

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Medirigiriya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the statement of Assets and liability as at 31 December 2022, comprehensive income statement, statement of changes in net assets/equity, cash flow statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the 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 financial statements give a true and fair view of the financial position of the Medirigiriya 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**

Based on the matters described in Paragraph 1.6 of this report I express a qualified opinion in respect of 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 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, 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 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 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 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 Sabha	Recommendation
(a) Savings interest income related to the year under review amounting to Rs.606,659 and for the preceding year amounted to Rs.365,364 in the Savings Account maintained by the Pradeshiya Sabha at Madirigiriya People's Bank, along with the current account had not been brought to financial statement.	It has been taken to the revenue of the year 2023.	Interest income should be accounted for on an accrual basis.
(b) The interest income received for the year under review amounted to Rs.52,346 and Rs.50,801 which was received in relation to the preceding years pertaining to the savings account maintained in the Bank of Ceylon had not been brought to financial statement.	-do-	-do-

(c) The value of the stock of equipment purchased and stored for the construction of boundary fences of two cemeteries amounted to Rs.335,466 had been brought to accounts under fixed assets.	It has been accounted for under work- in- progress by journal entries.	It should be accounted for under work- in -progress.
(d) The value of the organic fertilizer stock in hand of 27627 kg amounted to Rs.690,675 and the value of unfinished fertilizer stock as at 31 December of the year under review had not been assessed and accounted for.	The stock in hand value of Rs.690,675 was accounted for by Journal No. 03 and the unfinished stock value will be identified and corrected in the future.	Remaining stock should be identified and accounted for.
(e) Four tyres remained in the store valued at Rs.260,000 had not been included in the stock in hand.	It has been corrected by journal entries.	-do-
(f) Court fines income pertaining to the year under review amounted to Rs.1,060,562 had not been brought to accounts.	Actions have been taken to correct.	Revenue should be recognized accurately.

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the outstanding business tax income was Rs.2,112,840 according to the Business Tax Register as at 31 December of the year under review, thus the income was Rs.2,014,240 as per the financial statements, there was a difference of Rs.98,600.	Actions will be taken to correct.	The balances shown in the financial statements and schedules should be reconciled.
(b) Although the machine rental income for the year under review as per machine rental register was Rs.4,053,985, thus the income was Rs.2,859,460 as per the	Actions will be taken to check and adjust the accuratet balance.	-do-

financial statements, there was a difference of Rs.1,194,525.

### 1.6.3 Lack of Written Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of 02 account balances amounted to Rs.55,792,954 as at 31 December of the year under review and the registers on debtor creditor balances, they could not be satisfactorily vouched in audit.	Actions will be taken to submit balance confirmations in the future and make reconciliations.	The account balances shown in the financial statements should be verified.

## 2. Financial Review

### 2.1 Financial Results

As per the financial statements presented, the income exceeding the expenditure of the Sabha was Rs.11,579,674 for the year ended 31 December 2022 and the correspondence revenue that exceeded the expenditure of the preceding year was Rs.7,815,748.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Arrears of Revenues

The details about the estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total of arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	3,384,810	5,117,490	4,009,761	8,072,203	3,364,700	3,235,958	3,368,879	3,852,693
(ii) Rents	12,382,840	7,231,911	6,446,113	4,087,422	18,932,900	13,421,134	11,012,262	3,162,773
(iii) License Fees	357,250	203,784	211,784	-	375,200	163,236	191,236	8,000
(iv) Other Income	33,505,000	32,771,047	25,414,963	28,588,718	20,882,900	24,781,561	43,947,230	15,122,894
	49,629,900	45,324,232	36,082,621	40,748,343	43,555,700	41,601,889	58,519,607	22,146,360

## 2.2.2 Performance of Revenue Collection

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

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>(a) Rents</b>		
Actions had not been taken by the Sabha to get settled the arrears of revenue of the rent of meat stalls, fish stalls, weekly fair, car parks amounted to Rs.371,456 remaining in the financial statements continuously.	The requests have been made to the Commissioner of Local Government to write off a part and a sum of Rs.79,600 can be recovered.	Attention should be drawn to recover the arrears of revenue.
<b>(b) Other Revenues</b>		
<b>(i)</b> Although the arrears of business tax revenue remaining from the preceding year was Rs.1,422,940, out of that arrears, only a revenue of Rs.520,680 had been collected during the year under review.	Actions are being taken for the recovery of arrears of revenue.	Necessary arrangements should be made for the recovery of arrears of business tax.
<b>(ii)</b> The revenue from court fine and the revenue from stamp duty which should have been received from the Secretary of the Provincial Council and other authorities as at 31 December 2022 were Rs.23,931,438 and Rs.4,157,280 respectively as per the reports submitted.	-do-	Arrangements should be made to collect the revenue.

## 3. Operational Review

### 3.1 Performing of Tasks Assigned by the Act

The matters observed in respect of executing of functions that should have been performed by the Sabha such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<p>By - laws</p> <p>By-laws had not been enacted in order to fulfill 02 main tasks of selling drinking water and charging rent for vehicles and machinery which should be enacted By-laws .</p>	<p>The necessary activities are being done through a local government lawyer in respect of by-laws not enacted and further works will be done accordingly.</p>	<p>Actions should be taken to enact necessary by-laws.</p>

### **3.2 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<p>The value of the land in Yudhganawa cemetery belonging to Medrigiriya Pradeshiya Sabha had not been assessed and accounted for.</p>	<p>Actions will be taken to account for.</p>	<p>Values of lands should be accounted for.</p>

### **3.3 Assets Management**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<p>(a) A cab had been kept idle on the premises of the Sabha for over 21 years.</p>	<p>It has been requested to make necessary arrangements to hand over the cab to the Chief Secretariat.</p>	<p>Arrangements should be made to dispose.</p>
<p>(b) Two water bowsers were decomposing and kept in idle for more than 11 years on the Sabha premises.</p>	<p>The necessary activities are being carried out to hand over the Mahaweli Residential Business Management Institute to Zone "D".</p>	<p>Arrangements should be made to dispose.</p>
<p>(c) Three machineries valued to Rs.142,500 remained in the rice flour processing centre has been in idle for more than 11 years.</p>	<p>Due to no one has appeared to buy this Centre it exists as it is.</p>	<p>Arrangements should be made to dispose.</p>

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| (d) | A vehicle service station built for the Pradeshia Sabha at a cost of Rs.125,000 remained idle since 2010 without being used for the relevant purposes.  | It has been in idle due to lack of required human resources. | Actions should be taken to utilize assets effectively. |
| (e) | Equipment valued at Rs.1,330,776 and 04 electronic library buildings valued at Rs.14,935,994 which were given by the Ministry of Provincial Councils and Local Government to start 04 e-libraries in the Sabha area had remained in idle due to practical issues related to project implementation. | It has been in idle due to lack of required human resources. | Actions should be taken to utilize them effectively.   |

### 3.4 Human Resources Management

#### Audit Observation

There were 10 vacancies under 08 post names and 02 excesses under 02 post names at the end of the year under review.

#### Comments of the Sabha

Requests have been made through letters to provide officers for those positions.

#### Recommendation

It should be brought to the attention of the concerned parties