

Madurawala Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Madurawala Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in 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 Madurawala Pradeshiya Sabha as at 31 December 2021, 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

I express qualified opinion based 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 Standards, 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 include 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 recommendations which I made on financial statements for the preceding year are included 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non -compliance with Reference to the Relevant Standard	Comments of the Sabha	Recommendation
(a) Investing activities are acquisitions and disposals of long-term assets and other investments which are not included in cash and equivalents in terms of Section 3.29 of the Standard. Accordingly, although there was no cash outflow for the purchase of property, plant and equipment during the year under review, by indicating Rs.10,932,875	Actions will be taken to avoid shortcomings in the future years.	Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities .

as purchase of property, plant and equipment in cash flow statement, the cash flow from investing activities had been understated by that amount.

(b) Although an asset should be depreciated on the basis of its cost after deducting accumulated depreciation and residual value it terms of 6.10 of the Standard, the residual values of assets had not been estimated while calculating depreciation for the year under review and the depreciation adjustments had been made based on the cost of the assets.

Since it is practically difficult to calculate the residual value, the residual value was considered as zero and depreciated.

(c) Although the transactions, other events, conditions or adjustments arising as a result of transactions, other events, conditions or consequences before the date of transition to the Public Sector Accounting Standard for Local Authorities, they should be recognized by an entity as adjustments to the retained surplus at the date of transition in terms of Section 18.6 of the Standard , the balance of income contribution to capital application account Rs.225,223,566 had been shown as a separate account in the financial statements as at 31 December 2021.

The balance of the income contribution account to the capital application will be reconciled to the accumulated fund during the year.

Actions should be taken in terms of Public Sector Accounting Standards for Local Authorities .

1.6.2 Accounting Deficiencies

Audit Observations	Comments of the Sabha	Recommendation
<p>(a) Although the capital grants to be recognized as comprehensive income in the year under review from the capital grants received in the year 2020 was Rs.1,393,272, it had been accounted for as Rs. 1,576,781 due to an error in the depreciation rates of fixed assets.</p>	<p>This will be corrected by the final account 2022 .</p>	<p>It should be accurately accounted for.</p>
<p>(b) As a result of capital grants of Rs.1,393,272 to be recognized as comprehensive income were failed to mention under the income in the comprehensive income statement of the year under review, the surplus for the year had been understated by the same amount.</p>	<p>The balance will be identified and corrected in future.</p>	
<p>(c) Although out of the Capital grant receipts for the year under other comprehensive income in the statement of comprehensive income ,he capital grants recognized in income amounting to Rs.9,098,515 of should be deducted, other comprehensive income of the year had been understated by Rs.2,970,053 due to an amount of Rs.1,576,781 was added and shown.</p>	<p>The deficiencies will not be made in the future years.</p>	<p>It should be accurately accounted for.</p>
<p>(d) Although the unrecognized capital grant balance of surplus or deficit as at 31December 2021 should be Rs.21,659,476, the surplus for the year had been overstated by Rs.183,509 as a</p>	<p>This will be corrected by the final account 2022 .</p>	

result it had been stated as Rs.21,475,967 by understating Rs.183,509 .

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| (e) | Eighty four lands and 05 buildings owned by the Sabha were not assessed and accounted for. | There are unrecognizable lands and all recognizable lands have been referred for assessment. | It should be assessed and accurately accounted for. |
| (f) | A sum of Rs. 248,745 incurred for the renovation of the waste management building under Provincial Council projects during the year under review, it had been had been accounted for twice under buildings. | This will be corrected by the final account 2022 . | This should be accurately accounted for. |
| (g) | As a result of an amount of Rs.338,668 was brought to accounts as the issuance of industrial stocks as at 31 December 2021, the industrial stock and surplus for the year had been understated by that value. | This will be corrected by the final account 2022 . | This should be accurately accounted for. |
| (h) | Actions had not been taken to take over and account for the Narthupana and Walpita playgrounds which were built in the year under review under decentralized allocations valued at Rs.3,410,000. | Actions will be taken to be accounted for as soon as handed over to the Sabha. | This should be accurately accounted for. |

2. Financial Review

2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2021 in the financial statements submitted was Rs.337,255 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs.884,440 .

2.2 Performance on Revenue Collection

Audit Observations	Comments of the Sabha	Recommendation
<p>(a) The total income of the Council was Rs.75,998,495 and of which Rs. 55,279,748 that is 73 per cent was the income received from the government and due to the fact that the income earned by the Council from exchange and non-exchange transactions was Rs. 20,718,747 that was 27 per cent, it was observed that the revenue collection performance of the Council was not at an optimal level.</p>	<p>The revenue collection was at a low level due to the Covid pandemic and actions will be taken to prepare the plans for next year and activities will be done to increase the income.</p>	<p>Actions should be taken to increase the revenue collection.</p>
<p>(b) The stamp duties of Rs.5,402,135 and court fines of Rs.1,762,109 requested from the Provincial Revenue Department in relation with the years 2016, 2017 and 2018 had not been received up to now.</p>	<p>The part of stamp duties has been collected and court fine schedules have been prepared and sent.</p>	<p>Arrears court fines and stamp duties should be collected promptly.</p>

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council 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.

3.1 Management Inefficiencies

Audit Observations	Comments of the Sabha	Recommendation
<p>The following matters were observed in respect of the Construction of the Narthupana multi-purpose building which was completed at a cost of Rs.20,619,845 in the year 2016 through Puraneguma Projects under Asian Development Bank assistance.</p>		

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| <p>(a) Even though the Madurawala Divisional Secretary had handed over the ownership of the land with 0.3277 hectares, on which the above building was constructed, to the Council, the ownership had not been vested even by the 31 May 2022 .</p> | <p>The applications for acquisition have been sent to the Commissioner of Local Government.</p> | <p>Actions should be taken to take over the ownership of the land.</p> |
| <p>(b) Although before constructing the building, a feasibility study should be done and the needs of the Council should be identified and constructed, and also the above building which was built cost at Rs.20,619,845 without recognizing the need was only used a few times since November 2016 when it was built and handed over to the Council, It had been underutilized for a long time.</p> | <p>The several programmes are being conducted.</p> | <p>Actions should be taken to utilize the underutilized assets.</p> |