

## Madulla Pradeshiya Sabha - 2023

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### 1. Financial Statements

#### 1.1 Qualified Opinion

The audit of the financial statements of the Madulla Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and statement of financial operations, statement of changes in net assets, 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 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 financial statements give a true and fair view of the financial position of the Madulla Pradeshiya Sabha as at 31 December 2023, 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**

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 (a) The value of 03 industries whose work was completed during the year under review amounting to Rs.22,151,766 was not accounted for, under land and buildings in the statement of financial position.

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 The correction will be made in preparing the financial statements for the next year.

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 Assets owned by the Sabha should be identified and properly accounted for.

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| <p>(b) Although the finished work value of 02 industries completed in the year under review was Rs.1,893,480, it was shown as Rs.1,179,454 and understated by Rs.714,026 in the statement of financial position.</p>   | <p>The correction will be made in preparing the financial statements for the next year.</p> | <p>Assets owned by the Sabha should be identified and properly accounted for.</p> |
| <p>(c) Although the value of furniture and office equipment purchased in the year under review is Rs.1,101,612, it had been understated by Rs.151,233 since recorded as Rs. 950,379 .</p>  | <p>The correction will be made in preparing the financial statements for the next year.</p> | <p>Correct values should be accounted for.</p>                                    |
| <p>(d) 01 office cupboard and 01 wardrobe purchased during the year under review amounting to Rs.46,799 were accounted for, under furniture and office equipment.</p>  | <p>The correction will be made in preparing the financial statements for the next year.</p> | <p>Transactions should be accurately identified and accounted for.</p>            |
| <p>(e) The gas stock value of Rs.36,231 held in the crematorium as on December 31 of the year under review was not included in the closing stock balance.</p>  | <p>The stock balance will be correctly entered in the stock records in the future.</p>      | <p>The closing stock should be calculated correctly.</p>                          |
| <p>(f) As on December 31 of the year under review, the stock of water storage was Rs.364,210, but it was overstated by Rs.149,190 as Rs.513,400 in the closing stock.</p>  | <p>The correction will be made in preparing the financial statements for the next year.</p> | <p>The closing stock should be calculated correctly.</p>                          |
| <p>(g) Although the stamp duty income for the year under review is Rs.4,268,145, it had been understated by Rs.98,060 as Rs.4,170,085 in the statement of financial operations and the stamp duty income due on December 31 is Rs.4,734,211, but it was understated by Rs.100,000. As Rs.4,634,211 in the statement of financial position.</p> | <p>The correction will be made in preparing the financial statements for the next year.</p> | <p>Financial statements should be prepared correctly.</p>                         |
| <p>(h) During the year under review, Rs.27,657,162 received for the Regional Development Support Project was not shown under capital receipts in the statement of financial operations and the expenditure of Rs.28,400,126 incurred therein was not included in the statement of financial operations.</p>                                    | <p>The correction will be made in preparing the financial statements for the next year.</p> | <p>Financial statements should be prepared correctly.</p>                         |

(e) Arrears rent fines amounting to Rs.174,335 due for the year under review was not accounted for.	The correction will be made in preparing the financial statements for the next year.	Financial statements should be prepared correctly.
(A) As on December 31 of the year under review, Rs.62,132 and Rs.234,055 payable to expenses creditors and industrial creditors respectively, were not accounted for under creditors.	The correction will be made in preparing the financial statements for the next year.	Financial statements should be prepared correctly.

### **1.6.2 Documentary Evidences not made available for Audit.**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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Due to non-submission of title deeds, professional valuator's reports and fixed asset registries in respect of 03 asset subjects with a total value of Rs.263,901,547, it was not possible to satisfactorily verify them during the audit.	Necessary activities are being carried out to assess all the lands and obtain title deeds related to the lands, and action will be taken to update the Fixed Assets register.	Evidence to prove existence should be submitted.

### **1.7 Non- Compliances**

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	(i) FR 571 03 deposit balances of Rs.95,000 which exceeded 02 years were not disposed of.	In the year 2024, Financial regulations will be complied with in respect of these balances.	It should be complied with Financial regulations.

(b) Section 83(1) of the Urban Development Authority Act No. 41 of 1978; 106 building plans that were approved from the year 2017 to the year 2020, were not inspected and issued compliance certificates. These activities will be carried out properly in the future. Buildings to be constructed in the Sabha area should be regulated.

## 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 Current year amounted to Rs.5,961,436 as against the excess of recurrent expenditure over revenue amounted to Rs.3,002,306 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 Secretary of the Sabha 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.

		2023				2022			
Source of Revenue		Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
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		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	575,000	202,200	202,200	-	194,400	226,500	226,500	-
(ii)	Rent	13,965,673	12,780,240	12,291,990	488,250	6,658,931	7,048,711	6,643,167	405,544
(iii)	License Fees	760,060	373,767	465,250	-	699,400	254,027	255,176	-
(iv)	Other revenue	16,729,790	10,634,696	6,009,254	4,625,442	15,266,900	10,851,502	7,969,816	2,881,685
	Total	32,030,523	23,990,903	18,968,694	5,113,692	22,819,631	18,380,740	15,094,659	3,287,229

### 2.2.2 Performance in Revenue Collection

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

<b>Audit Observation</b> -----	<b>Comments of the Sabha</b> -----	<b>Recommendation</b> -----
<b><u>Rates and Taxes</u></b>		
The rental income of Rs. 89,830, which should have collected for the lease of 03 properties owned by the Sabha on behalf of the last year, was not collected.	In the future, action will be taken to collect the income in arrears.	Arrears of revenue should be collected immediately.
<b><u>Rent</u></b>		
(a) Out of the shop rent income of Rs.434,900 billed in the year under review, Rs.239,500 or 55 percent had not been recovered at the end of the year under review.	In the future, action will be taken to collect the income in arrears.	Arrears of revenue should be collected immediately.
(b) Out of the shop rent income in arrears of Rs.317,912 at the beginning of the year under review, Rs.263,962 or 83 percent had not been recovered in the year under review.	In the future, action will be taken to collect the income in arrears.	Arrears of revenue should be collected immediately.
<b><u>License Fees</u></b>		
23 shops owned by the Pradeshiya Sabha were leased on a monthly rental basis, and no trade licenses or business taxes were charged for those shops.	These activities will be corrected in the year 2024.	Issuance of trade licenses and collection of business taxes should be formalized.

### **Other Revenue**

(a) Arrears water charges of Rs. 468,037 due from 173 water consumers for the period 2019 – 2023 had not been collected as of December 31 of the year under review.	The arrears of revenue will be recovered promptly.	Arrears of revenue should be collected immediately.
(b) Arrears rental income of Rs.1,392,360 due for rental of vehicles and machinery for the period 2017 – 2022 had not been recovered as on December 31 of the year under review.	The arrears of revenue will be recovered promptly.	Arrears of revenue should be collected immediately.
(c) court fines of Rs.104,375 and stamp duty of Rs.4,636,150 due on 31st December of the year under review, had not been collected.	This amount will be charged promptly.	Arrears of revenue should be collected immediately.

### **3. Operational Review**

#### **3.1 Fulfillment 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 Management**

#### **Recommendation**

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#### **(a) By-laws**

Gazette No. 2308 dated November 25, 2022 stated that fees will be charged for the Nelum wewa boat service, children's park and three wheeler parking lots, but the related by-laws have not been prepared or the existing by-laws have been adopted.

That, by-laws will be prepared in the future and the fees will be collected.

A by-law should be prepared immediately and fees should be collected.



**(b) Water Projects**

There is no treatment or chlorination of water is carried out in the Kahagolla Bulathwal Ara and Magandaoya Hekirilla water projects; and no quality test report on water samples was obtained after December 31, 2020.

That the necessary steps are being taken for testing and chlorination of water samples.

Attention should be paid to the public health affairs of the area of authority.

**(c) Solid Waste Management**

(i) For the new compost project, a 02 acre land plot was selected at a place called Kiriella in the Lunuthibbahela forest belonging to the Galbokka Forest Reserve at the Monaragala site and an access road was constructed at a cost of Rs. 595,977, but the land was taken over to the Sabha and the compost project had not been started.

At present, the related land acquisition is being carried out and in the future, the compost project will be started and the necessary measures will be taken to use this access road.

A feasibility study should be conducted and the projects started.

(ii) The Pradeshiya Sabha had not obtained an environmental protection permit for the solid waste unit.

That, steps will be taken to obtain the environmental protection license as soon as possible.

The Environmental permit for solid waste unit, need to be obtained.

**(d) Environmental Protection Permits**

An income of Rs.48,000 had been lost due to the non-renewal of 04 licenses which had expired in the environmental protection licenses given by the Sabha and the non-renewal of 08 industries identified in relation to the year under review. Also, the attention of the Sabha was not focused on the regulation of existing industry in the area of authority.

Survey work and issuance of licenses in respect of these industries, are currently being carried on

Existing industries in the area of authority should be regulated.

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>-----</p> <p>The amount of Rs. 83,130 spent for the repairs made in relation to 04 accidents that happened to 03 vehicles had not been recovered by identifying the responsible parties.</p>	<p>-----</p> <p>As the insurance company did not provide the full insurance compensation, the remaining amount had to be paid from the Sabha fund.</p>	<p>-----</p> <p>When the property owned by the Sabha is damaged, action should be taken to recover the loss from the relevant parties.</p>

### 3.3 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>-----</p> <p>(a) Although the local council had identified the developed areas in May 2021, the assessment and collection of assessment tax as per Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been done by the end of February 2024.</p>	<p>-----</p> <p>That these activities will be completed as soon as possible.</p>	<p>-----</p> <p>Developed areas should be identified and assessment tax should be levied.</p>
<p>(b) According to the tender award letter issued by the Madulla Pradeshiya Sabha related to the lease of shop stalls, although it is stated that the non-refundable advance should be paid in monthly instalments over a period of 05 years, An amount of Rs.1,734,997 was unpaid from 1 month to 27 months from 14 shops belonging to the Sabha.</p>	<p>The related arrears will be recovered promptly.</p>	<p>Arrears of rent should be recovered promptly.</p>

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| <p>(c) 02 stalls at new bus station owned by the Madulla Pradeshiya Sabha were given to run an office of the Sri Lanka Transport Board and the Road Passenger Transport Authority without entering into a contract. The monthly assessed rent of this shop was Rs.1,200, and by August 2023, the rental income of Rs.156,000 had not been collected.</p>   | <p>The relevant parties have been informed in order to recover this money and the money will be recovered as soon as possible.</p> | <p>Arrears of rent should be recovered promptly.</p>   |
| <p>(d) 04 shops located in the new bus station owned by the Madulla Pradeshiya Sabha, were not leased after the year 2016.</p>   | <p>That, the necessary arrangements for leasing will be carried out promptly.</p>  | <p>Rental income should be collected by renting shop stalls.</p>                                     |
| <p>(e) The lessee who leased a shop stall on the ground floor of Makulla Old Bus Station, had refused to take the shop stalls and had entered into an agreement with someone else upon the consent of the General Assembly. The tender security deposit of the old lessee was not credited to the Council's income and arrangements were not made to collect the contractual security deposit from the new lessee.</p> | <p>That, the contract security deposit and tender security deposit will be recovered from the concerned lessee.</p>                | <p>When leasing the property owned by the Sabha, the related activities should be done properly.</p> |
| <p>(f) The lessee who leased a stall in upstairs of Makulla Old Bus Station belonging to the Pradeshiya Sabha had transferred it to another lessee with the consent of the General Assembly, but No arrangements were made to enter into a contract with the new lessee, to collect the contract deposit and to charge the fees related to the transfer.</p>   | <p>The arrangements will be made to collect transfer fees and contract security deposits in connection with this transfer.</p>     | <p>When leasing the property owned by the Sabha, the related activities should be done properly.</p> |

### 3.4 Assets Management

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) In the auditorium belonging to the Pradeshiya Sabha, several rain gutters had fallen off and the ceiling above the stairs leading to the balcony was decaying due to rainwater seepage.	Repairs will be carried out promptly.	Repairs should be carried out promptly.
(b) The audit of the year 2022 had shown that an outside party had built a house without permission on the land of 20 perches belonging to the council, which is adjacent to the Dambagalla police headquarters. Even as of February 2024, the land had not been taken over to the Pradeshiya Sabha.	At present, the necessary arrangements are being made to transfer this land to the Sabha.	The legal ownership of the land should be taken over to the Sabha.
(c) The legal ownership of the land on which the tourist bungalow is built, and which is mentioned in the documents as land belonging to the Sabha, had not been taken over to the Sabha by 14 February 2024 and no security fence had been constructed.	It has been planned to take over the ownership of the land and prepare the fence in the future.	Legal ownership and security of property owned by the Sabha should be ensured.
(d) The unauthorized construction, which had been built by outside parties covering a part of the Iginiagala Public Library building, had not been removed even by February 2024.	That, necessary legal steps will be taken to solve this problem in the future.	The protection of the properties owned by the Sabha should be ensured.
(e) Unauthorized constructions carried out by outside parties in Nagavimana Yaya and Deliwa cemeteries, even by February 2024 the illegal constructions had not been removed and the legal rights of the respective cemeteries had not been taken over to the Pradeshiya Sabha.	That, necessary legal steps will be taken to solve this problem in the future.	The protection of the properties owned by the Sabha should be ensured.

<p>(f) A motor grader belonging to Kandaketiya Pradeshiya Sabha has been used for the activities of Madulla Pradeshiya Sabha since almost 4 years, and it has not been taken over to the council or returned to Kandaketiya Pradeshiya Sabha by February 2024.</p>	<p>At present, necessary activities are being carried out to transfer the ownership of this machine to the Sabha.</p>	<p>The ownership of assets owned by the Sabha should be confirmed.</p>
<p>(g) It was observed that there is a difference between the engine number of the cab owned by the Sabha and the engine number mentioned in the vehicle registration certificate.</p>	<p>In this regard, further investigation and necessary steps will be taken.</p>	<p>The registration of vehicles owned by the Sabha should be clear.</p>
<p>(h) Legal ownership of 02 vehicles used by the Sabhal was not taken over to the Pradeshiya Sabha.</p>	<p>The necessary activities to take over the legal ownership of the vehicles are currently being carried out.</p>	<p>Legal ownership of Sabha owned vehicles should be taken over.</p>
<p>(E) 466 library books worth Rs. 126,149, which were issued to the readers of 05 libraries belonging to the Sabha, had not been get returned by December 31 of the year under review.</p>	<p>That, immediate Actions will be taken to resolve this issue.</p>	<p>Library books given to readers should be retrieved.</p>

**3.5 Procurement Management**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) During the purchase of blades for weeding machines, the Sabha fund had incurred a loss of Rs.16,200 due to purchase from another institution instead of the institution that offered the lowest bid.</p>	<p>That amount will be recovered from the concerned private institution in the future.</p>	<p>Procurement should be done in such a way as to cause the least disadvantage to the Government.</p>
<p>(b) In inviting open quotations in accordance with the Procurement Guidelines, 2006, newspaper advertisements shall be published and In calling for quotations for the lease of the property of the council, notices were</p>	<p>That, steps will be taken to carry out these activities correctly in the future.</p>	<p>The procurement process should be done in a formal manner.</p>

published restricting only registered voluntary organizations or permanent resident private registrants in Monaragala district. Due to that, the amount of Rs. 19,795 which had been spent for that had become an idle expenditure.

### 3.6 Human Resources Management

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
As on December 31 of the year under review, there was a shortage of 04 employees in 03 positions and an excess of 17 employees in 03 positions.	In the case of vacancies and excess staff, the Local Government Department has been informed in writing.	Staff vacancies should be filled and surplus staff approved.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
According to the budget prepared by the Pradeshiya Sabha for the year under review, in comparison of the estimated income and expenditure with the actual income and expenditure of the year, there were variations from 02 percent to 98 percent in 08 income subjects and 08 percent to 98 percent in 07 expenditure subjects. Thus, it was observed that the budget was not used as an effective control tool.	That, steps will be taken to prepare the budget properly in the future.	Annual budget estimates should be prepared more realistically and work towards achieving those goals.

#### 4.2 Environmental Observations/Issues

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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Due to the fact that a safety fence had not been constructed to ensure the safety of the solid waste unit, various wastes had been dumped at the site by outside parties.	The steps will be taken to construct a safety fence for the solid waste unit as soon as possible.	Waste management should be done properly.