

Manmunai South Eruvil Pattu Pradeshiya- 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Manmunei South Eruvil Pattu Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Balance Sheet as at 31 December 2021, Income and Expenditure Account, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Manmunai South Eruvil Pattu Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

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 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 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) At the end of the year under review, the stock in warehouse of Rs. 871,032, the organic fertilizer stock of Rs. 52,170 and stock of Ayurvedic goods of Rs. 802,360 had not been presented in the accounts.	Actions are taken to present the value of stock in warehouse, Organic Fertilizer Stock and in-hand balance of Ayurvedic goods etc. in stock accounts.	At the end of the year stock should be counted and accounted.
(b) The asset account had been debited instead of debiting the credit account of Rs. 2,167,547 which paid for loan installments on JCB machine during the year under review.	Actions are being taken to rectify the re-accounting of the payment of JCB vehicle loan installments in the year under review in plant and machinery account.	Accounts should be corrected.
(c) In the year under review, 444 books worth Rs. 150,000 which were purchased through grants from Eastern Local Government Department during the year under review and donated books worth Rs. 100,000 had not been disclosed as assets in the 'Book Account' in the year under review.	Actions will be taken to rectify this.	Books should be disclosed as assets in the financial statements.
(d) A wind turbine worth Rs. 175,000 which was purchased during the year under review had not been disclosed as an asset in the financial statements.	Actions are taken to disclose the purchased wind turbine for Rs. 175,000 as an asset in the financial statements.	Values of assets should be disclosed in the accounts.
(e) According to the employee loan register, the loan balance as at 31 December 2021 was Rs. 11,210,581 but it had been disclosed as Rs 12,646,822 in the financial statements.	Actions are taken to rectify the difference between the value shown in the employee loan register and the financial statements.	Variations should be identified and corrections should be made in the accounts.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Fixed asset registers and proof documents for ownership, advance registers and other registers had not been submitted related to 18 fixed balances amounting to Rs. 31,068,561 stated in the financial statements as at 31 December of the year under review.	Actions have been taken to assess the value of fixed assets like land and buildings, plants motor vehicle and furniture and to transfer the ownership of vehicles.	Actions should be taken to obtain written evidence of assets and record them in documents.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulations no 571 (1) and (2) of the Democratic Socialist Republic of Sri Lanka	Regarding 45 overdue deposits of Rs. 592,964 which have exceeded two years, the council had not been taken action to return them to the relevant persons or to transfer them to the income.	Appropriate actions will be taken in future.	Actions should be taken to refund the deposits to the concerned persons or transfer them to income.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 8,125,623 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 21,641,604 in the preceding year.

2.2 Revenue Administration

2.2.1 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observation	Comment of the Council	Recommendation
(a) Actions had not been taken to collect the arrears of assessment tax amounting to Rs. 2,504,300 on the last date of the year under review.	The outstanding value has grown and actions are currently being taken to recover.	Recovery of arrears should be expedited.
(b) For the period from 1991 to 2021, Rs. 2,779,175 had not been taken to recover the arrears of shops rent.	Actions have now been taken to recover the shop rents that disclosed.	Actions should be taken to recover the arrears promptly.
(c) Actions had not been taken to recover the market rent arrears of Rs 18,605,427 for the period from 1985 to 2021.	The council will decide and take action after taking the advice of the local administration commissioner.	Appropriate actions should be taken to collect the market rent arrears.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
Sundry creditors of Rs. 406,537 and electricity distribution debt of Rs. 2,069,410, which were shown as loan liabilities in the financial statements had not been settled.	Actions will be taken to pay the debts amounting to sundry creditors of Rs. 406,537 and electricity distribution debt amounting to Rs. 2,069,410.	Actions should be made to pay off outstanding debts.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Council	Recommendation
In respect of Periyakalaru Marriage and Cultural Hall constructed in the council area, as per sub-sections 6(11), (111) of the Urban Development Authority (UDA) series of regulations published in Gazette No. 597/8 dated 17 April, 2019, Rs. 1,004,100 had to be levied for building approval fines, but only Rs. 64,120 had been levied as fines, by exceeding series of regulations.	Actions will be taken to settle it in the near future.	Actions should be taken collect penalty charges as p the Act.

4. Accountability and Good Governance

Audit and Management Committee

Audit Observation

Comment of the Council

Recommendation

In accordance with the Internal Audit Guidelines Circular No. DMA/2009(1) dated 09 June 2009 of the Management Audit Department, the Audit and Management Committees had not been established by the Council during the year under review and committee meetings had not been held.

Meetings were not held due to the situation preventing the holding of meetings due to the Covid-19 epidemic situation in the country.

Action should be made to hold audit and management committee meetings.