

## Medirigiriya Pradeshiya - 2021

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Medirigiriya Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of assets and liabilities as at 31 December 2021, 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 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 Medirigiriya Pradeshiya Sabha as at 31 December 2021, 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

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Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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

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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)**

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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 skepticism 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

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National Audit Act, No. 19 of 2018 includes 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 financial statements presented includes all the recommendations made by me in 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

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### 1.6.1 Accounting Policies

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<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
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According to Financial Administration Rule No. 97 of the local councils, the budget information for the relevant fiscal year should be presented in the financial statements for the relevant period, but the budgeted information had not been presented in the asset and liability statement and cash flow statement prepared for the year under review, as of 31 December 2021.	In preparing the 2022 account, I will present the final account along with the budgeted information in the cash flow and asset liability statement.	Financial statements must be presented correctly in accordance with the rules introduced for local government bodies.

### 1.6.2 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
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(a) As per EG 10.1 of Appendix 02 relating to Public Sector Accounting Standards of Sri	According to EG 10.01 of Appendix 02 related to accounting standards,	Work in progress should be recorded as assets based on

Lanka for Local Authorities, assets under construction percentage of based on the percentage of were accounted for by completion. completion, the value of journal entries in the year work in progress at the end 2022 on the basis of of the year under review was percentage of completion. Rs.27,025,536, but by accounting as Rs.42,371,153, the work in progress account was overstated by Rs.15,345,617.

- (b) Due to the fact that the annual depreciation value of Rs.10,268,266 was added to the accumulated fund without deducting it from the property, plant and equipment value, therefore, the property, plant and equipment value was understated and the accumulated fund was overstated from that value. I will make sure that this mistake does not happen in the preparation of accounts in the year 2022. Depreciation value should be correctly accounted for and presented.

### 1.6.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
There was a difference of Rs.1,587,665 between the financial statements and schedules related to 05 accounting subjects.	Action will be taken to rectify.	Correct values should be identified by comparing financial statements and schedules.

### 1.6.4 Documentary Evidences not made available for Audit

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The evidence was not submitted to the audit to ascertain who are the debtors related to 02 projects with a	Will check the details of these debtor balances and do the necessary work promptly.	The information required to verify the balance should be maintained.

value of Rs.266,064 included in the industrial debtor balance shown in the financial statements.

## **2. Financial Review**

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### **2.1 Financial Result**

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs.7,815,748 as compared with the excess of revenue over recurrent expenditure amounted to Rs.32,962,463 in the preceding year.

## **2.2 Revenue Administration**

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### **2.2.1 Performance in Revenue Collection**

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#### **Audit Observation**

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#### **Comments of the Council**

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#### **Recommendation**

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#### **Rates and Taxes**

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Out of the outstanding balance of Rs.3,064,406 as on 31st December 2021, a sum of Rs.133,775 has been collected from 10 government properties and 243 private properties by 31 August 2022, and further, Rs.2,930,631 remained outstanding from 173 government properties and 2567 private properties.

Some arrears have been recovered so far and action will be taken to recover the remaining amount.

The arrears should be recovered promptly.