

Madulla Pradeshiya Sabha - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Madulla pradeshiya sabha for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, the sub section 172(1) of Pradeshiya Sabha Act No. 15 of 1987. 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 2024, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 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 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 include 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 of this report 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 Council	Recommendation
(a)	The non-refundable initial key money of Rs. 1,662,445 collected during the lease of shop rooms in the years 2020 and 2021 had not been accounted for as shop rental income but had been accounted for as refundable security deposits.	That correction will be made when preparing next year's financial statements.	The accounts must be corrected.
(b)	The value of the Galgamuwa Library, which was constructed at a cost of Rs. 11,755,826, had not been capitalized during the year under review.	-Do-	-Do-
(c)	Rs. 303,685 incurred as building repairs during the year under review had been capitalized.	-Do-	-Do-

1.7 Non- Compliances

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

The following are examples of non-compliance with laws, rules, regulations and management decisions.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Pradeshia Sabha Act No. 15 of 1987 Section 134	Although the Pradeshia Sabha had identified the areas developed in 2020, the assessment tax had not been declared and the levy of fees had not been implemented in the council area.	The Valuation Department will proceed with the assessment of the property after assessing it.	Action should be taken to promptly assess the property and collect the assessment.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka No. 770(4)	The Council had not taken steps to repair and put into use 02 vehicles that had been idle since 2022 as of	It has been referred to the Provincial Mechanical Engineer for recommendations	Inactive vehicles should be repaired or disposed promptly.

		December 31st of the year under review.	on repairs or auctioning.	
(c)	Section 83(1) of the Urban Development Authority Act, No. 41 of 1978	The council had not inspected 75 building plans approved from 2017 to 2020 and issued certificates of compliance.	Follow up and provide compliance certificates.	Certificates of conformity must be provided for building designs.
(d)	Employees' Trust Fund No. 46 of 1980	A surcharge of Rs. 100,042 was paid from the council fund for non-payment of contributions for 15 employees for the period from July 2016 to September 2023 on the due date.	The officers at that time were not instructed to pay contributions to the fund.	Surcharges should be collected from the responsible officials in this regard.
(e)	Circular dated 17th August 2010 of the Secretary to the Ministry of Power and Energy	According to the street lighting register maintained by the council, although 1311 street lights had been installed in the council area, no agreement had been entered into with the Ceylon Electricity Board regarding street lighting.	Negotiations are underway to enter into an agreement with the Ceylon Electricity Board.	Agreements should be made with the Ceylon Electricity Board regarding street lights.
(f)	Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29th December 2016	Fuel combustion tests had not been conducted on 07 vehicles owned by the council.	Fuel combustion testing will be carried out promptly.	Fuel combustion testing should be carried out promptly as per the circular.

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 2024 amounted to Rs. 3,479,113 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 5,961,436 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

The information on estimated income, billed income, collected income and arrears of income submitted by the Secretary for the year under review and the previous year is shown below.

		<u>2024</u>				<u>2023</u>			
Source of Revenue	Estimated Revenue	R evenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue collected billed	Revenue collected	Total Arrears as at 31 December	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i)	Assessments and taxes	543,200	170,400	170,400	-	575,000	202,200	-	-
(ii)	Rent	18,351,273	11,240,909	10,753,860	316,649	13,965,673	12,780,240	12,291,990	488,250
(iii)	License fees	872,070	402,583	388,804	13,779	760,060	373,767	465,250	91,483
(iv)	Other Revenue	13,275,040	15,519,630	7,190,257	8,329,374	16,729,790	10,634,696	6,009,254	4,625,442
	Collection	33,041,583	27,333,522	18,503,321	8,659,802	32,030,523	23,990,903	18,766,494	5,205,175

2.2.2 Performance in Revenue Collection

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

	Audit Observation	Comments of the Council	Recommendation
(a)	Out of the total revenue billed in the year under review of Rs. 27,333,522, Rs. 8,659,802 had not been collected by the end of the year, which was 32 percent of the total billed revenue.	That step will be taken in the future to collect the outstanding revenue.	Action should be taken to collect the arrears of revenue.
(b)	Arrears of shop rent		
(i)	There were 03 stalls that had defaulted on paying the rent and initial deposit advance to the Pradeshiya Sabha from the date of the contract, and 09 stalls that had not paid the rent and initial deposit for 20 to 35 months, and no action had been taken to cancel the lease agreement and take over those stalls from the Pradeshiya Sabha.	That necessary action will be taken in the future.	Urgent action should be taken against tenants who do not pay their initial deposit advances and taxes.

(ii)	The shop rental income for the year under review was Rs. 678,500 and 72 percent of the total income, that is Rs. 487,049, was still to be collected.	That step will be taken to promptly recover the outstanding rent.	Arrears of shop rent should be collected promptly.
(iii)	As at 01 st January of the year under review, the outstanding shop rents relating to previous years amounted to Rs. 654,863 and only 11 percent, that is Rs. 70,000, had been received during the year. Accordingly, 89 percent, that is Rs. 584,863, remained to be collected.	That step will be taken to promptly recover the outstanding rent.	Arrears of shop rent should be collected promptly.
(c)	As on January 01 of the year under review, the outstanding income from vehicle and machinery rental was Rs. 1,392,360 and only 7 percent of that income, that is Rs. 94,200, had been received during the year. Accordingly, 93 percent, that is Rs. 1,298,160, remained to be collected.	Action will be taken to recover arrears of revenue promptly.	Arrears of revenue should be collected promptly.

3. Operational Review

3.1 Performing the 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 Council	Recommendation
(a) By-laws			
	Although the Pradeshiya Sabha had stated in Gazette No. 2308 dated November 25, 2022 that fees would be charged for the Nelum lake boat service, children's park and three-wheeler rides, the relevant by-laws had not been prepared or the existing by-laws had not been adopted.	By-laws will be prepared in the future and steps will be taken to collect fees.	A by-law should be prepared urgently and fees should be collected.

(b) Solid waste management

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| (i) | For the new compost project, a 2-acre section of land was selected at Kiriella in the Lunuthibbahela Forest, Galbokka Forest Reserve, Monaragala, and an access road was constructed at a cost of Rs. 595,977, but the land had not been taken over by the council and the compost project had not been started. | Currently, the relevant land acquisition process is underway and necessary steps will be taken to initiate the compost project and utilize this access road in the future. | The compost project should be implemented urgently. |
| (ii) | The Pradeshiya Sabha had not obtained an Environmental Protection License for the Solid Waste Management Unit as of 31st December of the year under review. | Steps will be taken to obtain the environmental protection permit as soon as possible. | An environmental permit must be obtained for the solid waste management unit. |

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
According to the Provincial Mechanical Director's letter No. PDM/4/1/47 dated 23 November 2023, the fuel drilling pump had been damaged due to the mixing of petroleum oil with the fuel in the fuel tank of the council's backhoe loader machine and although an amount of Rs. 328,913 had been paid for the repairs from the Regional Development Program Fund, no steps had been taken to identify the responsible parties and recover the amount spent on the relevant repairs.	Inquiries have been made to the gas station and the backhoe loader operator.	An investigation should be conducted and appropriate action taken in this regard.

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	As at 31 st December of the year under review, the ownership of 63 lands belonging to the Pradeshiya Sabha had not been transferred to the Sabha.	Steps are being taken to acquire ownership of the land.	Action should be taken to acquire ownership of the lands urgent.
(b)	The fish market located at the Makulla Bus Terminal, which was completed by the Pradeshiya Sabha on 15th November 2021 and had a value of Rs. 548,816, remained idle as it could not be leased out.	In the future, steps will be taken to direct businessmen to carry out fish marketing activities in this unit.	It should be used for its intended purpose.

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| (c) | The vehicle servicing unit belonging to the council, which was constructed at a cost of Rs.1,086,300, had not generated any income during the year under review. | Vehicle service activities were not carried out due to the breakdown of the machines in the vehicle service unit. | The vehicle service unit should be implemented urgently. |
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3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
As at 31 st December of the year under review, there was a shortage of 02 employees in one position in the Council and a surplus of 17 employees in 03 positions.	The Department of Local Government has been informed in writing regarding vacancies and surplus staff.	Staff vacancies must be filled and surplus staff must be approved.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure according to the budget prepared by the Pradeshiya Sabha for the year under review with the actual income and expenditure of the year, there were variations ranging from 4 percent to 69 percent in 08 income items and from 6 percent to 91 percent in 05 expenditure items.	Steps will be taken to prepare the budget properly in the future.	Annual budget estimates should be prepared more realistically and efforts should be made to achieve those goals.