

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of Madawachchiya Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of Assets and Liabilities as at 31 December 2023 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 material accounting policy 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 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 reported 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 Madawachchiya Pradeshiya Sabha as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk 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 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 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 are 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 include 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 related to the preparation of financial statements.

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though money had not been paid during the year under review, the increase in fixtures assets by Rs.197,000 had not been accounted as debtors and capital grants.	Not accepted.	Even though money had not been paid for these assets, the assets should be accounted as debtors and capital grants as assets have been increased.
(b) Even though the depreciation of roads, bridges and culverts had been Rs.973,709 in the year under review, it had been overstated as Rs.1,071,762 in the statement of comprehensive income and the statement of assets and liabilities.	Accepted.	The accurate value should be accounted.
(c) Even though the depreciation of installation of electric equipment in the year under review had been Rs.433,184, it had been understated as Rs.390,399 in the statement of comprehensive income and statement of assets and liabilities.	Accepted	The accurate value should be accounted.
(d) Although the interest receivable for a fixed deposit account maintained in a state bank had been Rs.1,148,352 as at 31 December of the year under review, it had been overstated as Rs.1,191,986.	The bank had calculated the interest as Rs.169,631 as at 31 December 2023.	The accurate value should be accounted.

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
Even though the revenue from shop rent receivable as at 31 December of the year under review according to the Statement of Assets and Liabilities had been Rs.3,207,688, it had been Rs.2,972,328 according to the shop rent register, there had been a difference of Rs.235,360.	The balances indicated in the financial statements are correct and action has been taken to correct the documents.	The reasons for the change should be looked in to and corrected.

### 1.6.3 Lack of Written Evidences for Audit

Subject	Amount	Audit Evidence Not Provided	Comments of the Sabha	Recommendation
	Rs.			
(a) Revenue from road use charges	1,270,000	(i) Updated Revenue documents (ii) Reports of the Survey Boards (iii) Files of Applications	Action will be taken to confirm these balances in the future.	Confirmations must be submitted.
(b) Bill-board revenue	199,450	-Do-	-Do-	-Do-
(c) Revenue earned from the slaughtering of cattle	40,230	-Do-	-Do-	-Do-
(d) Revenue from renting vehicles	307,900	-Do-	-Do-	-Do-
(e) Nanesala Revenue	821,650	-Do-	-Do-	-Do-
(f) Manufacture of Equipment for stock	749,306	(i) Detailed Schedules (ii) Reports of the Survey Boards	Action will be taken to confirm these balances in the future.	-Do-
(g) Other receivables 01	20,605	-Do-	-Do-	-Do-

(h)	Miscellaneous income receivable	2,211,238	-Do-	-Do-	Confirmations must be submitted.
(i)	Receivable rent for the demolished shops	678,474	(i) Detailed Schedules (ii) Age Analyses	-Do-	-Do-
(j)	Tubewell Charges Receivable	575,000	-Do-	-Do-	-Do-
(k)	Billboard revenue Receivable	638,550	-Do-	-Do-	-Do-

## 1.7 Non-Compliance

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

Instances of noncompliance with laws, rules, regulations and management decisions are mentioned below.

	<b>Reference to Laws, Rules and Regulations</b>	<b>Noncompliance</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a)	Paragraph (d) Section 38 of the National Audit Act, No. 19 of 2018	Effective internal control had not been implemented regarding the collection of revenue, vehicle disposals, vehicle repairs and ensuring security of assets.	Comments have not been submitted.	Action should be taken in compliance with the National Audit Act.
(b)	By-law 20 of the By-laws dated 23 August 1988	Action had not been taken to regulate the meat and fish trade.	Comments have not been submitted.	Action should be taken according to the accepted standard By-laws.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue, which had exceeded the expenditure of the Pradeshiya Sabha, for the year ended 31 December 2023, had been Rs.2,653,158 and corresponding the revenue, which had exceeded the expenditure in the previous year had been Rs.11,835,280.

### 2.2 Revenue Administration

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

According to the information submitted by the Secretary of the Sabha, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year are mentioned below.

Revenue Source	2023				2022			
	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	4,498,664	4,738,766	3,371,917	6,300,713	4,024,692	4,501,647	3,590,980	4,933,864
(ii) Rents	33,136,907	16,578,785	8,298,358	35,796,001	23,069,415	18,328,055	11,378,639	27,515,574
(iii) License Charges	519,027	427,200	427,200	90,500	361,730	502,683	502,683	90,500
(iv) Other Revenue	12,275,818	12,575,582	12,087,886	15,918,472	13,246,712	20,503,417	21,768,719	15,430,776
	50,430,416	34,320,333	24,185,361	58,105,686	40,702,549	43,835,802	37,241,021	47,970,714

#### 2.2.2 Performance in the Collection of Revenue

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

Audit Observation	Comments of the Sabha	Recommendation
(a) <b>Rates and Taxes</b>		
(i) A sum of Rs.5,563,864, which was 81 percent of the total arrears of rates as at 31 December of the year under review, had not been recovered.	Accepted.	Action should be taken to recover the arrears of rates.

(ii) Action had not been taken to recover the industry tax arrears amounting to Rs.231,750, which had existed for many years, even during the year under review.	Action will be taken to recover in the future.	Action should be taken to recover expeditiously.
<b>(b) Rents</b>		
(i) A sum of Rs.29,971,165, which had been 88 percent of the shop rentals that should be received in relation to 100 shops owned by the Pradeshiya Sabha as at 31 December of the year under review had not been recovered.	Arrangements will be made to recover rent arrears.	Action should be taken to recover the arrears.
(ii) A sum of Rs.451,908 to be received for the leasing out of assets owned by the Pradeshiya Sabha for the period before the year 2023 had been recovered even in the year under review.	Action will be taken to recover.	Action should be taken to recover the arrears.
(iii) A sum of Rs.136,250 to be recovered for the year 2021 for renting the machines owned by the Pradeshiya Sabha had not been collected even in the year under review.	Has informed in writing to recover.	Arrangements should be made to recover.
<b>(c) License Charges</b>		
Bill-board revenue amounting to Rs.439,100 and license fee revenue amounting to Rs.761,750 as at 31 December of the year under review had not been recovered and Sabha had not documented the details of those parties.	Action will be taken to recover.	Action should be taken to recover.
<b>(d) Other Revenue</b>		
The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities had been Rs.3,100,361 and stamp duty had been Rs.2,000,000 as at 31 December 2023. Court fines for December 2023 and stamp duty for the years of 2022 and 2023 had not been confirmed.	Action will be taken to recover.	Action should be taken to recover.

### 3. Operational Review

#### 3.1 Performance of Functions Assigned by the Act

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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 and all amenities within such area, are mentioned below.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Even though by-laws could have been enacted under Section 126 of the Pradeshiya Sabhas Act to fulfill 30 major matters, By-laws had not been enacted for those matters even by 31 December 2023.	Accepted.	Action should be taken to enact the By-laws.

#### 3.2 Identified Losses

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
Action had not been taken to identify the responsible parties and to recover the loss in relation to 615 books worth Rs.99,171 that had been misplaced from the Medavachchiya Library by 31 December 2023.	Accepted.	Action should be taken to recover.

#### 3.3 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The fees to be charged from the relevant institutions had not been correctly identified as surveys had not been conducted in the limit of the Council in the year 2022 to collect trade licenses, business taxes, industrial taxes and billboard revenue.	Relevant surveys were conducted and revenue was calculated.	Action should be taken to conduct annual surveys and to identify the revenue.
(b) Since the RO water treatment plant located in the repair unit constructed by paying Rs.2,343,240 to the Water Supply Board in the year 2019 had been inactive, the expected purpose from that could not be fulfilled.	This inactive water treatment plant is to be installed at another location.	Necessary measures should be taken expeditiously to make the water treatment plant operational.



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| (c) | The Sabha had lost opportunities to earn revenue as places had not been prepared for the property belonging to the Council that could be leased out annually.  | Action should be taken to arrange the places and to lease out the places in the future.                          | Action should be taken to arrange the places and to lease out expeditiously.      |
| (d) | Although a sum of Rs.13,161,228, which was 41 percent of the arrears rates and rental arrears related to the previous years amounting to Rs.28,344,077 had not been collected even by 31 December of the year under review, allowances of Rs.49,642 had been paid to 04 officers for collecting the revenue arrears. | These incentives have been paid based on collecting more than 80 percent of industrial taxes and business taxes. | Incentives shall be paid only after the recovery of arrears of rates and rentals. |

### 3.4 Operational Inefficiencies

#### Audit Observation

Even though lease agreements were signed with two persons and they were provided with 02 shop rooms in Medavachchiya New Public Mall on the basis of constructing for 13 years without following a formal procurement procedure and without obtaining the approval of the Council, even the approval of the Minister in charge of the subject had not been obtained.

#### Comments of the Sabha

Comments had not been submitted.

#### Recommendation

The consent of the Minister in charge of the Subject should be obtained for leasing out the shop rooms for a period exceeding 03 years.

### 3.5 Asset Management

#### Audit Observation

- (a) The Cab bearing No. 251-6989 belonging to the Pradeshiya Sabha had been taken to a private garage in the year 2021 and Mahendra Bolero bearing No. LF-4797 had been taken to a private garage in January 2022 without following any procurement procedure and the vehicles had been brought back to the Pradeshiya Sabha in the year 2023 with removed parts and un operational and un repairing condition. Action had not been taken against the parties responsible for repairing these vehicles.

#### Comments of the Sabha

Accepted.

#### Recommendation

Action should be taken to obtain a report from a mechanical engineer on these vehicles and to repair those vehicles, and arrangements should be made to recover the loss occurred to the Council by the parties responsible for that.

(b)	Action had not been taken to repair or dispose of a motor cycle and a water bowser in operational condition.	Action will be taken to auction them in the future.	Auctions and repairs should be carried out according to the condition of the vehicles concerned.
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### 3.6 Procurement Management

#### Audit Observation

Only one private company was selected in the year under review for the repair of vehicles belonging to the Council and a sum of Rs.6,522,290 had been paid to that company. Although there were three members and two officers in that procurement committee, only one officer had attended the committee meetings.

#### Comments of the Sabha

Accepted.

#### Recommendation

Action should be taken to make all the members of the committee participate in the meeting.

## 4. Accountability and Good Governance

### 4.1. Annual Action Plan

#### Audit Observation

According to the annual action plan that had been prepared, 76 tasks, out of 179 tasks that should have been performed by the Council, had not been performed.

#### Comments of the Sabha

Action will be taken to accomplish these 76 tasks in the year 2024.

#### Recommendation

Action should be taken to finalize planned activities within the year.

### 4.2 Environmental Issues

#### Audit Observation

Even though a waste management center owned by the Pradeshiya Sabha had been established, the collected waste was being dumped by digging pits in the Isinbassagala reserve as the waste management center was not actively operated.

#### Comments of the Sabha

Burning is not done and dumping to pits is done.

#### Recommendation

Action should be taken to systematically dispose of non-biodegradable waste.