

Medawachchiya Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Medawachchiya Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in net assets / equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 Subsection 172 (1) of the Pradeshiya Sabhas 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 accompanying financial statements give a true and fair view of the financial position of the Medawachchiya Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard 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 Standard 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 exercise 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 the Pradeshiya Sabha's 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 Pradeshiya Sabha;
- Whether the Pradeshiya Sabha 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 Council	Recommendation
(a)	Revenue that should be received through leasing out 04 assets in the year under review had been understated by Rs.1,320,451.	Accepted.	Accurate value should be accounted.
(b)	Rs.85,000 received as donations for a programme conducted to celebrate the World Children's Day had been indicated as miscellaneous income in the statement of comprehensive income of the year under review, instead of stating it as grants for recurrent expenditure.	-Do-	Recurrent donations should be accurately identified.
(c)	The water bowser valued at Rs.14,000,000 received as donations from the Ministry of Provincial Council and Local Government in the year under review had been indicated as purchases of property, plant and equipment in the cash flow statement in the year under review.	Since the capital composition has increased, it is treated as an investment activity.	Since cash inflow has not been occurred, it should not be considered as an investment activity.

1.6.2 Unreconciled control accounts or records

	Audit Observation	Comments of the Council	Recommendation
	Even though capital grants not recognized in surplus or deficit as at 31 December of the year under review according to the statement of assets and liabilities had been Rs.47,266,860 it had	A change has occurred as the capital grants have been adjusted.	Schedules should be reconciled with the corresponding records.

been Rs.30,549,562 according to the statement of changes in equity and as a result, there had been a difference of Rs.16,717,298.

1.6.3 Documentary Evidence not made available for Audit

Audit Observation	Comments of the Council	Recommendation
As adequate evidence in relation to 10 accounting subjects valued at Rs.9,848,464 had not been submitted, it was not possible to satisfactorily examine them during the audit.	There is only one file.	Confirmation must be submitted.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure that had exceeded the revenue of the Saba for the year ended 31 December 2022 had been Rs.11,835,280 and in corresponding to that, the revenue that had exceeded the expenditure in the previous year had been Rs.3,868,526.

2.2 Revenue Administration

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

According to the information presented by the Chairman, the estimated revenue, billed revenue, collected revenue and arrears revenue related to the year under review and to the previous year are mentioned below.

		2022				2021			
Revenue Source	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i) Rates and Taxes	4,024,692	4,501,647	3,590,980	4,933,864	4,158,657	4,730,492	2,759,509	4,023,197	
(ii) Rents	23,069,415	18,328,055	11,378,639	27,515,574	21,456,563	14,140,764	4,687,042	20,566,158	
(iii) License Charges	361,730	502,683	502,683	90,500	4,322,703	7,358,662	7,374,022	90,500	
(iv) Other Revenue	13,246,712	20,503,417	21,768,719	15,430,776	5,436,146	5,169,769	8,536,443	16,696,078	
	----- 40,702,549 =====	----- 43,835,802 =====	----- 37,241,021 =====	----- 47,970,714 =====	----- 35,374,069 =====	----- 31,399,687 =====	----- 23,357,016 =====	----- 41,375,933 =====	

2.2.2 Performance in the Collection of Revenue

The observations in relation to the performance in the collection of revenue in the Pradeshiya Sabha are mentioned below.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) Rates had been billed based on the assessment for the year 2015 and outstanding rates as at 31 December 2022 had been Rs.4,217,014.	Accepted.	Billing should be carried out in accordance with the new changes.
(ii) There had been arrears of industrial tax amounting to Rs.231,750 and arrears of business tax amounting to Rs.485,100 as at 31 December of the year under review.	-Do-	Action should be taken to recover the amounts.
(b) Rents		
(i) According to the assessment done in the year 2018, 54 shop rooms in the old trade complex of the Pradeshiya Sabha had been leased out and action had been taken to charge only 50% of the monthly rental according to the decision No. 2022/03/03/11/Special General Assembly dated 04 March 2022. The approval of the Chief Minister of the Provincial Council had not been obtained for that, in accordance with Section 182 of the Pradeshiya Sabha Act No. 15 of 1987.	-Do-	Action should be taken in accordance with the Act.
(ii) Action had been taken to collect lease rentals amounting to Rs.24,088,687 which had not been recovered over 04 years by 31 December 2022 and property and shop rents amounting to Rs.3,222,637.	-Do-	-Do-
(iii) Action had not been taken even in the year under review to recover the machinery hire amounting to Rs.204,250 which had to be recovered by 31 December in the year under review for hiring machinery owned by the Council, but had not been recovered for a period from 01 to 03 years.	-Do-	Action should be taken to recover.

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| (iv) | Action had not been taken to recover the late fees amounting to Rs.8,706,079 as at 31 December in the year under review that had to be charged since rentals of the new trade complex had not been paid on the due date. | -Do- | -Do- |
| (v) | A survey of the billboards and telephone transmission towers in the limits of the Pradeshiya Sabha had not been conducted and documented and the arrears of rent due by 31 December had been Rs.638,550. | -Do- | -Do- |
| (c) | Other Revenue | | |
| (i) | Court fines amounting to Rs.2,820,849 and stamp duty amounting to Rs.2,552,450 should have been received from the Chief Secretary of the Provincial Council and from the other authorities as at 31 December in the year under review. | -Do- | Action should be taken to deliver them. |

3. Operational Review

3.1 Performance of functions assigned by the Act

Under Section 3 of the Local Council Act, the matters observed regarding the regularization and control of matters relating to public health, public utility services and public roads, and the fulfilment of the duties of the council, which should have been performed by the Council, are listed below.

Audit Observation	Comments of the Council	Recommendation
<p>(a) Conduct of Slaughter houses</p> <p>Tenderers had not come forward to get the Udumbugala and Siyamabalagaskada meat shops as the required slaughter houses had not been constructed for Muslimhalmillewa, Udumbugala and Siyambalagaskada meat shops. Therefore, meat trade had been conducted through illegal slaughterhouses.</p>	<p>Accepted.</p>	<p>Beef trade should be regularized.</p>
<p>(b) Construction of Lavatory System for the Weekly Fair</p> <p>The constructions of the lavatory carried out at a cost of Rs.1,222,415 in the year 2020 had not been completed in a manner that it could be used and the equipment purchased for Rs.38,780 on</p>	<p>I will do proper procurement activities in the future and take action to</p>	<p>Action should be taken to complete the constructions and to regularize it properly.</p>

01 June 2022 had not been installed in the lavatory. regularize it.

3.2 Management of Solid Waste

Audit Observation	Comments of the Council	Recommendation
Even though the Pradeshiya Sabha had established a waste management centre, the waste collected in the Sabha limits had been dumped and burnt in the open area of the Isinbassagala reserve as the centre had not been functioning actively.	Accepted.	Solid waste management should be carried out systematically.

3.3 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The double cab worth Rs.1,075,000 owned by the Pradeshiya Sabha and the Mahendra cab worth Rs.1,319,050 had been taken by a member of the Council to a vehicle repair institute at his discretion before one year informally even without obtaining the approval of the Council.	Accepted.	Actions should be taken to bring these vehicles to the council.
(b) The generator worth Rs.1,000,000 taken to a garage near the Pradeshiya Sabha for repairing prior to 03 years, had been piled as pieces in unprotective manner in the relevant garage and arrangements had not been made to get the relevant repairs done to the machine and to deliver the machine to the Pradeshiya Sabha.	-Do-	Action should be taken expeditiously to bring this machine to the Pradeshiya Sabha.

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Council	Recommendation
(a) Six (06) air conditioners installed at the cost of Rs.706,140 in the assembly hall located on the upper floor of the Pradeshiya Sabha in the year 2017 remained idle for a period of 03 years as electric cables, which had been for connecting the air conditioners to the three-phase electrical system had not been manufactured as per the standardization.	Accepted.	The wiring system should be installed as per the standardization.
(b) The Council had lost an income of Rs.905,500 as action had been taken to cut the shop rents for shops No. s 01 and 02 in C.P. city for the years 2020 and 2021 as per the personal discretion of the chairman. He had not paid the rent of Rs.606,000 due for the year 2022 for these shops.	-Do-	Action should be taken to recover.

3.5 Asset Management

Audit Observation	Comments of the Council	Recommendation
(a) An amount of Rs.2,343,240 had become an idle expenditure due to the negligence of the Sabha in the construction of the water treatment plant in the restoration unit premises belonging to the Pradeshiya Sabha in the year 2019, and an additional cost of Rs.288,000 was being spent annually to buy drinking water from outside.	Accepted.	Action should be taken to carry out necessary repairs and to utilize the water treatment plant.
(b) As a water supply system had not been installed for the lavatory system constructed at a cost of Rs.227,139 in the Sabha hall situated on the upper floor of the Pradeshiya Sabha in the year 2017 remained unusable for 04 years.	-Do-	Action should be taken to install a water supply system.

3.6 Irregular Transactions

Audit Observation	Comments of the Council	Recommendation
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<p>A Cab owned by the Pradeshiya Sabha had met with an accident on 16 June 2020 while it had been driven by the Chairman of the Pradeshiya Sabha and preliminary and full reports had not been submitted in that regard in terms of Financial Regulation 104 (3) and Financial Regulation 104 (4). The former Chairman, who had been the driver at the time of the accident, had taken it to the Rajarata Auto Mobile Bureau (Rajarata Auto Mobile Bureau) of Anuradhapura at his own discretion without following any procurement methodology. A sum of Rs.414,081 received from Agrahara Insurance Company for this purpose had been paid to the repair institute without the recommendation of the mechanical engineer.</p>	<p>Accepted.</p>	<p>A formal investigation should be conducted in this regard and action should be taken to bring the vehicle to the Pradeshiya Sabha.</p>

3.7 Identified Losses

Audit Observation	Comments of the Council	Recommendation
<p>Even though 545 books worth Rs.100,069 and 81 books, for which value could not be identified had been missing from the Medavachchiya library according to the goods survey conducted as at 31 December 2020, action had not been taken to recover the losses.</p>	<p>Accepted.</p>	<p>Action should be taken to recover the loss from the parties responsible.</p>

3.8 Visual Irregularities

Audit Observation	Comments of the Council	Recommendation
<p>Since it had not been confirmed that 10 tyres worth Rs.179,700 purchased on 18 November 2021 and 19 March 2022 had been fixed to the Crew Cab, action had not been taken to conduct investigations in that regard and to recover the amounts from the relevant driver and the parties responsible for that.</p>	<p>Accepted.</p>	<p>Action should be taken to conduct a formal investigation and to recover this loss from the relevant parties and a required internal control should be established to prevent the occurrence of this kind of incidents again.</p>

