

Mathugama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mathugama 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 net assets/ 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 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 financial statements give a true and fair view of the financial position of the Mathugama 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

I express qualified opinion 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 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 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 Requirements

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations which I made on financial statements for the preceding year are included 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 Sri Lanka Public Sector Accounting Standards for Local Authorities

Non -compliance with Reference to the Relevant Standard	Comments of the Sabha	Recommendation
<p>(a) It was revealed that the cash flow statement for the year under review had not been prepared in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities according to the following matters.</p> <ul style="list-style-type: none"> • Although the surplus for the year was Rs.79,856,740, as a result of indicating the comprehensive income for the year amounting to Rs. 79,354,952 as a surplus in the cash flow statement , the cash flow generated from operational activities had been understated by Rs. 501,788 . • As a result of the unrecognized capital expenditure grants in surplus or deficit amounting to Rs.81,778,186 were not adjusted for the surplus of the year in the cash flow statement, the cash flow from operational activities had been understated by that amount. 	<p>Actions will be taken to correct.</p> <p>The error occurred by a mistake is accepted and actions will be taken to correct.</p>	<p>It should be accurately accounted for .</p> <p>It should be accurately accounted for .</p>

- Although the value of the stock increase during the year amounting to Rs.8,142,551 should be deducted from the cash flow from the operating activities, it had been added and indicated as Rs.6676,524 under operational activities. Arrangements will be made to correct by reducing the value amounting to Rs. 676,524 shown by making additions to the cash flow statement . Actions should be taken to correct the account.
- Although the increase of other current assets during the year amounting to Rs. 140,830,573 should be deducted and shown in the cash flow from operational activities, it had been added and shown under operational activities as Rs. 40,395,322 . Actions will be taken to correct. Account should be accurately prepared.
- Although the increase of short term payables during the year amounting to Rs. 53,774,228 should be added and shown in the cash flow from operational activities, it had been shown as Rs. 40,395,322 under the operational activities. Correct the amount of Rs.40,395,322 incorrectly added to the cash flow statement and actions will be taken to correct by adding the increase in short term payables amounting to Rs.43,190,664 during the year . Errors should be corrected.
- Although the decrease of obtaining short term loans amounting to Rs.9,834,512 during the year under other current liabilities should be reduced and shown it in the cash flow statement, it had been added and shown as Rs.474,842 under operational activities . Actions will be taken to correct. Actions should be taken to correct the account.
- Although the purchase of property, plant and equipment during the year was Rs. 22,383,818, since it was shown as Rs. 1,207,229 in the cash flow statement, the cash flow from investment activities had been overstated by Rs. 21,176,589 . Actions will be taken to correct. Actions should be taken to correct the account.

<ul style="list-style-type: none"> • Increase of non-current investments during the year amounting to Rs. 8,872,374 had not been appeared in the cash flow statement in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities No.03. 29 . 	<p>Actions will be taken to correct the error occurred to the cash flow statement by a mistake.</p>	<p>Actions should be taken to correct the account.</p>
<ul style="list-style-type: none"> • Capital expenditure grant received in the year amounting to Rs. 81,276,398 had not been appeared in the cash flow statement in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities No.03 . 	<p>Actions will be taken to correct the error occurred to the cash flow statement by a mistake.</p>	<p>Actions should be taken to correct the account.</p>
<p>(b) Although the value of savings deposit in the Urban Development Authority account amounting to Rs.3,973,639 should be stated under the cash and cash equivalents in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities No. 3.26, it had been described as a non-current investment.</p>	<p>Actions will be taken to correct the errors.</p>	<p>Account should be accurately prepared.</p>
<p>(c) When recognizing the items of property, plant and equipment initially, an entity should recognize it at its cost. But, without taking the old building of Welipenna Maternity and Children's Clinic at Kopiwatta Junction constructed in the year 2019 amounting to Rs. 6,852,228 into account at its cost, the assessed value of Rs.4,665,000 had been brought to accounts. As a result, the revaluation reserve had also been understated by Rs. 2,187,228 .</p>	<p>Actions will be taken to correct the errors.</p>	<p>Account should be accurately prepared.</p>
<p>(d) Without recognizing the cost of the buildings which should be initially recognized, the assessed value of Rs. 9,926,429 had been stated as the revaluation amount. The revaluation profit had been overstated by that amount.</p>	<p>Actions will be taken to correct the errors as indicated.</p>	<p>Account should be accurately prepared.</p>

1.6.2 Accounting Deficiencies

----- Audit Observation -----	----- Comments Of the Sabha -----	----- Recommendation -----
(a) Although the accumulated fund account balance as at 01 January 2020 was Rs.89,334,487, the opening balance of the accumulated fund account in the statement of changes in equity had been shown as Rs. 74,661,011 .	Actions will be taken to correct that error.	It should be accurately accounted for.
(b) Since the comprehensive income of the year 2019 in the statement of changes in equity amounting to Rs. 10,305,157 was reduced from the accumulated surplus, the equity had reduced by the same amount.	Actions will be taken to correct.	It should be accurately accounted for.
(c) The surplus for the year amounting to Rs. 79,856,740 had not been recorded in the accumulated fund account and that value had been shown as unrecognized capital expenditure grant in surplus or deficit in the statement of assets and liabilities.	Actions will be taken to correct it by journal entries.	It should be accurately adjusted in the accounts.
(d) Variations occurred in capital reserves and revaluation reserves accounts affected for the changes in equity during the year under review had not been presented in the statement of changes in equity.	Since it was omitted by a mistake, actions will be taken to correct.	It should be accurately adjusted in the accounts
(e) The stock of ayurvedic medicines had not been surveyed during the year end Board of Survey and according to the report of the Ayurvedic Medical Officer the value of the stock had been accounted for as Rs. 1,039,552 .	The stock of Ayurvedic medicines has been omitted from the survey during the Board of Survey 2020 and that the stock of medicines will be surveyed in Board of Survey of the next year.	Board of Survey should be carried out and identified the stock accurately.
(f) Because of the office equipment and furniture identified for disposal during the year-end Board of Survey amounting to Rs. 1,970,990 and Rs. 61,650 respectively had been withdrawn from the accounts without required approval, the office and furniture equipment accounts had been understated by that value.	According to the report of the Annual Board of Survey, the goods and the relevant value will be removed from the books.	Accounts should be adjusted in a systematic manner.

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| (g) | Even though the old building of the Welipenna Maternity and Children's Clinic at Kopiwatta Junction had been demolished, the value of it amounting to Rs. 1,600,000 had not been removed from the accounts. | This will be corrected by the future accounts. | The value of the demolished building amounting to Rs.1,600,000 has been included in the Fixed Assets Schedule on page 37 of the Financial Statements. It should be accurately adjusted . |
| (h) | Because of the assets were not revalued and reduce their balances remained as per depreciation ratios amounting to Rs. 7,586,395, the revaluation reserve had reduced by that amount. | Actions will be taken to carry out the revaluation accurately in the next year and account for. | Asset revaluation and accounting should be accurately done . |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments Of the Sabha	Recommendation	
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(a)	There was a difference of Rs. 13,214,153 in between the value as per the financial statements and primary documents with regards to the 13 accounting items .	Corrections will be made indicated by the audit.	Actions should be taken to correct the accounts by reconciling the changes in the relevant balances.

1.6.4 Lack of Written Evidences for Audit.

Audit Observation	Comments Of the Sabha	Recommendation	
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(a)	Due to lack of schedules and ledger accounts, 03 account items totalled to Rs. 692,863,579 could not be satisfactorily vouched.	Actions will be taken to correct.	Schedules should be prepared and submitted.

2. Financial Review

2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs. 79,856,740 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 18,363,677.

2.2 Revenue Administration

2.2.1 Performance on Revenue Administration

Audit Observation	Comments Of the Sabha	Recommendation
(a) The total arrears of rates at the end of the year under review was Rs. 7,290,483 and out of that, the arrears in between 03 to 05 years was Rs. 1,028,431 and the arrears in between 05 to 10 years was Rs.735,313 .	A sum of Rs. 6,899,928 has been recovered by billing Rs.12,041,998. The percentage is 57.30 per cent. Actions will be taken to recover the arrears as soon as the situation becomes favourable.	Arrears of rates income should be recovered promptly.
(b) The court fines and the stamp duties receivable from the Chief Secretary of the Provincial Council and Other Authorities were Rs. 9,598,756 and Rs. 77,500,000 respectively.	Due to the delay of the Provincial Revenue Commissioner the court fines amounted to Rs. 9,598,756 has not been received so far.	The arrears should be recovered promptly.

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1 Management Inefficiencies

Audit Observation	Comments Of the Sabha	Recommendation
Although the pre –schools equipment had been purchased to the pre-schools in Dikpita and Koslanda proposed to be newly commenced by incurring a sum of Rs. 104,900 on 10 March 2020 , actions had not been taken to commence the pre-schools and recruitment of teachers for those schools had also not been carried out.	Actions will be taken to recruit the teachers as per the approval of the Commissioner of Local Government (W.P) dated 09 March 2021	Actions should be taken to recruit the teachers and commence the pre- schools .