

Mawanella Pradeshiya Sabha - 2021

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mawanella 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 Performance, 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 Provision 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 Mawanella 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 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 Council -----	Recommendation -----
<p>(a) The amount of Rs. 1,600,000 incurred in the year under review for the development of the Mawanella weekly fare has not been capitalized and the income contribution account to the capital application was also understated by that amount.</p>	<p>. It was informed that it will be corrected in the preparation of the final account of the year 2022.</p>	<p>Action should be taken to rectify the account.</p>
<p>(b) Although the interest income on investment for the year under review was Rs. 1,660,610 and due to it has been under- accounted as a negative value of Rs. 1,818,977 and therefore operating profit was understated by the same amount.</p>		
<p>(c) Even though Rs. 3,200,000 for the construction of toilet system of the city in the year 2020 had been provided for creditors and due to the fact that no functions have been made for the same by the end of the year under review and therefore understated the accumulated fund and overstated the creditors by that amount have been shown.</p>	<p>It was informed that settlement will be done by obtaining the confirmation of creditor balances when preparation of final account for the year 2022.</p>	<p>Accounts should be rectified.</p>
<p>(d) The amount of Rs.1,773,000 had been made provision for creditor where there was no legal fees to be paid relevant to the year 2016.</p>		

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 710,268 between the balance according to the financial statements of 02 accounting subjects and the balance according to the documents/reports at the end of the year under review.	It was informed that will be corrected in the future.	Action should be taken to rectify the accounts by identifying the difference.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliances with Laws, Rules, Regulations and Management decisions were given below

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) 571(3) of the financial regulation of the Democratic Socialist Republic of Sri Lanka)	Action has not been taken in terms of the financial regulation regarding the amount of Rs. 3,145,283 in the deposit account for repayment of industrial and security deposits on agreement, mixed deposits, deposits for reservation the theatre and entertainment tax deposits which was remained for more than 03 years.	It was informed that necessary steps will be taken to settle the matter immediately.	Action should be done in terms of the financial regulation.

- (b) 7.4 (1V) of Circular No. 01/2010 of Local Government Reform Circular Guideline. A sum of Rs. 900,000 allowances to the 17 members in the year 2020 and 2021 had been paid for 59 days of the absenteeism to Sabha meeting for non-medical reasons and on the reasons non-relevant for local government. It was informed that payment will be made in the future only to the members who submitted the medical certificates. Action should be done according to the circular.

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 2021 amounted to Rs 93,316,542 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 200,260,359 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
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(a) Rates and Taxes -----		
Action has not been done to recover the outstanding rate tax due amounts of Rs 13,298,963 from 32 government properties and 5210 private properties at the end of the year under review.	That most of the outstanding amount could not be recovered due to Corona epidemic situation and it was also informed that action will be done to recover in the year 2022.	Actions should be taken to collect arrears of due rates as per the act.

(b) Rent

Action has not been taken to recover the receivable renting income balance of Rs.19,189,954 from 18 meat shops, 05 fish shops and 125 other shops at the end of the year under review.

It was informed that the shop rents are being recovered by acknowledging the shop owners and giving concessions.

Actions should be taken to collect the arrears of rent as per the Act.

(c) Other Income

The outstanding balance of sales, water tax and other receipts remained at the end of the year under review exceeding 5 years was Rs. 2,128,578.

It was informed that this revenue deficit balance will also be recovered.

Actions should be taken to recover the arrears of income.