

Madurawala Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Madurawala 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, 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 Sub-section 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 accompanying financial statements give a true and fair view of the financial position of the Madurawala Pradeshiya Sabha as at 31 December 2020, and of its financial performance 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.

- (a) 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.
- (b) 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)(iv) of the National Audit Act No. 19 of 2018.

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

| Non- Compliance with reference to the relevant Standard | Comment of the Sabha | Recommendation |
|---|--|--|
| ----- | ----- | ----- |
| (a.) The details regarding the preceding year had not been revealed in the Cash Flow Statement according to the Section 3.6 of the Public Sector Accounting Standards of Sri Lanka 2017. | Actions would be taken to make it correct by the next year. | Actions should be taken to present the Financial Statements according to the Accounting Standards. |
| (b.) The estimated and the actual values regarding the year under review had not been comparatively presented in the financial statements according to the Section 3.7 of the Public Sector Accounting Standards of Sri Lanka 2017. | Actions would be taken to present the budgeted values in the financial statements by the next year. | Actions should be taken to present the Financial Statements according to the Accounting Standards. |
| (c.) Even though it had been mentioned according to the Section 6.4 of the Public Sector Accounting Standards of Sri Lanka 2017 to state the basic cost assessed cost valued Rs.1,521,330 on 32 items had been stated in the accounts therefore the revaluation reserves had been overstated by that value. | The Market Value of the Assets had been stated in the accounts under the Transition Standard of SLFRs to the Public Sector Accounting Standards for the Local Authorities No.18. | The Cost Value of the Assets should be recognized and stated. |

1.6.2 Accounting Deficiencies

| Audit Observation | Comment of the Sabha | Recommendation |
|--|--|--|
| (a) The value of 14 buildings including the Head Office, the Old building and the “Sampath Piyasa” had not been stated. | It had been forwarded to the valuation. | The Assets not properly stated should be accurately accounted. |
| (b) A difference observed of Rs.27,868,445 between the balances of 03 items of accounts and the corresponding balances in the supplementary registers in the year 2019 had not been reconciled and corrected and adjusted to the revaluation reserves. | Action will be taken to correct in the future. | The accounts should be accurately made. |
| (c) The cost value of 02 machines purchased in the year 2019 for cutting grass of Rs.27,600 had not been stated in the accounts. | Actions would be taken to correct by the final accounts for the year 2021. | The cost value should be recognized and stated. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.9,350,359 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.767,029.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

| Audit Observation | Comment of the Sabha | Recommendation |
|--|--|---|
| The collection of the rates during the year rated 50 per cent and the total arrears had been Rs.567,471. | Arrears of rs.84,905 regarding the year 2020 had been recovered during the year 021. | Rates in arrears should be recovered as soon as possible. |

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 Sabha 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 Management Inefficiencies

| Audit Observation | Comment of the Sabha | Recommendation |
|--|---|------------------------------|
| ----- | ----- | ----- |
| An action had not been taken to carry on an investigation to recover from the liable parties the financial loss of Rs.1,557,710 assessed by the Mechanical Engineer of the Dehiwala Mt. Lavinia Municipal Council on the Cab which met with an accident in the year 2016 as at the end of the year under review. | The investigation had been carried out. | The los should be recovered. |

3.2 Inefficiencies in Contract Administration

| Audit Observation | Comment of the Sabha | Recommendation |
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| ----- | ----- | ----- |
| (a.) The payments should be done after, Mabengoda road developed by laying concrete and then the shoulders of the road constructed by laying soil on it, but it had been paid for the soil 13.49 cubic meters of Rs.24,835 even though it had not been done. | The road had not been made properly by laying soil and inform that it would be constructed again by laying soil. | The overpaid amounts should be recovered. And actions should be taken against the improper supervision. |
| (b.) Even though 18.5 Barrels of Tar should be used for laying Tar in the construction of Galabandihena Road for the first and the second time for 1,124 metres, 12 Tar Barrels had been used for the construction of the road therefor Rs240,801 on 6.5 Barrels of Tar had been over paid for the relevant association. | | |