

Madulla Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Madulla Pradeshiya Sabha including the financial statements for the year ended 31st December 2021 comprising the Statement of financial position as at 31st December 2021, Statement of Financial Operations Statement of changes in net assets, 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 financial statements give a true and fair view of the financial position of the Madulla Pradeshiya Sabha as at 31st December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion 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 Practices, 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

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

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the sabha -----	Recommendation -----
(a) Since, Machinery and equipment worth of Rs.67,800 which were received as Donations for computer centres had not been accounted for, under fixed assets; Machinery and equipment and the contribution by aid to capital application had been understated.	It has been identified that it belongs to the Pradeshiya Sabha and it has been informed that it will be rectified in the coming year	Fixed assets should be correctly identified and accounted for.
(b) Since the value of 80 mobile stalls worth of Rs.7,596,000 which had been completed under the allocation of the Ministry of Provincial Councils and Local Government, on October 22 nd , 2021 had not been accounted for under fixed assets, the fixed assets and the contribution of income to capital application was understated by that amount.	It has been informed that the correction will be made in preparing the accounts for the next year.	Fixed assets should be correctly identified and accounted for.
(c) Although the total value of the finished works for the renovation of the Makulla market site was Rs.8,832,282, that value is stated as Rs. 4,293,497 so the value of land and buildings had been understated by Rs. 4,538,785.	It has been informed that the correction will be made in preparing the accounts for the next year.	The correct values of the buildings owned by the sabha should be identified and accounted for.

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| (d) | By recording Rs.150,500 twice which Paid by the pradeshiya Sabha for obtaining electricity connection in the capital expenditure account ; surplus has been understated by that amount. | It has been informed that in the future such expenses will be credited to the related expenses head instead of taking into income. | Accounts should be prepared correctly. |
| (e) | The expenditure of Rs.463,667 paid in the year 2022 in relation to the year under review, had not been accounted for as creditors in the year under review, so the balance in the creditor account was understated and the surplus was overstated by that amount. | It has been informed that the expenses related to the year 2021 paid in the year 2022 will be classified and accounted as creditors in the year 2021. It has been informed that it will be rectified in the coming year. | Creditors should be properly identified and accounted for. |
| (f) | Rs.1,474,303 stamp duty receipts in relating to the year 2021 had been accounted for as court fine receipts. | It has been stated that it will be correctly accounted for in the year 2022. | Incomes should be accurately recognized and accounted for. |
| (g) | The work – in - progress recognition policy and revenue recognition policy followed by the sabha were not disclosed in the financial statements. | It has been informed that the accounting policies will be disclosed in the coming year. | The accounting policies used in the preparation of financial statements should be disclosed. |

1.6.2 Unauthorized Transactions

----- Description of unauthorized transaction -----	----- Comments of the sabha -----	----- Recommendation -----
From the year 2014 to the year 2021, as an allowance of 50 percent of the environmental protection license inspection fees charged by the council, Rs.108,250 had been paid to the officials who conducted the relevant field inspections without formal approval.	It has been informed that the amount has been paid by mistake and the officials have been informed to recover it.	Allowances should be paid with formal approval.

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 31st December 2021 amounted to Rs.6,778,709 in against the excess of recurrent expenditure over revenue amounted to Rs.1,371,669 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation

Due to not getting enough advance money while renting 02 motor grader machines, a back loader machine and a tipper belonging to the sabha, Rs.1,229,100 rental income to be charged from the year 2017 to December 31st , 2021 had not been recovered.

Comments of the sabha

It has been informed that the arrears will be recovered immediately.

Recommendation

Arrears rent from machine should be recovered.