

Madagama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Madagama 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 Madagama 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

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

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)

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

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

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the area of the Nakkalagoda landfill and crematorium land which was valued at Rs.12,830,000 under Land and Buildings in Financial Statements was 01 acre, it was revealed in the financial statements as 02 acres.	The same land has been double counted and will be corrected in the preparation of accounts for the year 2021.	Accounts should be prepared correctly.
(b) The value of 72 lands belonging to the Sabha had not been assessed or accounted for.	It has been informed that valuation had been carried out by a temporary valuation board it will be included in the accounts for the year 2021.	A recognized professional valuation should be done and accounts should be prepared correctly.
(c) Although, the amount due from the Department of Local Government for the Regional Development Assistance Project at the end of the year under review was Rs.3,710,951 it had been overstated as Rs.7,310,000 by Rs.3,599,049.	Corrections will be made in the preparation of financial statements for the year 2021.	Accounts should be prepared correctly.
(d) Although, the income due at the end of the year under review, for leasing the machinery of the Sabha was Rs.862,046 it had been understated as Rs. 803,440 by Rs.58,606.	It has been informed that the correction will be made in the final accounts for the year 2021.	Accounts should be prepared correctly.

- (e) The increased value of Rs.1,064,790 due to the modernization of the Sabha ambulance during the year under review, had been credited to the Cumulative Fund without being credited to the income contribution account for the capital application. It has been informed that it has been credited by mistake to the Cumulative Fund without being credited to the income contribution account for the capital application. Accounts should be prepared correctly.

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 2020 amounted to Rs.5,120,318 as compared with the excess of revenue over recurrent expenditure amounted to Rs.5,240,890 in the preceding year

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of the assessment tax revenue of Rs.215,538 billed during the year under review, as on December 31 Rs.57,276 had not been recovered.	It has been informed that action will be taken to recover the arrears in the future.	Billed income should be recovered.
(b) Tax revenue in arrears amounting to Rs.313,425 for the lease of Medagama weekly fair and 02 stalls belonging to Sabha, had not been recovered and the rent of Rs.123,193 due from 64 stalls for the year under review had not been recovered.	It has been informed that a case has been filed to recover the arrears of taxes and action will be taken to recover the rent in arrears.	Rent in arrears should be recovered
(c) <u>Machinery rental income</u> An amount of Rs. 78,966 due for the lease of 03 machines belonging to the Sabha had not been recovered.	It has been informed that action will be taken to recover the machinery rent in arrears.	Action should be taken to recover the machinery rent in arrears.

(d) Court fines and Stamp duty

The court fines of Rs.44,620 and stamp duty of Rs.1,234,486 was due from the Chief Secretary of the Provincial Council and other authorities	It has been informed that action will be taken to recover the arrears.	Court fines and stamp duty in arrears should be recovered.
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3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies**Audit Observation****Comments of the Sabha****Recommendation**

The Pradeshiya Sabha has been disposing of garbage on a land belonging to the Department of Forest Conservation since November 26th 2008 and By the audit date of March 10th 2021, The production of organic manure using biodegradable waste had not been started.

It has been informed that a small amount of waste suitable for compost production is collected and it is not possible to produce organic manure due to lack of adequate manpower.

Action should be taken to produce organic manure.