

Malimbada Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Malimbada Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, Statement of Changing 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 accompanying financial statements give a true and fair view of the financial position of the Malimbada Pradeshiya Sabha as at 31 December 2020, 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 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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements

1.6 Audit observations regarding the preparation of financial statements

1.6.1. Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) The staff loans due for the previous year amounting to Rs. 138,618 had been under accounted an to correct that amount had been credited to the staff loan account therefore the Staff loan balance had been understated by Rs.138,618.	If there may be any mistake happened it will be investigated and corrected	Should be accounted correctly..
(b) The value of 54 library books donated to the Sabha during the year under review had not been identified and accounted.	Relevant corrections will be made in the financial statements for the year ending 31 December 2021.	
(c) Expenditure incurred for the development of the compost yard owned amounting to Rs. 494,285 by the Sabha during the year under review had not been accounted as Land and Buildings.	Relevant corrections will be made in the financial statements for the year ending 31st December 2021	
(d) The employee loan balance of Rs. 263,822 due from a retired officer had been transferred to the Income Debt Account, the employee loan balance had been understated by that amount as at the end of the year under review.	The loan was received as a direct remittance to the bank however it was not recorded in the cash book and had been adjust to the debtor account.	

1.6.2 Non reconciled control accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
There was a difference sum of Rs. 284,948 in between a balance of Rs. 1,712,946 in the value of one accounting items in the financial statements and value of Rs. 1,997,894 in relevant utility registers/sub registers	Action will be taken to correct in next year.	Action should be taken to correct the accounts by comparing the changes in the relevant balances.

1.6.3 Lack of Documentary evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
The information required for the audit had not been submitted in respect of 08 accounting items amounting to Rs. 10,179,144.	Actions will be taken to correct by 2021 financial statements.	Evidence confirming the account balance shown in the financial statements should be submitted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 1,822,688 as compared with against the revenue over recurrent expenditure amounted to Rs. 7,572,330 in the preceding year.

2.2 Performance of Revenue Collection

2.2.1 Rates and Tax

Audit Observation	Comment of the Sabha	Recommendation
There was an arrears of rates and Taxes of Rs.86,797 as at the end of the year under review	The action will be taken in the future to recover the remaining arrears.	Arrears of income should be recovered promptly.

3. Operating Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Operating inefficiencies

Audit Observation

As per the Circular issued by the Secretary to the Ministry of Power and Energy dated 17 August 2010 No. PR / 01/01, the Sabha had to spend Rs. 1,466,559 for 1436 street lamps due to non-installation of street lamps.

Comment of the Sabha

It has been requested to increase the number of approved street lights and action will be taken in accordance with the circular in future.

Recommendation

The Circular should be followed.