

Malimbada Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Malimbada Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position, as at 31 December 2021 Statement of Financial Operations, statement of changing 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 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 Malimbada 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 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

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 (1) (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
-----	-----	-----
(a) The value of total assets Rs.440,666,037 including to Property and Equipment Rs.310,687,237, Stock Rs.573,443, Receivable Balance Rs.87,456,375 Employee Loans and Advances Rs.5,399,117, Investments Rs.10,762,983, Prepayments Rs.168,541 and Cash and Cash Equivalents Rs.25,618,341 and The total value of claims and liabilities was Rs.438,174,291 including the Accumulated fund Rs.80,139,045, contribution of income to capital application Rs.309,948,597 and current liabilities were Rs.48,086,649. Therefore, a difference of Rs.2,491,746 had been observed.	The action will be taken to correct by the financial statement being prepared for the year 2022.	Should be accounted correctly

(b) The provision had not been made under various creditors for miscellaneous expenses amounting to Rs.301,952 as at the end of the year under review.	The action will be taken to correct by the financial statement being prepared for the year 2022.	Should be accounted correctly
(c) The expenditure of Rs.3,692,636 incurred during the year under review for improving the property owned by the council had not been capitalized.		
(d) An amount of Rs. 291,115 received in connection with the work for the reconstruction of the side wall of the Welandagoda Lunugoda Road, which had been made as a provision of Rs. 459,304 for last year, had been accounted as income for the year under review.		
(e) The work creditors settled in relation to the previous years in the year under amounting to Rs.781,087 review had been accounted as an expense in the year under review.		
(f) The provision had not been made under work creditors for Rs.224,249 payable as at the end of the year under review for the construction of the culvert near Mr. Rajagewatta Leonard's house.		
(g) The value of all the lands and buildings owned by the council was not updated and the Rs.3,378,526 spent for the development of the property had not been capitalized.		

1.6.2 Non reconciled control accounts or Reports

Audit Observation

There was a difference of Rs. 834,685 in between the balances related to 12 accounting items and the total included in the financial statements was Rs. 99,019,782 and the balances shown in the related utility documents/schedules and ledger accounts.

Comment of the Sabha

Such errors will not occur in the preparation of financial statements in the coming years.

Recommendation

The differences in the respective balances should be reconcile and corrected the accounts.

2. Financial 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 amounted to Rs. 9,740,481 as against the excess of recurrent expenditure over revenue amounted to Rs.1,822,688 in the preceding year.

2.2 Performance of Revenue Collection

(a) Assessment

Audit Observation

There were 421 assessment units in the year under review, and as at the end of the year there was an outstanding balance of Rs.165,848 by 161 assessment units.

Comment of the Sabha

The action will be taken to recover outstanding balances In future.

Recommendation

Arrears of income should be recovered promptly.

(b) Shop Rent

Audit Observation

42 shops owned by the council were leased as at the end of the year under review, and there was an outstanding balance of Rs. 726,940 from 29 shops.

Comment of the Sabha

The action will be taken to recover outstanding balances.

Recommendation

Arrears should be collected promptly.

3. Operating 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

During the period between 2016 - 2021, 06 building applications submitted to the council had not been approved due to various reasons, however those buildings were constructed as per the field sample audit inspection. Furthermore, 07 buildings were constructed

Comment of the Sabha

Applicants will be informed and necessary action will be taken.

Recommendation

The action Should be taken in according with the regulations.

without obtaining development permits in the urban area and regarding these unauthorized constructions, according to the 02 Section of the Gazette Notification No. 2235/54 dated 08 July 2021, which includes the planning and development orders/regulations of the Urban Development Authority, It was observed that no steps were taken to recover an amount of Rs.1,927,376, regularize or remove the construction.

3.2 Deficiencies in contract administration

Audit Observation	Comment of the Sabha	Recommendation
(a) In the year 2020 Sapiri Gamak People's Participation Rural Development Program and, a concrete drain making work and 05 side wall construction work in the year under reviewed by using the council funds plywood boards as a rate with a similar work description in payment for shaping. Instead of the rate of Rs.841 introduced under CT-036 by the Southern Provincial Engineering Service Office, the Southern Provincial Road Development Authority introduced under ST-057 for framing using 01 inch (55 mm) second class timber planks. Due to the use of the rate of Rs.1,108, an extra amount of Rs.158,285 was paid for 592.83 square meters at Rs.267 per square meter.	The prices prepared by the Southern Provincial Road Development Authority were used in the preparation of road estimates under the 2020 Sapiri gamak Community Based Rural Development Programme.	Appropriate and favorable rates should be used.
(b) In connection with the development project of Galpamuna Adamwatta Road near Mr. Ranji's house, which was implemented under Sapiri Gamak People's Participation Rural Development Program in the year 2020, the length of the road built was 178 meters and the width was 2.4 meters, however the total length of the road that had been built was 161.7 meters. Therefore, the contractor was overpaid Rs.86,312 for 5.01 cubic meters of concrete for 16.7 meters.	Action will be taken to avoid such omissions in future.	Payment should be made only for work performed.