

Millaniya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Millaniya 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 Millaniya 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 Financial Statements had not been presented according to the Section 6.7 of the Public Sector Accounting Standards of Sri Lanka 2017 and the budgeted and the actual values had not been declared comparatively in the financial statements according to the section 3.9 of that Standard.	Actions would be taken to correct in the year 2021.	Actions should be taken according to the Standards.
(b.) A Cash Flow Statement had not been prepared according to the Section 3.13 of the Public Sector Accounting Standards of Sri Lanka 2017	Actions would be taken to correct in the year 2021.	Actions should be taken according to the Standards.

1.6.2 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) The amount of Rs.7,821,557 of Reserves and the allocations for reserves had not been mentioned in the Statement of Assets and Liabilities therefore the amount of Net Assets had been understated by that amount of value as at 31 December 2020.	Action will be taken to make it correct in the year 2021.	The accounts should be accurately made.
(b) Even though the value of the physical stock should be stated as at 31 December 2020 the book value of Rs.410,292 had been accounted.	An error had been occurred when accounting the physical stock value.	The physical stock should be accounted.

(c)	The Industrial stock valued Rs.185,040 as at the end of the year under review had not been stated.	An error had been occurred when accounting the physical stock value.	The accounts should be accurately made.
(d)	03 Engine Boats value of Rs.1,496,250 received as donations from the Ministry of Provincial Council had not been stated in the accounts.	Action will be taken to make it correct in the year 2021.	All the fixed assets should be stated.
(e)	29 Water Tanks of 1000L purchased during the year under review for a cost of Rs.311,750 had been stated in the accounts as Rs.163,630 therefore it had been understated by Rs.148,120	Action will be taken to make it correct in the year 2021.	The accounts should be accurately made.
(f)	The industrial creditors balance for the year under review had been Rs.33,304,784 but it had been stated in the financial statements as Rs.34,185,058 therefore it had been overstated by Rs.880,274.	Inform that an error had been occurred when stating the industrial creditors balance and the accurate balance is Rs.33,304,784.	The accounts should be accurately made.
(g)	Even though An amount of Rs.11,734,365 of Buildings should be capitalized for the year under review it had been stated as Rs.7,517,323 therefore it had been capitalized less Rs.4,217,042.	Inform that the building account only had been capitalized less Rs.4,217,042 therefore actions would be taken to make it correct.	The accounts should be accurately made.

1.6.3 Unreconciled Control Accounts

Audit Observation

A difference of Rs.354,973 relevant for 03 item of accounts had been observed between the balances as per the financial statements and the balances as per the corresponding ledger balances and a difference of Rs.2,320,668 relevant for 02 item of accounts had been observed between the balances as per the financial statements and the balances as per the corresponding reports.

Comment of the Sabha

Inform that an error had been occurred and actions would be taken to correct it.

Recommendation

Actions should be taken to reconcile the balances and make them correct.

2. Financial Review

2.1 Financial Results

According to the financial statements presented revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.69,892,149 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.26,146,994.

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
The maintenance of registers, including the Lands and Buildings owned by the Sabha to the Books and certification of the protection of the assets and making an assessment regarding the other assets and liabilities could not be done because as a newly placed Pradeshiya Sabha after 20 March 2018 the amount receivable of Assets, Liabilities, Revenue and Expenditure from Bandaragama Pradeshiya Sabha had not been allocated and received as at 20 July 2021 by the Millaniya Pradeshiya Sabha.	Bandaragama Pradeshiya Sabha and the Assistant Commissioner of Local Authorities had been informed and memorandums had been sent.	Actions should be taken to allocated and separated as soon as possible.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Sabha	Recommendation
The financial statements for the year 2020 had not been presented as at 28 February 2021 and it had been presented on 28 June 2021.	The delay had been occurred due to Covid-19 Pandemic actions would be taken to present the financial statements on time in the future.	The Financial Statements should be presented on time.