

## **Monaragala Pradeshiya Sabha - 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 MonaragalaPradeshiyaSabha including the financial statements for the year ended 31<sup>st</sup> December 2021 comprising the Statement of financial position as at 31<sup>st</sup>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 PradeshiyaSabha Act No.15 of 1987and 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 MonaragalaPradeshiyaSabha as at 31<sup>st</sup>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**

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I expressed qualifiedopinion 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 FinancialStatements 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 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 PradeshiyaSabha's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the PradeshiyaSabha 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 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 Sabhad 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.09 of 2018.

## 1.6 Audit Observations on the preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) Due to the fact that the value of 10 buildings belonging to the Pradeshiya Sabha is double calculated and accounted for; the accounts of land and buildings and income contribution to the capital account had been overstated by Rs. 44,631,460.	It has been informed that corrections will be made during the preparation of accounts in the coming year.	Values of assets should be accurately identified and accounted for.
(b) Due to the non-capitalization of the value of the 08 buildings constructed by the Pradeshiya Sabha in the year under review, the balance of the land and building account and the income contribution to the capital application account had been understated by Rs.8,080,046.	It has been informed that due to the inability to make the payments related to the constructions in the relevant year, accounting has been omitted and that deficiencies will be corrected in the preparation of future financial statements.	All land and buildings belonging to the Sabha should be accounted for under Property, Plant and Equipment.
(c) buildings valued at Rs.915,200 which stated Under Land and Buildings had been demolished by December 31 <sup>st</sup> of the year under review due to dilapidation, but the value of the buildings had not been derecognized from the account, so the value of the buildings had been overstated by that amount.	It has been informed that the balance could not be written off from the account by mistake and steps will be taken to correct it in the future.	The value of demolished buildings should be derecognized from property, plant and equipment and income contribution to capital application accounts.

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| (d) | In the statement of financial position prepared as at 31 <sup>st</sup> December of the year under review, A difference of 123,832 was observed between the balances in the accounts of property and equipment and income contribution to capital application. But the reason for that difference was not submitted to the audit. | It was informed that the unrecognized difference, which has existed since the year 2013, will be corrected in the future.    | The balances of the two accounts should be equal as the total value is credited to the contribution account from income to capital application considering that the property is fully depreciated at the time of purchase of the equipment. |
| (e) | The cost of repairing the tractor of Rs. 390,590 for the year under review had not been accounted for and the surplus and current liability had been understated by that amount.   | It has been informed that the correction will be made during the preparation of accounts for the next year.                  | Expenses should be correctly identified and accounted for.  |
| (f) | Due to the fact that the Sabha did not have any information related to the 03 accounts shown in the statement of financial position as of December 31 <sup>st</sup> of the year under review, Rs.689,214 worth of fictitious assets were shown in the statement of financial position.   | It had been informed that various measures were taken to find out the parties from whom the water charges should be charged. | Information about the parties from whom the water charges are due, shown as current assets, should be submitted to the audit.   |

## 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.64,410,417 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 18,842,362 in the preceding year.

## 2.2 Revenue Administration

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### 2.2.1 Performance in Revenue Collection

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Following are the observations regarding the revenue collection performance of the Sabha.

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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(a) Assessment tax in arrears of Rs. 7,161,506 in relating to the year under review and Rs.11,621,282 related to previous years had not been recovered.	It has been informed that due to the Corona epidemic situation that has existed since the beginning of the year 2021 , the collection of assessment tax has been delayed.	Assessment tax in arrears should be recovered.
(b) From the year 2010 to the year 2021, Rs.11,740,750 arrears of tax to be collected from the lease of 11 Sabha properties had not been recovered.	It has been informed that tax collection has been delayed due to the Corona epidemic situation occurred, since the beginning of 2021.	Tax in arrears should be recovered immediately.

## 3. Operational Review

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### Performance

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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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

### Visible irregularities

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<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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An advance of Rs.475,000 was given on April 11 <sup>th</sup> 2020, to three members of the Pradeshiya Sabha on the basis of re-payment in order to provide essential food items to the people during the covid 19 pandemic had not been cleared even a year had elapsed.	It has been informed that this amount will be cleared before the upcoming general assembly.	Advance amount to be settled should be settled.