

Musali Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Musali Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Income and Expenditure Account, 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 the 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 Musali Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Generally accepted Accounting Principles, 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
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(a) 72 items of non-current assets purchased by the Sabha between 2007 and 2021 valued at Rs. 1,624,152 had not been accounted.	These errors will be corrected in the future.	All the transactions done by the council should be entered in to the books.
(b) 20 items of non-current assets received between the year 2011 and year 2021, as donations and Rs. 90,800 due in 2020 had not been accounted..	These errors will be corrected in the future.	All assets should be accounted..

1.6.2 Lack of documentary evidence for audit

Audit Observation	Comment of the Sabha	Recommendation
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The evidence required to confirm the arrears of butcher rents of Rs.199,740 related to the years 2011 and 2014 had not been submitted to the audit.	In the absence of any documents, it seems appropriate to write off the relevant arrears through Sabha dissension.	Evidence required for audit should be submitted.

1.7 Non compliances

1.8 Non compliance with Laws, Rules and Regulations

Reference to laws rules regulations.	Non compliance	Comment of the Council	Recommendation
Financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka	The action had not been taken regarding the deposits of Rs.82,950 which are more than 02 years old as per the Financial Regulation..	Action will be taken on overdue deposits.	The action should be taken in accordance with the Financial Regulations regulations.

2 Financail Review

2.1 Financial Result

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. 3,718,147 as compared with excess of revenue over recurrent expenditure amounted to Rs. 3,700,613 in the preceding year.

2.2 Performance of the Revenue Collection

Audit Observation	Comment of the Sabha	Recommendation
(a) The Sabha had not taken any action to collect assessment and taxation.	Arrangements are being made for assessment and tax collection by the council.	As per the provisions of Section 158 of the Local Council Act No. 15 of 1987, arrangements should be made to collect the income of the council.
(b) The sum of outstanding Butchery shop rent, vehicle rent and drinking water charges was Rs.1,952,166. That arrears had not been recovered from the period between 01 and 06 years.	There is a court case regarding the collection of Butchery shop rents. Arrangements are being made to collect other arrears.	-do -

3. Operatin Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1 Operating inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) By-laws on important matters in terms of Section 126 of the Local Council Act were not established till 31 December 2021.	The action will be taken in future.	Necessary by-laws should be established without delay.
(b) An advance of Rs.104,644, which was more than 24 years old, had not been recovered.	Although it is stated that this amount was given by check to the council from his retirement gratuity, it cannot be settled due to lack of proof of receipt of the check.	The information should be looked into and necessary steps should be taken.

3.2 Asset Management

Audit Observation	Comment of the Sabha	Recommendation
The ownership of the lands where are 18 buildings and 08 vehicles in use by the council had not been registered in the name of the council.	Arrangements are being made to transfer the ownership of the land where the buildings used by the council are located to the name of the council.	Actions should be taken to acquire the ownership of the assets without delay.

3.3 Human Recourse Management

Audit Observation	Comment of the Sabha	Recommendation
There were 11 vacancies out of the approved number of 64 employees as at 31 December 2021 and there was an excess of 05 employees.	The comments had not been given by the management	Steps should be taken to fill up the vacancies as per need and employ the excess effectively.