

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of Meegahakivula Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and significant accounting policies and other explanatory 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 which should be read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared 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 Meegahakivula Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

**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 Generally accepted Accounting Principles, 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing 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 skepticism 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 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 regarding following requirements are included in National Audit Act, No. 19 of 2018.

- (a) In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Meegahakivula Pradeshiya Sabha are consistent with the preceding year.
- (b) In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

## 1.6. Audit Observations on Preparation of Financial Statements

### 1.6.1 Accounting deficiencies

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	The value of the tab computer given to the Pradeshiya Sabha based on the provisions of the Local Government Capacity Development Project had not been identified and accounted for.	It is mentioned that the value of the tab computer has not been given by the Local Government Department.	Actions should be taken identify the value of assets and account for.
(b)	The total value of 02 construction industries which had been completed under the funds of Regional Development Support Project, had not been capitalized Rs.2, 644,033 in the year under review.	Accounts will be corrected in 2024	Actions should be taken to prepare Accounts correctly.
(c)	The bank interest income of Rs.73,071 received in relation to the previous year for a fixed deposit held in a state bank had not been accounted as income for the year under review.	Necessary revision will be made in the year 2024	-Do-
(d)	Interest income of the fixed deposit amounting to Rs.67,835 as on December 31 of the year under review, had not been recognized and accounted for.	Accounts will be prepared correctly in 2024	Actions should be taken to prepare Accounts correctly.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements submitted, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December was Rs.1,542,877 and corresponding to the revenue exceeding recurrent expenditure of the previous year was Rs.1,570,375.

## 2.2 Revenue Administration

### 2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

According to the information presented by the Secretary of the pradeshiya Sabha, the information about the estimated income, billed income, collected income and arrears for the year under review and the previous year is follows.

Source of income	2023				2022			
	Estimated income	Billed income	Collected income	Total deficient as on 31 December	Estimated income	Billed income	Collected income	Total deficient as on 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates & Taxes	2,703,800	1,849,781	1,339,772	510,009	2,400,000	1,545,281	1,266,784	278,497
(ii) Rents	5,161,400	4,479,220	4,228,470	250,750	4,419,300	4,139,820	3,805,664	334,156
(iii) License Fees	750,000	400,524	399,275	1,249	700,000	336,694	336,694	0
(iv) Other income	3,947,498	3,244,964	2,920,809	324,155	3,243,000	2,137,559	2,137,559	0
<b>Total</b>	<b>12,562,698</b>	<b>9,974,489</b>	<b>8,888,326</b>	<b>1,086,163</b>	<b>10,762,300</b>	<b>8,159,354</b>	<b>7,546,701</b>	<b>612,653</b>

### 2.2.2 Performance in Collecting Revenue

The observations regarding the revenue collection performance of the Sabha are as follows.

	Audit Observation	Comments of the Council	Recommendation
(a)	Outstanding water tariffs of Rs. 342,539 which have been in existence for more than 05 years, had not been collected in the year under review.	Actions are taken to recover the outstanding balances.	Actions should be taken to recover the outstanding revenues
(b)	Rs. 831,043 of outstanding shop rents which have been existing for more than 05 years had not been recovered in the year under review.	The deficiency cannot be pointed out with certainty due to the fact that the shop rent register is not updated.	Actions should be taken to recover the outstanding revenues.
(c)	Court fines of Rs.791,673 and stamp duty of Rs.1,331,193 had not been collected as on 31 December of the year under review.	Stamp duty Rs.444, 551 has been received and reminder letters have been sent to collect the deficiency amounting to Rs.1, 331,193 and court fines.	-Do-

### 3. Operational Review

#### 3.1 Management inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The investigation as per the Financial Regulation 104(4) regarding the misplacement of the battery of the Sabha's Backo-loader machine while it was parked in the council's vehicle yard 01 March, 2023, had not been conducted even by 31 December 2023.	The preliminary Report has been referred to the Provincial Administration on 19.04.2023	Action should be taken to conduct a proper investigation. Identify the responsible persons and recover the loss.
(b) An employee who did not report for duty had been paid Rs.51, 000 as wages for 02 months of October and November 2023 without confirming attendance.	Letters have been sent asking the reasons regarding the concerned officer	Actions should be taken to maintain formal employee management system.

#### 3.2 Operational inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Due to the unrest in Colombo on 9 May last year, no investigation had been carried out regarding the cab worth Rs.7,650,000 which was burnt and destroyed in accordance with Financial Regulation 104 (4).	Statements have obtained from the Secretary of the Sabha and the concerned driver on 07.09.2023 in this regard.	Actions should be taken to carry out investigations and recover the value of the damage from the concerned parties.
(b) In the year 2017, 10 shops of the new bus station in Megahakivula, which had been built at a cost of Rs. 17,870,885, had been leased in the year 2022 upon the execution of the agreements but the rent had not been collected until 31 December 2023.	The lease has been implemented under a formal procurement process.	Actions should be taken to collect rent from the leased properties.

### 3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
<p>The building, which was constructed with an upper floor of 10 shops at a cost of Rs.33,525,428 under the Puraneguma project in the year 2017 without an adequate road for the buses to access and easily exit the bus station and without clearing the rights, remained unused.</p>	<p>Although that place is not used as a bus-stand, it is used for public purposes.</p>	<p>Actions should be taken to prepare formal plans and acquire the property prior to construction.</p>