be made to bring in the arrears of income as soon as possible.

2.3 Surcharge

Audit Observation	Comments of the Sabha	Recommendation
According to the provisions of the Pradeshiya Sabha Act, an amount of Rs.129,580 was to be recovered as on December 31 of the year under review in respect of surcharges imposed by me in previous years.	The relevant parties have already died and the death certificates of the deceased have been forwarded to the Local Government Department for further action..	Efforts should be made to recover the surcharge money immediately.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although developed areas were finally identified in 2010 and 2011, the attention of the Sabha was not focused on expanding the taxable area..	New constructions within the assessment area are subject to a temporary assessment, and future actions are being taken to gazette the Dodamwatta area that identified as a developed area in the year 2021.	In respect of developed areas, assessment tax should be declared and charges should be levied.
(b) 59 shops located in the new bus stand owned by the Pradeshiya Sabha were charging rent from Rs.4,135 to Rs.7,700. An assessment was not done by the assessment department in relation to determining the shop rent, and no information was submitted to the audit on how the rent being charged was determined.	This amount is charged on the basis of a provisional assessment and a formal assessment is expected to be obtained by the assessment department in the future.	In charging shop rent, the value assessed by the Valuation Department shall be charged.

3.2 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
68 lands and cemeteries shown in the Sabha records as belonging to the Pradeshiya Sabha had not been taken over to the Pradeshiya Sabha and 54 lands were not surveyed.	As of now, efforts are being made to settle the ownership of the lands.	Lands belonging to the Sabha should be surveyed and legal ownership should be taken over.

3.3 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) As of December 31, 2022, there was a shortage of 17 employees in respect of 10 positions in the Sabha as per the approved staff, and even by December 31, 2022 those vacancies had not been filled.	At the end of every month, the Local Government Department is informed about the staff vacancies	Vacancies in staff should be filled.
(b) The employee loan amounting to Rs.225,823 from 05 officers and employees who worked in the council had not been recovered, and the outstanding period related to the loan balance of Rs.19,561 from two employees was not submitted to the audit.	Action will be taken to recover the outstanding loan balances promptly.	Arrangements should be made to recover employee loan balances promptly.

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 3 percent to 99 percent, in the budget prepared for the year by the Pradeshiya Sabha hence, the budget was not used as an effective control instrument in controlling the income .	Due to fair decisions taken in certain cases and different strategies used in revenue collection, there were also cases where it was not possible to recover an amount equal to the estimated revenue. I would also like to mention that after considering the matters that must be done and timely intervention in the provision of public service, there will be variations in various expenditure heads.	A proper budget should be prepared and the goals specified in it should be met.