

Medagama Pradeshiya Sabha – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Medagama 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 Medagama 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) Rs. 1,536,880 received in the years 2023 and 2024 for crematorium fees was shown as deposits received for income as at 31 st December of the year under review.	That correction will be made when preparing next year's financial statements.	The accounts must be corrected.
(b) The expenditure of Rs. 8,752,407 paid for the market improvement project during the year under review had not been capitalized.	-Do-	-Do-
(c) The stock of 12.5w LED bulbs worth Rs. 93,220 and 747 kg of gas worth Rs. 357,037 held in the crematorium as on 31st December of the year under review had not been accounted for as closing stock.	-Do-	The LED bulb stock and the remaining gas stock should be accounted for as the closing stock.

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.	Comments of the Council	Recommendation
(a) Shops By-laws published in the Gazette of the Democratic Socialist Republic of Sri Lanka No. 1843 dated 27th December 2013. Sections 31(iii) and 40.		

		That 05 shop owned by the council had been handed over without tendering at the request of the lessee.	It has been done based on the decision of the House of Representatives.	Must act in accordance with the bylaws.
(b)	Section 31(iii)(a)	Shops Nos. 01 and 20 of the shopping complex building belonging to the council had been given to outside parties without charging any money.	It was done at the request of the Chief Minister of Uva Province.	Actions must be taken in accordance with the bylaws.
(c)	Section 41	Eleven stalls in the new two-storey building of the Medagama Weekly market, which consists of 12 stalls, constructed by the Pradeshiya Sabha, had been given to the old lessees without charging a lump sum.	That an amount of Rs. 50,000 has been recovered and given.	The shop premises should be leased after obtaining sufficient key money.
(d)	Section 83(1) of the Urban Development Authority Act, No. 41 of 1978	Although the Pradeshiya Sabha had approved 94 building plans from 2018 to 2020, certificates of conformity had not been issued for 78 buildings.	That a written notice has been issued to obtain certificates of compliance for the approved building plans.	Certificates of conformity must be obtained for approved building plans.

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. 16,848,886 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 21,290,535 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 for the year under review and the previous year submitted by the Secretary of the Council is shown below

		<u>2024</u>				<u>2023</u>			
Source of Revenue		Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Assessments and taxes	2,566,370	2,691,871	1,945,012	746,859	2,156,291	3,125,764	2,344,395	781,369
(ii)	Rent	26,850,596	31,108,061	24,259,250	6,848,810	32,032,452	49,474,319	29,171,333	20,302,986
(iii)	License fees	415,160	586,182	586,182	-	630,160	369,309	369,309	-
(iv)	Other Revenue	10,048,540	15,400,614	9,619,818	5,780,796	19,772,740	18,778,537	12,398,531	6,380,006
	Collection	39,880,666	49,786,728	36,410,262	13,376,465	54,591,643	71,747,929	44,283,568	27,464,361

2.2.2 Performance in Revenue Collection

The following are observations regarding the revenue collection performance of the council.

	Audit Observation	Comments of the Council	Recommendation
(a)	Out of the total revenue billed in the year under review of Rs. 49,786,728, Rs. 13,376,465 had not been collected by the end of the year, which was 27 percent of the total billed revenue.	A program has been implemented to recover outstanding amounts.	Action should be taken to recover arrears of revenue.
(b)	Rental income		
(i)	As at 31 st December of the year under review, the outstanding shop rent was Rs. 2,154,935 and no action had been taken to recover the relevant arrears.	It has been proposed to write off an amount of Rs. 1,044,125 under Covid relief and steps will be taken to recover the remaining amount.	Urgent action should be taken to recover outstanding shop rent.
(ii)	The revenue billed from the lease of tendered properties belonging to the Council during the year under review was Rs. 20,557,817 and 28 percent of that revenue, that is Rs. 5,823,710, remained to be collected.	Legal action is being taken to recover the outstanding revenue.	Arrears of revenue should be recovered promptly.
(iii)	As at 31 st December of the year under review, the outstanding tender property lease income from the year 2018 to the year 2023 was Rs. 17,985,575 and	Steps will be taken to recover the outstanding revenue promptly and that Rs. 3,284,686 has been	Arrears of revenue should be collected promptly.

only 13 percent of that value, that is Rs. 2,251,253, had been collected in the year under review. proposed to be written off during the Covid period.

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| (iv) | As at 31st December of the year under review, the outstanding machinery rental income for the years 2023 and 2024 of Rs. 237,340 remained to be collected. | Legal action has been taken for recovery. | Arrears of revenue should be recovered promptly. |
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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
Waste management		
The garbage collected within the jurisdiction of the Pradeshiya Sabha is disposed of on land belonging to the Forest Conservation Department in the Karametiya area, and the ownership of that land had not been taken over by the Sabha.	The acquisition of the relevant land is currently underway.	The ownership of the land should be transferred to the council.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) During the board of survey conducted by the Pradeshiya Sabha as on 31st December of the year under review, deficiencies of 128 units of 12 types of goods had been identified and necessary action had not been taken regarding those deficiencies.	Legal action will be taken in the future.	Urgent action should be taken regarding the deficiencies in the commodity survey.
(b) The Council had lost an income of Rs. 10,059,561 to the Council Fund as of December 31, 2024 due to the billing of monthly rent for the shops under the approval of the Chief Minister of Uva Province without acting in accordance	The assessment has been implemented on the recommendation of the Chief Minister of Uva Province.	The assessment of the Uva Provincial Chief Assessor should be implemented.

with the assessment report of the Chief Assessor of Uva Province No. MO/RP/39/ dated January 11, 2013, when collecting the monthly rent of 142 shops leased by the Council.

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| (c) | The last assessment was carried out by the Pradeshiya Sabha in 2015. | The 2015 assessment was delayed until May 22, 2019, and the new assessment was implemented in 2023. | Assessment reports should be implemented promptly. |
| (d) | The Pradeshiya Sabha had identified 964 units during the survey that were required to be issued business tax and trade licenses, but licenses had been issued for only 542 units. Accordingly, 56 percent of the identified units, that is 422 units, had not been granted licenses. | That step will be taken to recover the business tax in the future. | Trade licenses should be issued to all business units. |

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Two vehicles belonging to the Pradeshiya Sabha have been idle for more than 5 years and no steps had been taken to repair or dispose of those vehicles.	Had not Registration certificates and other information, and unusable condition.	Urgent action should be taken regarding idle vehicles.
(b)	54 cemeteries valued at Rs. 165,982,230 had not been taken over by the council.	The takeover process should be carried out by the Divisional Secretary.	The takeover process should be completed promptly.

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 04 employees in 04 posts in the Council and a surplus of 02 employees in 02 posts.	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 5 percent to 200 percent in 07 income items and from 2 percent to 71 percent in 05 expenditure items.	That step 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.