

## Medagama Pradeshiya Sabha - 2023

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### 1. **Financial Statements**

#### 1.1 **Qualified Opinion**

The audit of the financial statements of the **Medagama** Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position 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 **Medagama** 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**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) A industrial creditor balance of Rs.815,344 relating to the previous year had been accounted as an expenditure relating to the year under review.	It will be corrected when preparing the financial statements for the year 2024.	----- Financial statements should be prepared correctly.

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| (b) The industrial debtor balance of Rs.1,625,344 relating to the previous year was accounted as a capital receipt in the year under review.   | It will be corrected when preparing the financial statements for the year 2024.          | Financial statements should be prepared correctly.  |
| (c) During the year under review, Rs. 266,980 which was spent to get electricity connections for 08 places belonging to the Pradeshiya Sabha, was not accounted under property plant and equipment.  | It will be corrected in the year 2024.   | Financial statements should be prepared correctly.  |
| (d) 05 industries worth Rs.240,390 which had been completed in the reviewed year, were not accounted under land and buildings.   | It will be corrected when preparing the financial statements for the year 2024.          | The value of all assets owned by the Sabha should be included in the financial statements.  |
| (e) Although the value of the furniture and equipment purchased during the year under review was Rs.661,875, it had been understated by Rs.73,264 as Rs.588,611.                                     | According to the prices given by the sales agency, the relevant payments have been made. | Correct values should be included in the financial statements.                              |
| (f) UPS machine of Rs.17,000 purchased in the year under review and Rs.88,000 incurred for fixing the roof of the tractor, had not been accounted under Property plant and equipment.                | It will be corrected when preparing the financial statements for the year 2024.          | The values of all assets owned by the Sabha should be included in the financial statements. |
| (g) Although the expenditure incurred for the preparation of stairs near the crematorium garage was Rs.22,140, it was overstated by Rs.56,160 by recording it as Rs.78,300 under land and buildings. | It will be corrected when preparing the financial statements for the year 2024.          | Correct values should be included in the financial statements.                              |

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| (h) The value of 02 water tanks received by the Pradeshiya Sabha had not been assessed and accounted for.   | It will be corrected when preparing the financial statements for the year 2024.           | The value of assets received by the Sabha should be recognized and accounted for.          |
| (e) From the stock held by the Pradeshiya Sabha as on 31st December of the year under review, a stock worth Rs.98,218 was not included in the statement of financial position.  | It will be corrected when preparing the financial statements for the year 2024.           | Correct values should be included in the financial statements.                             |
| (a) The value of compost stock produced during the year under review was not valued and included in compost stock account.  | A register is maintained for entering the value compost stock.                            | Financial statements should be prepared correctly.   |
| (o) In the year under review, the amount received for the regional development assistance project was Rs.6,695,727, but it was considered as Rs.7,042,662 and was accounted under capital assistance.                               | It will be corrected when preparing the financial statements for the year 2024.           | Financial statements should be prepared correctly.   |
| (o) According to the general deposit register as on December 31 of the year under review, the deposit balance was Rs.2,109,093 but it was overstated by Rs.56,867 and shown as Rs.2,165,960 in the statement of financial position. | It will be corrected when preparing the financial statements for the year 2024.           | Financial statements should be prepared correctly.   |
| (a) 03 cases which has been filed against the Sabha were not disclosed in the financial statements.   | In preparing the 2024 financial statements, the relevant disclosures will be included.    | Relevant disclosures should be included in the financial statements.                       |
| (c) The value of the land on which the Galoya Rest house is located, and the land on which the Kongolla Multi-Purpose Building is located had not been assessed and accounted for.  | After the assessment in the year 2024, the land will be entered in the building register. | The value of all assets owned by the Sabha should be included in the financial statements. |

### 1.6.2 Unreconciled Control Accounts or Records

<b>Audit Observation</b> -----	<b>Comments of the Sabha</b> -----	<b>Recommendation</b> -----
There was a difference of Rs.49,237,421 between the value shown in the financial statements and the value shown in the schedules. In relating to 03 account subjects	The correction will be made in the preparation of the financial statements of the year 2024.	Documents and schedules should be maintained up to date.

### 1.6.3 Documentary Evidences not made available for Audit

<b>Audit Observation</b> -----	<b>Comments of the Sabha</b> -----	<b>Recommendation</b> -----
Due to non-submission of title deeds, Valuator's reports, fixed asset register and updated assessment register related to 06 asset subjects with total value of Rs.1,476,191,557, it was not possible to satisfactorily verify during the audit.	While actions are being taken to obtain title deeds, professional assessment will be carried out in phases and other documents will be maintained up-to-date.	Documents and reports to confirm the balances included in the financial statements should be maintained up-to-date

### 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> -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) FR 104(4)	Financial regulation had not been followed in relating to 02 motor vehicle involved in accidents in 02 occasions in the year 2019 and 2020.	Preliminary investigations are being carried out and further action will be taken according to the investigation report.	It should be complied with financial regulations

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| (b) Gazette No. 1816/43 of the Democratic Socialist Republic of Sri Lanka dated 28 June 2013 | Library deposits of Rs.624,300 be charged from 6243 readers of 03 libraries owned by the Sabha had not been collected.   | From the year 2024, a library deposit of Rs.100 will be collected from those who obtain library membership.  | It should be complied with Gazette notification.    |
| (c) Section 83(1) of the Urban Development Authority Act No. 41 of 1978                      | 120 building plans that were approved from the year 2016 to the year 2020, were not inspected and issued compliance certificates.  | In the future, compliance certificates will be provided.   | Action shall be taken as per the circular referred. |
| (d) Circular of the Secretary to the Ministry of Power and Energy dated 17th August, 2010.   | According to the street lights register, although 690 street lights were installed in the Sabha area, there was no contract with the Ceylon Electricity Board regarding street lighting. | It was proposed to the General meeting to enter into a contract with the Electricity Board, and that the General meeting has refused to enter into a contract. | It should be complied with Circulars.               |

## 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 current year amounted to Rs. 21,290,535 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 11,588,389 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	2,156,291	3,125,764	2,344,395	781,369	825,538	1,400,095	1,035,237	364,858
(ii)	Rent	32,032,452	49,474,319	29,171,333	20,302,986	23,900,017	33,162,510	24,373,574	8,788,936
(iii)	License Fees	630,160	369,309	369,309	-	532,320	216,708	216,708	-
(iv)	Other revenue	19,772,740	18,778,537	12,398,531	6,380,006	17,797,300	9,290,194	6,289,744	3,000,450
	Total	54,591,643	71,747,929	44,283,568	27,464,361	43,055,175	44,069,507	31,915,263	12,154,244

### 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**

#### **Rates and Taxes**

(a) Out of the assessment tax revenue of Rs.1,277,903 billed in the year under review, Rs.520,778 or 41 percent had not been recovered.

The outstanding balance will be recovered in the future.

Billed revenue should be recovered.

(b) Out of the outstanding assessment tax revenue of Rs.174,011 at the beginning of the year under review, Rs.91,285 or 52 percent had not been collected by the end of the year under review.

Taxpayers of outstanding assessment tax are notified in writing and If further payment is not made, the relevant property is expected to be foreclosed.

assessments in arrears should be collected promptly.



(c) The rental income of Rs.6,662,759 due for the lease of the property related to the previous years had not been collected in the year under review. Action will be taken to recover arrears of revenue. Arrears should be recovered promptly.

(d) Out of the tender property tax revenue of Rs.22,505,022 billed in the year under review, Rs.11,322,815 had not been recovered as on 31 December 2023. Action will be taken to recover the arrears from the security deposits kept by the lessees and to take legal action. Billed revenue should be collected.

### **Rent**

(a) Out of the shop rent income of Rs.6,098,250 billed in the year under review, Rs.1,300,625 had not been recovered. The officials were informed to collect the arrears of rent. Billed revenue should be collected.

(b) Out of the arrear shop rent income of Rs.2,120,390 at the beginning of the year under review, Rs.1,016,785 or 48 percent had not been recovered by the end of the year under review. These are outstanding balances that were decided to be written off to provide relief to shop owners due to the Covid epidemic and will be written off after the approval of the Governor is obtained. Revenue in arrears should be recovered.

### **License Fees**

(a) According to Section 2.5.2 of the Guidelines for Local Authorities on the Issuance of Environmental Protection Permits issued by the Central Environment Authority, the Sabha shall maintain a separate account for crediting the money collected as Environmental Protection Permit Fee and Field Inspection Fee, it had not done so. Under the revenue head 2.37, environmental permits and inspection fees will be collected in the future, The guidelines should be followed.

(b) A survey was not conducted in the year 2023 to identify the industries that should obtain environmental protection licenses, and environmental protection licenses were not re-issued for 35 industries whose licenses had expired.

The industrial owners whose validity period of environmental permits has expired have been informed about it in writing.

Businesses and industries existing in the Sabha area of authority should be regulated.

**Other Income**

(a) The outstanding machinery rental income of Rs.514,140 due for the rental of vehicles and machinery in the year 2021 had not been recovered as on 31st December of the year under review.

Action will be taken to recover the arrears immediately.

Arrear in revenue should be recovered promptly.

(b) Court fines of Rs.104,083 and stamp duty of Rs.5,761,782 due on December 31 of the year under review had not been received.

Action will be taken to recover the arrears immediately.

Arrear in revenue should be recovered promptly.

**3. Operational Review**

**3.1 Management inefficiencies**

**Audit Observation**

**Comments of the Management**

**Recommendation**

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An allocation of Rs. 250,000 received for training 50 women to prepare local foods for Hela Bojunhal and make designs related to palm leaves in the Pradeshiya Sabha area, was diverted due to the non-implementation of those projects.

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Due to the inability to implement the project report submitted by one of the MPs with the dissolution of the Pradeshiya Sabha, that funds was sent to the Provincial Planning Department

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The provision should be effectively utilized during the relevant period.

### 3.2 Operational inefficiencies

#### Audit Observation

#### Comments of the Management

#### Recommendation

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After the year 2015, there was no assessment of the assessment tax.

The assessment of assessment tax done in 2015 was implemented from the year 2023 due to the Covid epidemic, and the reassessment is proposed to be conducted in the year 2028.

Arrangements should be made for timely assessment of the assessment tax.

### 3.3 Asset management

#### Audit Observation

#### Comments of the Management

#### Recommendation

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02 vehicles belonging to the Sabha have been idle for more than 05 years, and the said vehicles had not been repaired or disposed of.

As these vehicles do not have registration numbers, they cannot be disposed or repaired while instruction will be asked from the head of the departments in this regard, and further action will be taken.

In time, arrangements should be made to repair or dispose of vehicles.

### 3.4 Procurement Management

#### Audit Observation

#### Comments of the Management

#### Recommendation

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According to paragraph 6.2.2 of Circular No. 08 of the National Procurement Agency dated January 25, 2006, a minimum period of 21 days should be given for the submission of bids in a national competitive bid, but only 15 days were given for the submission of bids for the lease in the year 2023. .

In the future, the procurement circular will be followed.

The procurement process should be formalized.

### 3.5 Contract administration

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Rs.46,250 had been paid for 1.67 cubic meters of uncompleted work in the industry for the construction of safety fence for the children's Park belonging to the Medagama Pradeshiya Sabha.	The relevant amount will be recovered from the contractor organization.	Construction work should be done properly.

### 3.6 Human Resource Management

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
As on December 31 of the year under review, there were vacancies of 07 employees in 05 posts and an excess of 11 officers in 02 posts.	Reports have been submitted for recruitment of staff to the relevant vacancies and reports have been submitted for approval of excess staff.	Actions should be taken to fill up employee vacancies, get excess 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 document prepared by the local council for the year under review, , in comparison of the estimated income and expenditure with the actual income and expenditure of the year, there were variance from 5 percent to 205 percent in 08 income subjects and 06 percent to 252 percent in 08 expenditure subjects.	In preparing the future budget, attention will be paid for more careful forecasting of income and expenditure and will be focused on estimating more reasonable values.	Annual budget estimates should be prepared more realistically, and action should be taken to achieve those targets.

## 4.2 Environmental Porbems

### **Audit Observation**

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Garbage collected in the council area is dumped in a land belonging to Forest Conservation Department located in Karamatia area, the ownership of that land was not taken over and an environmental protection license was not obtained for garbage disposal.

### **Comments of the Management**

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That, the concerned land belongs to the Forest Conservation Department and that an annual permit has been obtained and an environmental protection permit has been applied for.

### **Recommendation**

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Garbage should be disposed of properly.