

## **Medirigiriya Pradeshiya Sabha – 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Medirigiriya Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of assets and liabilities as at 31 December 2020, 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 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 Medirigiriya Pradeshiya Sabha as at 31 December 2020, 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**

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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**

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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 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 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)**

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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.

- As the Financial Statements have been submitted in accordance with the new Accounting System as per Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31 December 2019, it cannot be compared with the previous year in terms of Sub-section 6 (i) d (iii) of the National Audit Act No. 19 of 2018.
- Recommendations made by me during the last year as per the requirement mentioned in Section 06 (i) d (iv) of the Audit Act No. 19 of 2018 except the observations of paragraph 1.2.2 (c) and (e) are included in the financial statements submitted

## 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 the reference to particular Standard	Comments of the Sabha	Recommendation
(a) According to the E.G 2.2 of Appendix 2 of the Sri Lanka Public Sector Accounting Standards for Local Governments, although the value of transfers received by the government for non-recurrent expenditure should be calculated as income over the lifetime of the asset as same as calculation for depreciation, a sum of Rs.7,778,076 received from the Government for non-recurrent expenses in the year under review was identified as revenue for the year in the Comprehensive Revenue Statement.	Accepted and it is stated that action was taken to correct.	Should be corrected.
(b) Although library books were required to be accounted for according to the account codes in Annex 1 to Appendix 2 of the Sri Lanka Public Sector Accounting Standards for Local Government Institutions, library books amounting to Rs. 2,857,617 had not been accounted for upon accordingly.	It is stated that it has been amended as per the 2019 Circular.	Must comply with accounting standards.

### 1.6.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) Although the annual depreciation for the year is Rs.10,558,858 a sum of Rs.12,263,859 had been accounted for in the Comprehensive Revenue Statement, therefore expenditure had overstated by Rs.1,705,001.	Accepted.	Should be corrected.
(b) Although as per the Fixed Assets Register the value of Property, Plant and Equipment for the year is Rs.418,914,144 a sum of Rs.412,402,228 had been accounted for in the Statement of Assets and Liabilities, therefore the value of Property, Plant and Equipment in the financial statements had understated by Rs.6,511,916.	Accepted.	Should be corrected.
(c) Although the Court Fines due on 31 December of the year under review, billed in August was Rs.1,393,083, it had stated in the financial statements as Rs.2,324,493 and accordingly the court fine income was overstated by Rs. 931,410.	Accepted.	Should be corrected.
(d) The value of a solar lamp system and an antifreeze water filter, maintained by the Council, amounting to Rs. 2,306,552, was not stated in the financial statements as assets.	It was stated that the assets had not been transferred by the Divisional Secretariat.	All liabilities should be taken over and accounted for as they belong to the Sabha.

### 1.6.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
There was a difference of Rs.22,467,463 between the value according to the financial statements and the value according to the documents / schedules relating to 13 accounting subjects.	Accepted. It has been stated that action will be taken to rectify this.	The correct value should be identified and accounted for.

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.21,607,101 and the excess of revenue over operating expenditure in the preceding year amounted to Rs.9,155,714.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Revenue Collection

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b><u>Rates and Taxes</u></b> No action had been taken to recover the outstanding Rates and Taxes income of Rs.3,205,485.	It was stated that billed income was Rs.1,466,457 and Rs. 1,426,800 was collected.	Arrears income should be recovered.