

## **Madulla 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 Madulla 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 changes in net assets, Cash Flow Statement 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 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 Madulla Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for qualified Opinion**

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My opinion is qualified based on the facts set out 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 Generally Accepted Accounting principle, 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 further:

- 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 whenever 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

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

- (a) The financial statements of Pradeshiya Sabha are consistent with the preceding year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No.19 of 2018.
- (b) The recommendations made by me during the preceding year as per the requirement mentioned in Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 are included in the financial statements submitted.

## 1.6 Audit Observations on the preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the Sabha	Recommendation
(a) The assessed value of the land at Buruthagolla Sathi Pola belonging to the Sabha is Rs.13,550,000 but it was overstated as Rs.56,000,000, by Rs.42,450,000 in the financial statements.	It has been informed that action will be taken to rectify this in the next year.	Accounts should be prepared correctly.
(b) The cost of renovation of 03 buildings belonging to the Sabha during the year under review was Rs.5,071,055 but out of that expenditure, only Rs.4,562,853 has been accounted for, hence, the value of lands and buildings in the statement of financial position has been understated by Rs.508,202	It has been informed that the total value of the finished work will be capitalized and corrected in the next year.	
(c) Although two public wells were constructed on private lands at a cost of Rs.250,000 last year and the legal ownership of the relevant lands was taken over by the Pradeshiya Sabha The cost of construction of public wells and the assessed value of the lands acquired were not taken into account.	It has been informed that the assessed value will be identified and accounted for in the next year.	

## 1.6.2 Documentary Evidences not made available for Audit

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<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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Records of Recognized Professional Assessors for and documents confirming ownership for account subjects i.e. lands and buildings valued at Rs.280,834,402 had not been submitted for audit.	It has been stated that requests have been made to conduct a formal assessment.	Evidence confirming the account balance should be submitted.

## 2. Financial Review

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### 2.1 Financial Result

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According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2020 amounted to Rs.1,371,699 in contrast the excess of revenue over recurrent expenditure amounted to Rs.3,027,670 in the preceding year. Hence a deterioration of Rs.4,399,369 in financial result was observed.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Revenue Collection

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<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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<b>(a) Water charges revenue</b>		
----- Arrears water charges of Rs.120,255 which brought forward from 02 years ago had not been recovered.	It has been informed that action will be taken to recover the outstanding Rs.120,255 as soon as possible.	Water charges in arrears should be recovered.
<b>(b) Shop rent</b>		
----- The shop rent of Rs. 49,850 due for the last year, for leasing of 04 shops belonging to the Sabha had not been recovered.	It had been informed that Notice has been given in writing to recover the arrears and if not, legal action will be taken.	Shop rent in arrears should be recovered.
<b>(c) Court fines and Stamp duty</b>		
----- The court fines of Rs.141,250 and stamp duty of Rs.633,973 due from the Chief Secretary of the Provincial Council and other authorities had not been recovered.	It has been informed that action will be taken to recover the outstanding stamp duty and court fines.	court fines and stamp duty in arrears should be recovered.