

Mulatiyana Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mulatiyana Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 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 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 Mulatiyana 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 amount spent for the development of land and buildings owned by the council was Rs.3,376,828 and the solar panel installed in the office building valued at Rs.4,420,000 during the year under review was not capitalized.	The action will be taken to capitalized in future	Should be accounted correctly.
(b) In the reviewed year, Rs.1,127,123 related to 10 industries which were planned to be implemented by the council and the commencement of work was stopped, Rs.714,316 related to 02 construction contracts whose bills were settled and Rs. 254,842 related to 05 industries that had been deployed and operated by using JCB owned by the Sabha totaling to Rs. 2,096,281 had been provided as work credit provision.	The works related to the 10 industries that could not be completed will be completed as soon as possible and that they will be corrected in the future.	

1.6.2 No reconciled control account or reports

Audit Observation	Comment of the Sabha	Recommendation
-----	-----	-----
There was a difference of Rs.12,040,596 in between the balances related to 05 accounting items and the balances shown in the relevant documents/schedules relevant to the total of Rs.118,374,123 included in the financial statements.	The action will be taken to correct in next account.	Action should be taken to correct the accounts by reconciling the changes in the relevant balances.

1.6.3 Lack of documentary evidence for audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
06 accounting items totaling to Rs.22,626,055 could not be satisfactorily examined during the audit due to non-submission of documents, schedules, deposit certificates and files etc.	The council does not have the documents and the action will be taken in the future.	Evidence confirming the evidence of accounts should be submitted

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December amounted to Rs. 9,446,679 as compared with excess of recurrent expenditure over revenue amounted to Rs. 2,967,126 in the preceding year.

2.2 Revenue collection performance

(a) Shop Rent

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
59 shops owned by the council had been leased, out of which 52 shops had been collected Rs. 300,632 from the outstanding balance of Rs.1,518,901 at the end of the year under review by 06 June 2022.	The arrears of Rs. 300,632 have been collected from the arrears rent balance by 06 June 2022.	Arrears of income should be collected immediately.

(b) Rent Tax

05 properties owned by the council had been leased, and arrears of rent of Rs.1,587,970 were due from 04 leased properties in the year under reviewed.	The next steps will be taken.	Arrears of income should be collected immediately.
--	-------------------------------	--

3. Operational 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 Operational inefficiencies

Audit Observation

The Charges of Rs.558,000 for 03 buildings that were constructed without obtaining development permits within the area of the local council in accordance with sub-document 02 of the gazette notification No. 2235/54 dated 08 July 2021 containing the planning and development orders/regulations of the Urban Development Authority and had not taken steps to regularize or remove the construction.

Comment of the Sabha

The owners of 03 buildings constructed without obtaining development permits were notified in writing on 06 April 2022 to submit and approve building applications.

Recommendation

Regularization or removal of the construction should be done and charges should be levied as per the gazette notification.