

Mathugama Pradeshiya Sabha -2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mathugama Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of Assets and Liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net 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 accompanying financial statements give a true and fair view of the financial position of the Mathugama Pradeshiya Sabha as at 31 December 2022, 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

My opinion is qualified 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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

Non-compliance with reference to relevant standard	Comment of the Sabha	Recommendation
(a) The Statement of Cash Flows had been presented non complying with Chapter No. 3.27 to 3.32 of the Standard.	The statement of cash flows for the year 2023 will be prepared correctly	The Cash flow statement should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities.
(b) As per Chapter No. 6.10 and 6.11 of the Standard, the Sabha had not made depreciation adjustments on fixed assets in the previous years as well as for the year under review.	The fixed assets will be assessed in the year 2023 and depreciation adjustments will be made for those assets.	Depreciation adjustments should be made for fixed assets as per standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The Capital grants received from the government for the years 2020, 2021 and 2022 amounting to Rs.122,809,943, Rs.17,804,231 and Rs.4,185,651 respectively were not credited to the surplus or deficit Unrecognized Capital Grants Account.	The necessary activities will be carried out to correct the financial statements in the year 2023.	Capital grants received from the government should be properly accounted.
(b) 250 road, culvert and bridge construction projects valued at Rs.150,475,217 implemented in year 2020 and 2021 had not been accounted as fixed assets.	- do -	Roads, culverts and bridges should be accounted as fixed assets.
(c) Rs.8,352,453 of salary reimbursement for the year 2021, received in the year under review was debited and credited to the salary reimbursement income account of the current year instead of being credited salary reimbursements account.	- do -	Salary reimbursement income should be properly accounted.
(d) The total amount of library books, stationery and office equipment purchased during the year under review of Rs.1,370,848 was debited to the relevant asset account and credited to the	- do -	Fixed asset purchases should be properly accounted.

cash in addition to that the asset purchase expense account was debited and the reserve and allocation account was credited.

- (e) The value of the compost stock of Rs.77,200 was not accounted as at 31 December 2022. - do - All stocks should be accounted.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below

Reference to Laws, Rules, Regulation and Management	Non – Compliance	Comment of the Sabha	Recommendation
Section (158) of the Pradeshiya Sabha Act No. 15 of 1987	The prohibition of property was not done as a last step to recover arrears.	Due to the crisis situation in the country, property ban was not resorted to and plans are being made to ban property in the future.	Action should be taken according to the Pradeshiya Sabha Act.

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 2022 amounted to Rs. 22,666,765 as compares with the excess of revenue over recurrent expenditure amounting to Rs. 26,494,865 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 Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	14,949,575	14,746,013	10,469,809	4,276,204	14,878,575	14,199,906	9,588,677	4,611,229
(ii) Rent	6,813,555	6,732,091	5,201,651	1,530,440	7,124,300	6,416,348	5,153,803	1,262,545
(iii) License Fees	430,000	374,550	370,800	3,750	420,000	392,060	387,860	4,200
(iv) Other Revenue	2,374,000	-	3,786,611	-	906,780	-	5,099,451	-
	24,567,130	21,852,654	19,828,871	5,810,394	23,329,655	21,008,314	20,229,791	5,877,974

2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below

Audit Observation	Comment of the Sabha	Recommendation
(a) According to the analysis of arrears of assessment tax period, the deficit between the years 01 to 03 was Rs.3,491,705, the deficit between the years 03 to 05 was Rs.1,189,165, the deficit between the years 05 to 10 was Rs.661,005 and the deficit for more than 10 years was Rs.163,037.	A special arrangement has been implemented for speedy recovery of arrears and billed income and it is being successfully implemented.	The action should be taken to recover the arrears of income as soon as possible.
(b) Out of the 105 shops owned by the Sabha, 03 shops were closed and the outstanding shop rent as at 31 December 2022 was Rs.2,054,750.	It has been decided to return the closed shops to the lessees and Rs. 936,000 has been collected from the rent arrears.	-do-
(c) The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2022 were Rs.15,000,000 and stamp fees was Rs.118,424,750.	The schedules are being prepared and income is being collected before 31.12.2023.	The arrears of court fines and stamp duty should be collected expeditiously.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
According to Chapter No. 18.7 of the Public Sector Accounting Standard of Sri Lanka for Local Authorities, the revaluation of property, plant and equipment is considered as presenting financial statements in accordance with the standard, however the Sabha did not revalue the fixed assets other than buildings during the transition to the new accounting standard.	The assets will be revalued in the year 2023.	Fixed assets should be revalued in accordance with the Public Sector Accounting Standard for Local Authorities.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Although the shop lease agreement was only valid for 03 years, after the expiration of the validity period, the rent shop room owners had run their businesses without renewing the lease agreement and had rented 13 shop rooms without signing the agreement.	It has been decided to renew all shop room agreement in the future and to sign agreement for the shop rooms that are not under contract.	Shop room agreements should be renewed.

3.3 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the Sabha	Recommendation
Generators purchased on 13 February 2018 and 14 February 2020 respectively for Rs.1,729,988 and Rs.1,236,600 were underutilized for more than 02 years.	An arrangement will be made to provide 02 generators for rent in future,	Necessary actions should be taken to use generators.

3.4 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Rs.571,100 had been paid for the JCB machine which had been given for repair work on 26 April 2022, however the repair work had not been done by the end of the year under review.	Even though the repairs were done and the money was paid, due to the recurrence of the same fault in the vehicle, the vehicle will be brought to the Sabha after the repairs are completed.	Repair work should be completed promptly and the vehicle should be put into running
(b) Out of the 252 lands that were identified as belonging to the Sabha, the Sabha did not have the relevant documents to confirm the legal ownership of 48 lands.	48 lands have been transferred to the Sabha.	The action should be taken to obtain legal documents for the lands owned by the Sabha.
(c) The steer loader received by the Sabha in 2015 was not registered in the name of the Sabhal at the end of the year under review.	The local government department which donated the machine does not have any documents related to this machine	Necessary documents should be brought and necessary arrangements should be made to register the machine in the name of the Sabha.

3.5 Weaknesses in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
Although the Western Province Local Government Department had given Rs.2,000,000 to the Sabha for the Beliwatta Kanda water project during the year under review, however only the water motor and water pipes had been purchased by the end of the year under review. The drinking water needs of the people were not fulfilled.	The amount allotted for the project was not enough and that instructions have been received to complete the work under phase 02.	The project should be completed promptly and the people should be given its benefits.