

## **Mathugama Pradeshiya Sabha - 2023**

-----

### **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 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in net assets/equity, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy information was carried out 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 2023, 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 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 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

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

<b>Non-compliance with reference to relevant standard</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The statement of cash flows had not been prepared in accordance with the Chapter No. 3.27 to 3.32 of the Standard.	That corrections will be made in the preparation of the financial statements of the year 2024.	The Cash flow statement should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities.

### 1.6.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) The cost of Rs.953,761 incurred to prepare the floor of the compost yard in the year under review had been accounted as Rs.891,334 under buildings and Rs.1,959,018 incurred during the year for other constructions of the compost yard had not been capitalized under buildings.	Error will be corrected.	Accounts should be prepared accurately.
(b) Although the allocation of Rs.1,994,605 had been spent for the development of the Beliattakanda drinking water project, it had been shown Rs.2,000,000 as creditors as at 31 December of the year under review.	-do-	-do-
(c) Although Rs.100,111,630 had been received for salary reimbursement for the year under review, it had been accounted as Rs.99,387,768.	-do-	-do-
(d) Although the balance of the Bank of Ceylon account number 0000837518 was Rs.2,461,134 as at 31 December of the year under review, it	-do-	-do-

had been stated as Rs.2,695,092 that is overstated by Rs.233,958.

- |   |      |      |
|---|------|------|
| (e) In correcting the mistake of under-billing shop rent Rs.422,172 for the previous year, although the value should have been credited to the accumulated fund, it had been credited to Current year income. | -do- | -do- |
| (f) The value of Ayurvedic goods amounting to Rs.402,915 received as donations during the year under review had not been recognized as income for the year.   | -do- | -do- |
| (g) Still not accounted 17 items of equipment worth Rs.2,808,341 purchased in the year 2019 had been capitalized at cost without revaluation.   | -do- | -do- |
| (h) Capital grants received in year 2023 amounting to Rs.16,508,803 had been shown as Rs.139,403,397 that is overstated by Rs.122,894,594 in the comprehensive income statement.                              | -do- | -do- |

### 1.6.3. Unreconciled Control Accounts or Records

#### Audit Observation

There was a difference of Rs.7,564,944 between the balances shown in the financial statements of 04 accounting subjects and the balances shown in their related schedules.

#### Comment of the Sabha

That corrections will be made in the preparation of the financial statements of the year 2024.

#### Recommendation

The changes in the respective balances should be compared and the accounts should be corrected.

## 2. Financial Review

### 2.1 Financial results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs21,750,676 as compare with the excess of revenue over expenditure amounting to Rs. 22,666,765 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 Secretary, the estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2023				2022				
	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	12,701,633	12,116,195	9,314,302	7,395,121	14,949,575	14,746,013	10,469,809	4,276,204	
(ii) Rent	6,975,000	7,607,808	5,916,308	2,353,800	6,813,555	6,732,091	5,201,651	1,530,440	
(iii) License Fees	2,588,000	3,175,990	3,055,690	264,218	430,000	374,550	370,800	3,750	
(iv) Other Revenue	-	-	-	-	2,374,000	-	3,786,611	-	
	<u>22,264,633</u>	<u>22,899,993</u>	<u>18,286,300</u>	<u>10,013,139</u>	<u>24,567,130</u>	<u>21,852,654</u>	<u>19,828,871</u>	<u>5,810,394</u>	

### 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
<b>(a) Assessments and Taxes</b>		
(i) The arrears of rate in the beginning of the year was Rs.9,580, 966 and Rs.4,593,227 or 48 per cent had not been collected during the year.	Rs.1,062,015 has been recovered as at 30.04.2024 and the rest of the income is being recovered.	Arrears of income should be recovered promptly.
(ii) The arrears of business levy in the beginning of the year was Rs 474,878 and Rs. 143,918 or 30 per cent had not been collected during the year.	That the total amount due including billing for the year under review is Rs.264,218.	-do-
<b>(b) Rent</b>		
The annual billing of shop rent was Rs.6,479,489, and Rs.1,691,500 or 26 percent was not collected during the year.	Up to now Rs. 187,625 have been recovered from the deficit.	-do-

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Observation	Comment of the Sabha	Recommendation
The sabha had not taken any action regarding 19 shop that were built and run by an outside party in a premise owned by the sabha without an agreement since February 2022.	Report has been received on assessment of shop rent and accordingly that agreement has been signed with 14 shop owners and other 05 have been informed to sign the agreement.	Investigations should be conducted against the parties responsible for the loss of income due to the sabha and damages should be recovered.

### 3.2 Identified Losses

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) Mathugama pradeshiya sabha had paid Rs.1,565,000 to private company for 07 packages of computer network in the year 2015. According to the condition 06 111 of the relevant agreement, all the software packages should be installed within 180 working days, except of 02 packages of assessment and shop rental, the rest of the 05 packages were not networked by the end of the year under reviewed.	That data is currently being entered for the implementation of the accounting system and other systems are in place for payroll processing, library work and warehouse and document stock control.	Management should take action to use the purchased software systems efficiently and effectively.
(b) Rs.1,855,000 was paid to the said institution for the purchase of additional 03 packages in 2018 even though the software packages purchased in 2015 was not effectively utilized. Contrary to condition 03 of the undated agreement signed between Matugama pradeshiya sabha and the company, the full payment was paid without networking the entire system and without providing training.	No answers provided	Uneconomic purchases should not be made
(c) A total of Rs.608,528 had been paid as annual fees to that institution from the year 2020 to the year 2023 despite the fact that the software packages were not functioning properly.	Payment facilities should be obtained through online system in connection with People's Bank to implement software systems.	Purchased systems should be utilized in a manner that provides economic benefits.
(d) It had not been dealt according to Financial Regulations 156 as at 31 December year under review regarding the purchase of software and placing it idle and making payments contrary to the agreement in such a way as to cause losses to the sabha .	Letters have been forwarded to the Local Government Department requesting approval to obtain this service from the Bank of Ceylon as it will incur high costs.	Actions should be taken in accordance with the finance regulations in relation to acting contrary to the agreements and not using the assets properly.

### 3.3 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Although the assessed property was assessed at a cost of Rs.601,480 in year 2020, but the new assessment was not carried out in the year under review.	Due to the covid situation, it was informed not to collect the assessment and the collection has been implemented again from the year 2024.	Action should be taken against the parties responsible for loss of revenue.

### 3.4 Disputed Transactions

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) The JCB machine was repaired at a garage of a member's brother in October 2022, at a cost of Rs. 470,250 without following tender procedure and without obtaining warranty. The business of the House.	The answers will be given after receiving the file related to the investigations	Transaction of the sabha should be conducted in a formal and transparent manner
(b) Although the depo engineer had recommended that the above repair was done properly, the depo engineer had recommended to repeat the same repair on 02 March 2023 due to its failure again and the backhoe remained idle till the end of the year under review.	Payments should be made on acceptable recommendations.	that will be answered after receiving the file related to the investigations.

### 3.5 Idle or underutilized property, plant and equipment

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) The Galmatta General Store, which was built at a cost of Rs. 5,100,000 in the year 2010, was empty without rent during the year under review.	These shops were also tendered in the year 2024 and remain as such due to the absence of a tender.	Assets owned by the sabha should be used to generate income.
(b) The water motor purchased in November 2022 at a cost of Rs.785,795 for the Beliwattakanda drinking water project remained idle even at the end of the year under review and no benefit was given to the beneficiaries of the project that had cost Rs.1,994,605	That arrangements have been made to implement the project in the year 2024	Management should take steps to utilize assets efficiently.

### 3.6 Assets Management

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a) 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.	That order papers to acquire the land have been prepared and sent to the Commissioner of Local Government.	The action should be taken to obtain legal documents for the lands owned by the Sabha.
(b) The steer loader water transport tractor and received by the Sabha in 2015 was not registered in the name of the Sabha even at the end of the year under review.	That will be fulfilled in the future.	Vehicles owned by the sabha should be registered in the name of the sabha.

## 4. Accountability and good governance

### 4.1 Internal Audit

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Although an internal audit plan was prepared including the subject areas of audit for the year under review, an adequate audit was not carried out in relation to the areas of audit expected by that plan.	Admit the fault and work to conduct an adequate audit for the year 2024.	Adequate internal audit should be done and reports should be issued on the relevant areas.