

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Medadumbara Pradeshiya Sabha for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, 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 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 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 Medadumbara 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) The Financial Statements of the Pradeshiya Sabha are consistent with that of the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by 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	Comment of the Sabha	Recommendation
(a) Although the rental income related to the year under review was Rs.3,487,761, it had been accounted for as Rs.4,302,773. Accordingly, a sum of Rs.815,012 had been overstated.	Action will be taken to make the corrections in the ensuing year.	Financial statements should be prepared accurately.
(b) Even though the licence fee income related to the year under review amounted to Rs.2,522,735, it had been accounted for as Rs.324,250. Accordingly, the licence fee income had been understated by Rs.2,198,485.	-Do-	-Do-
(c) Although the three-wheeler income related to the year under review was Rs.753,520, it had been accounted for as Rs.409,045. Accordingly, a sum of Rs.344,475 had been understated.	-Do-	-Do-
(d) The water charges income of Rs.3,187,027 related to the year under review had not been accounted for.	-Do-	-Do-
(e) Although the stamp duty income related to the year under review was Rs.12,305,701, it had been accounted for as Rs.34,495,373. Accordingly, a sum of Rs. 22,189,672 had been overstated.	The received stamp duty has been accounted for.	Correct value should be accounted for.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Sabha	Recommendation
When comparing the balances related to 04 items of account stated in the financial statements with the relevant schedules, there was a difference of Rs.24,227,865.	Action will be taken to correct this error in the ensuing year.	Differences should be identified and corrected.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to the lack of confirmation letters for the ownership, balance confirmations, reports of the survey of stores, and the evidence for physical existence, 03 accounts balances worth Rs. 3,452,453 as at 31 December of the year under review could not be satisfactorily examined in the audit.	Action will be taken to settle the balance lawfully.	Action should be taken to take over the ownership and submit the balance confirmations.

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 etc.	Non-compliance	Comment of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No.15 of 1987			
(i) 19 (1) (x, xi)	It has been stated that the lands owned by the Sabha shall not be alienated, whereas it had been allowed to constructs stalls on the land situated on the circular road.	Lease rents are being paid at present after entering into agreements.	Unauthorized constructions should be removed.
(ii) Section 149	One present business tax had not been recovered from 02 hotels registered with the Sri Lanka Tourist Board and a sum of Rs. 315,264 receivable in relation to the period between 2016 and 2017 had not been recovered.	Legal action will be taken in this connection in the future.	Due charges should be recovered.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.571 (3) A total of 134 lapsed deposits worth Rs. 190,550 had not been disposed of within the period from 2019 to 2020. Action will be taken to release or credit it to the government revenue in the ensuing year. Action should be taken in accordance with Financial Regulations.
- (c) Section 5 (1) of the Circular of the Commissioner of the Local Government No.2016/3 dated 17 March 2016. Although the stalls rent should be revised once in 05 years, 25 stalls in Theldeniya Economic Centre had not been assessed after the year 2015. Action will be taken to implement the new valuation. Circular instructions should be followed.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 32,917,402 for the year ended on 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 22,588,403.

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	2022				2021			
	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	1,772,630	2,113,297	2,494,108	1,021,640	1,571,638	1,564,249	1,363,258	1,402,451
(ii) Rents	1,272,339	3,668,192	5,554,029	2,256,340	4,400,048	3,236,717	3,364,425	4,142,177
(iii) License Fees	3,544,196	2,526,735	2,685,485	48,050	3,733,846	2,018,450	2,208,100	206,800
(iv) Other Revenue	69,704,926	55,664,536	56,834,801	65,021,810	71,563,539	48,999,680	50,858,292	66,192,075
	<u>76,294,091</u>	<u>63,972,760</u>	<u>67,568,423</u>	<u>68,347,840</u>	<u>81,269,071</u>	<u>55,819,096</u>	<u>57,794,075</u>	<u>71,943,503</u>

2.2.2 Performance in the Collection of Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and taxes The outstanding balance of rates as at the end of the year under review amounted to Rs. 911,318, of which the amount due from 53 properties with outstanding rate of a unit exceeding Rs.5000 totalled Rs.638,189.	A warrant for recovery of rate and taxes has been issued to seize the property.	Outstanding revenue should be recovered.
(b) Stall Rent Due to failure to implement, with effect from February 2021, the recovery of rents from 06 stalls situated on Theldeniya Hospital Circle road as per the valuation report dated 26 August 2019, the Sabha had sustained a loss of Rs.1,160,074 during the period from February 2021 to December 2022.	It has been informed to provide a valuation report.	Stall rent should be recovered in accordance with the new assessment.

2.2.3 Court Fines and Stamp Duty

The court fines and stamp duty receivable from the Chief Secretary of the Provincial Council and the other authorities as at 31 December of the year under review amounted to Rs.635,524 and Rs.21,531,744 respectively.	The Chief Secretariat has been informed in this regard.	Arrears of stamp duty court fines and should be recovered.
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3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Eight receivable account balances as at 31 December of the year under review totalled Rs.13,370,887, of which the balances related to a period from 01 to 05 years totalled Rs.4,542,105 and the balances that continued to exist for more than 05 years totalled Rs.4,472,290.	Action will be taken to conduct a formal survey to recover and write off the balances.	Receivable balances should be recovered.

- (b) Two payable account balances as at 31 December of the year under review totalled Rs.13,016,479, of which the balances related to a period from 01 to 05 years totalled Rs.4,278,102 and the balances that continued to exist for more than 05 years totalled Rs.3,267,886.
- An inspection is being conducted in accordance with Financial Regulations and other debts will be settled.
- Payable balances should be settled.

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Sabha	Recommendation
Seven vehicles worth Rs. 17,850,000 and a water bowser worth Rs. 177,500 existed as at the end of the year under review remained idle and underutilized over a period ranging from 02 to 09 years.	They will be repaired and put into use.	Such items should be repaired and effectively used.

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
The ownership of a cab and a jeep used by the Sabha had not been taken over.	Action will be taken over to transfer the ownership.	Ownership should be transferred.

3.4 Irregular Transactions

Audit Observation	Comment of the Sabha	Recommendation
After approving the proposal for the construction of the Theldeniya public market building on 09 June 2009 and identifying 76 traders who were engaged in businesses in the Theldeniya weekly fair, decisions had been made to provide them with the stalls at the market complex scheduled to be constructed. Nevertheless, the Sabha had reached a decision on 22 May 2013 to provide stalls for another 94 businessmen. The Sabha had obtained a deposit of Rs. 20,501,000 from the 93 lessees who had been identified subsequently and the businessmen who had been identified on the first occasion had filed court cases against the Sabha, resulting in discontinuing the construction of those stalls. Nine court cases are pending against the Sabha in connection with proposed stalls, and a sum of Rs. 1,901,600 had been spent out of the Sabha funds as the lawyers' fees within a period of 09 years.	The lawyer has been informed to make arrangements to recover the relevant money.	Action should be taken in accordance with the judgments of the court cases.

3.5 Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
(a) Cadre vacancies and excesses When comparing the approved cadre and the actual cadre, there were 24 vacancies in 11 position, while there were 10 excess cadre in one position.	Recruitments for vacancies have been suspended and the excess cadre has occurred due to the attachment of the Development Officers for that post according to the policy decisions of the Government.	Relevant activities should be carried out according to the approved cadre.
(b) Employees Loans A sum of Rs. 209,358 due from two officers transferred in 1993 and 2021, Rs. 17,736 continued to exist from 05 officers since the year 2004, and a loan balance of Rs. 1,650 due from two employees who had retired in the year 2021, had not been recovered.	The Provincial Treasury has been informed in this regard.	Loan balances should be recovered.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
When comparing the estimated income and expenditure of the budget prepared for the year under review with the actuals, variations ranging from 32 per cent to over 100 per cent were observed relating to 23 items of income, while variations ranging from 20 per cent to 100 per cent were observed in relation to 25 items of expenditure. Accordingly, the budget had not been made use of as an effective instrument in control.	Due to the economic crisis in the country, the budget cannot be duly implemented.	The budget should be prepared with due regard in keeping with the necessities.

4.2 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
Although the Sabha had identified sustainable development goals and targets, action had not been taken to achieve them.	Action will be taken to achieve the goals in the ensuing years.	Goals and targets should be achieved by identifying the sustainable development indicators.