

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Haldummulla Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operation, statement of changes in equity, and cash flow statement and other explanatory information, 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 Sub-section 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Haldummulla Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 Sub-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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Pradeshiya Sabha are consistent with the preceding year as required by Section 6 (i) (d) (iii) of the National Audit Act, No. 19 of 2018.

- b) The recommendations made by me in the preceding year in accordance with Section 6 (i) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	A sum of Rs. 540,000 spent during the year under review for surveying of lands belonging to the Sabha and preparing their plans had not been capitalized.	Action will be taken to capitalize it in the year 2023.	Accounts should be prepared accurately.
(b)	Total of 110 library books received by the Haldummulla public library as donations during the year under review had not been capitalized.	-Do-	-Do-
(c)	A sum of Rs. 9,753,707 had been accounted for as creditors in respect of 48 projects which had not been implemented in the preceding years despite the preparation of estimates.	Nine works are being implemented at present. Creditors balance of 3 works will be eliminated from accounts in the year 2023.	-Do-
(d)	A sum of Rs. 102,849 that further remained receivable to the Sabha in respect of the accident caused to the cab had not been brought to account as receivable insurance indemnity	This will be eliminated from the final accounts of the year 2023.	-Do-
(e)	Although the value of finished work of the garbage collection stores room of the waste yard of which works had been completed during the year under review was Rs. 1,892,539, it had been brought to account as Rs. 1,564,439 under the property, plant and equipment.	-Do-	-Do-
(f)	A sum of Rs. 11,985,044 spent after receiving as assistance from the Local Development Supporting Project during the year under review had not been accounted for as capital income and capital expenditure.	-Do-	-Do-

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| (g) | Details on 04 court cases filed by the Sabha in the preceding years relating to outstanding stall rents of Rs. 728,165 had not been revealed in the financial statements. | Details on the court cases will be included in the account in the future. | Details on the contingent liabilities should be included in the financial statements. |
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1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs. 2,388,963 between the balance of the outstanding stamp duty stated in the statement of financial position as at 31 December of the year under review and the valance stated in the schedule.	This matter will be corrected in the submission of accounts for the year 2023.	Corrections should be made in a manner reconcile the balances in the schedules and the accounts.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
As the registers of fixed asset, schedules, certificates of deposit and stock verification reports had not been submitted, total value of Rs. 23,855,567 relating to 05 assets and liabilities items could not be satisfactorily examined in the audit	Documents and schedules will be submitted in the year 2023.	Documentary evidence that confirm the balances stated in the financial statements should be submitted.

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations	Non-compliance	Comment of the Sabha	Recommendation
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.371	Advance of Rs. 628,788 provided on 04 occasions in the preceding years and advance of Rs. 194,300 provided relating to 10 occasions during the year under review had not been settled.	A certain amount of advances has been settled. Action will be taken regarding the other advances in the future.	Advances obtained should be settled immediately after the completion of the intended purpose.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 3,196,570 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 3,771,925.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	<u>2022</u>				<u>2021</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	2,759,810	3,238,446	2,009,918	1,228,528	2,842,689	2,674,657	1,906,778	767,879
(ii) Rents	2,619,900	2,691,367	2,254,307	437,060	2,346,400	2,630,867	2,243,713	387,154
(iii) License Fees	781,350	1,215,506	1,215,506	0	662,400	674,501	674,501	-
Total	6,161,060	7,145,319	5,479,731	1,665,588	5,851,489	5,980,025	4,824,992	1,155,033

2.2.2 Performance in the Collection of Revenue

The observations on the performance in the collection of revenue of the Sabha are as follows

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Out of the total billed income of Rs. 7,145,319 in the year under review, a sum of Rs. 1,665,588 had not been recovered and it was 23 per cent of the total billed income.	This was due to the crisis situation prevailing in the country and action will be taken to recover the due amount in the future.	Outstanding rent should be recovered promptly.
(b)	Having entered into a lease agreement on 06 February 2019 in relation to observation cabin and its toilet for the years 2019,2020 and 2021, it had been leased to an external party. The outstanding amount of Rs. 309,276 according to the lease agreement had not been recovered.	Cases have been filed in this regard.	Outstanding tax should be recovered.

3. Operating Review

3.1 Execution of duties entrusted by the Act

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

Audit Observation	Comment of the Sabha	Recommendation
Although the activities of the crematorium belonging to the Sabha had been started on 06 March 2021, an Environmental Protection Licence had not been obtained even by 29 March 2023.	Action will be taken to obtain Environmental Protection Licence in the future.	Environmental Protection Licence should be obtained for the crematorium.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Despite the payment of advances of Rs.10,000 and Rs.100,000 respectively on 31 March 2015, to the Kitulagahaara Rural Society under Sabha funds for construction of a culvert and a project for the provision of drinking water, the works had not been completed and the advances had not been settled.	Although the relevant society was informed to settle this amount, payments have not been made so far.	Action should be taken to carry out the work for which the advance was provided or to settle the advance.
(b) According to the final report of Financial Regulation 104 regarding the cab belonging to the Pradeshiya Sabha which had met with an accident on 28 March 2020, the recommendation made to recover the loss thereof amounting to Rs.488,000 and 25 per cent government fees from the Chairman had not been implemented.	The Commissioner of Local Government has been informed in this connection.	Recommendations of the investigation board should be implemented.
(c) A quarters belonging to the Koslanda Sub-office of the Pradeshiya Sabha had been provided to an employee of the Pradeshiya Sabha by entering into a lease agreement on 08 November 1982	Legal action will be taken under the Recovery of Possession Act with regard to the government quarters,	The protection of the properties of the Sabha should be ensured.

and the officer concerned had retired on 01 January 1984. Nevertheless, the relevant quarters had not been taken over by the Pradeshiya Sabha even by 29 March 2023.

3.3 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
As published in section 4 (b) of the Government Extraordinary Gazette No. 1773 dated 24 August 2012, the unauthorized mobile stalls constructed so as to block the view from Beragala junction to Uda Viharagala, which attracted local and foreign tourists, had not been removed even until the date of audit on 29 March 2023.	Action will be taken to remove the unauthorized trade stalls in the future.	Action should be taken to remove the constructions that cause inconveniences to the general public.

3.4 Deficiencies in the Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
Although brass hinges and fittings should have been fixed for windows and doors according to Item No. 08 of the Bill of Quantity relating to final payment of construction work of the garbage storage room of the waste yard belonging to Haldummulla Pradeshiya Sabha, it was observed during the physical inspection carried out that steel hinges and fittings had been fixed. Accordingly, a sum of Rs. 149,627 had been paid for the items that were not in conformity with the approved specifications.	The relevant society has been informed to fix brass hinges and fittings for windows and doors of the garbage storage room.	Relevant works should be completed as per the payments made in the final bill.