

Mahara Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mahara Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of 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 provisions of the National audit act No.19 of 2018 and the Sub-section 172 (1) of the Pradesiya Sabhas Act, No.15 of 1987. 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 accompanying financial statements give a true and fair view of the financial position of the Mahara Pradeshiya Sabha as at 31 December 2020, and of its financial performance its cash flows and for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

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 (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 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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 scepticism 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 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 the Pradeshiya Sabha 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 includes specific provisions for following requirements.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations that I had mentioned by the paragraph 1.2.1(a), 1.2.1(d) as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018 on the financial statements for the previous year had not been implemented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Non-Compliance with the Public Sector Accounting Standards for the Local Authorities

Reference to the relevant Standards	Non- Compliance	Comment of the Sabha	Recommendation
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3.6	Presentation of the Comparative details between all the values that had been presented in the Financial Statements regarding the prevailing year and the preceding time period.	Action will be taken in the future after considering this matter.	Declarations should be one according to the Accounting Standards.
3.20	The method that had been used for depreciation of assets and the depreciation ratio.		

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) A separate advance account had not been maintained for the Payable Employee Loans of the Pradeshiya Sabha Officers under the regulation No.83(II) of Financial Administration Accounting Regulations of Western Province imposed by the Extraordinary Gazette No.2155/8 dated 24 December 2019.	Action will be taken to prepare in the future.	A Separate Account for the Employee Loan Advances should be maintained according to the Regulations of Accounting.
(b) Actions had not been taken to depreciate revaluated Property Plant and Equipment accumulated value of Rs.574,447,481.	New Accounting Policies had been introduced in the year 2020 according to the meetings and trainings held on new Accounting Standards and Accounting Regulations therefore the calculations had not been done for that year.	The depreciable Assets should be depreciated on the relevant ratios.
(c) 32 items of Property Plants and Equipment had not been Revalued and Accounted.	Actions would be taken on those assets to assess and to state in the accounts in the future.	All the Property Plants and Equipment owned by the Sabha should be stated in the Accounts.
(d) The interest on Fixed Deposits had been stated in the accounts as Rs.926,613 even though the correct interest had been Rs.823,287, therefore it had been overstated by Rs.103,326.	It would be corrected by the final accounts for the year 2021.	The Interest on Fixed Deposits relevant for the year should be calculated and stated.
(e) The consumption for the prevailing year had been stated as Rs.1,108,230 when making the Ayurveda Stock Account even though the real consumption had been Rs.1,033,609 therefore the difference had been Rs.74,621.	Consumption had been calculated by the balance Ayurveda stocks extracted from the Stock Verification Reports and the stock as at 2020.01.01.	Accurate Stock reports should be maintained.

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| (f) | An Opening Balance of Rs.26,364,842 had been stated by the journal entry No.01 for the Allocations and Reserves Accounts was not available earlier. This balance had been included Rs.69,203,620 receivable and Rs.42,388,781 payable balances and it had been adjusted to the statement of Capital against the Accounting Standard No.15.13 and No.15.1 for the Local Authorities. | The Statement of Capital had been prepared according to the meetings and trainings held on the new Accounting Policies and Regulations. | The Accounts should be prepared on the Accounting Standards. |
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1.6.3 Unreconciled Control Accounts

Audit Observation

There was a difference of Rs.29,938,196 relevant for an item of accounts, between the deposits balances as per the financial statements of Rs.43,381,673 and the balances as per the corresponding reports Rs.13,443,477.

Comment of the Sabha

The accurate balances of the deposits and the receivable rates could not be realized therefore actions would be taken to settle the balance after recognizing them.

Recommendation

The Accounts should be prepared accurately.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.2,463,249 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.38,761,396.

2.2 Performance in Collecting Revenue

2.2.1 Rates and Tax

Audit Observation	Comment of the Sabha	Recommendation
(a) Action had not been taken to recover the rates and industrial tax receivable of Rs.98,000 for the year under review from 43 businessmen.	Actions were being taken to recover the receivable amount for the year 2020 of Rs.58,000 but it had been disturbed by the Covid-19 pandemic situation.	The Strategies to collect the receivable tax should be improved.
(b) The receivable amount of Rates as at 31 December of the year 2020 had been Rs.6,915,542.	Actions had been taken to recover the rates according to the Plan.	The Strategies to collect the receivable tax should be improved.
(c) A difference of Rs.1,546,411 had been observed in the receivable amount of rates between the balance as per the Financial Statements of Rs.5,366,123 and the balance as per the corresponding reports of Rs.6,912,534.	The accurate balances of the receivable rates accounts could not be recognized therefore the actions would be taken to correct them after recognizing the accurate balances.	The accounts should be prepared accurately.

3. Operating Review

3.1 Assets management

Audit Observation	Comment of the Sabha	Recommendation
(a.) A Land at Welipillawa HPT Estate of 01 Acre and 26 Perches had been taken over by outsiders without proper authority because Sabha had not properly secured the Ownership of the Public Land.	Actions are being taken to take back the ownership of this Land.	The Security of the Public Lands should be secured.

(b.) The Land of 41.40 perches given by Institute of "Blue Mountain" as a Public land had been a land with a puddle therefore it could be hardly used as a public land. And also the Deed of this land had not been obtained for the Sabha.

Actions had been taken to obtain the deed of this land but the Institute of Blue Mountain are being inactive now. Therefore actions are being taken further to obtain the deed or else to make a Deed of Declaration.

Public Lands could be able to use on a Development Purpose and it should be have a Deed to prove the Ownership.