

Mawathagama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Mawathagama Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Mawathagama Pradeshiya Sabha as at 31 December 2020, and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 Sub-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 Sabha.

1.4 Scope of Audit (Auditor's Responsibilities 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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Institution;
- Whether the Sabha has performed according to its powers, functions and duties; and

- Whether the resources of the 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.

- The financial statements presented by the Pradeshiya Sabha 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.
- The financial statements presented includes 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 relating to the Preparation of Financial Statements.

1.6.1 Accounting Deficiencies

	Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a)	The value of 06 lands along with the value of Rs. 15,291,500 for 05 lands received by the Sabha in regard of common amenities relating to land auctions, had not been brought to accounts.	Action will be taken to account in the ensuing year.	The lands belonging to the Sabha should be capitalized.
(b)	The value of Rs. 48,983,665 incurred on the development of buildings of the Sabha during the year under review, had not been capitalized.	Action will be taken to account in the ensuing year.	Expenditure incurred on the development of buildings should be capitalized.
(c)	The value of the tractor, received by the Sabha in the year 2014 being Rs. 1,000,000 had not been shown under the fixed assets.	Action will be taken to account in the ensuing year.	The values of vehicles owned by the Sabha should be brought to accounts.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
A difference of Rs. 3,044,541 was observed between the values shown in the financial statements and corresponding reports with respect to 03 items of account. Action had not been taken to correct the accounts by reconciling the difference.	Corrective measures will be taken.	Accuracy should be ensured in the accounting process.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The Audit had not been provided with information relating to 02 items of accounts with balances totalling Rs.309,805.	Some of the balances continued to exist over extensive periods.	Evidence verifying the account balances shown in the financial statements should be furnished.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 25,025,832 as at 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 16,862,027.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
a) Of the deficit of rates and taxes amounting to Rs. 4,948,308 existed at the beginning of the year under review, a sum of Rs.4,261,251 had remained recoverable whereas a sum of Rs.1,705,634 remained recoverable from the billed amount of Rs.5,321,910.	Action is being taken for the recovery.	

- b) An outstanding amount of Rs.3,050,148 relating to the stall rents and properties given on lease, remained recoverable as at 31 December of the year under review, Action is being taken for the recovery in due course. The outstanding amounts should be recovered in a timely manner.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabhas Act , being 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.

3.1 Performance Solid waste management

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
The Sabha, having spent sums of Rs. 451,261 for constructing the roof of the gully treatment system used in solid waste management and Rs. 17,424,577 on salaries and wages, travelling expenses, supply of equipment, transport services and repairs as capital expenses and recurrent expenses respectively, had collected 995 tons of degradable waste and 134 tons of non-degradable waste during the year under review. Compost fertilizer had been produced using 707 tons of degradable waste, thus earning an income of Rs. 28,392 by selling 7702 kg of compost.	A decline in the production of compost is indicated following the prevalence of pandemic in the country.	The degradable waste should be managed properly.

3.2 Management Inefficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The value of advances, concrete project, other taxes, Nation Building Tax, and reimbursement of salaries receivable as at 31 December of the year under review, totaled Rs. 19,086,169. According to the age analysis thereon, the total of the account balances relating to a period ranging from 1 – 5 years, amounted to Rs. 61,745 whereas account balances totaling Rs.19,024,424 had exceeded a period of 05 years.	Corrective measures are being taken.	Action should be taken for the recovery of receivable balances.

- (b) The value of expenses/industrial creditors and deposit balances payable as at 31 December of the year under review, totaled Rs.30,916,065. According to the age analysis thereon, the total of the account balances relating to a period ranging from 1 – 5 years, amounted to Rs. 10,966,462 whereas account balances totaling Rs. 3,738,174 had exceeded a period of 05 years.
- Corrective measures will be taken in due course.
- Action should be taken to settle the payable balances.