

Medadumbara Pradeshiya Sabha -2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Medadumbara Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Balance sheet as at 31 December 2021, Income and expenditure Account 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 Medadumbara Pradeshiya Sabha as at 31 December 2021, and of its financial performance 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 **Contingent Liabilities**

| Audit Observation | Comments of the Sabha | Recommendation |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------|
| ----- | ----- | ----- |
| Even though a total of Rs. 247,500 was paid in the year under review in the form of lawyer's fees of Rs. 238,500 and Rs. 9,000 respectively in relation to the previous year and the year under review for 09 cases sued against the sabha and one case sued by the sabha; Details of those cases were not disclosed in the financial statements. | It has been informed that it will be corrected in the future. | Unsettled cases should be disclosed in the financial statements. |

1.6.2 **Unreconciled Control Accounts or Records**

| Audit Observation | Comments of the Sabha | Recommendation |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| ----- | ----- | ----- |
| There was a difference of Rs.34,797,401 between balances related to 08 asset subjects with a total Rs.193,575,768 shown in the financial statements and the balances shown in the respective source documents | It had been Informed that action will be taken to update schedules and correct relevant ledgers. | Differences should be identified and necessary adjustments should be made in the financial statements. |

1.6.3 **Documentary Evidences not made available for Audit**

| Audit Observation | Comments of the Sabha | Recommendation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------|
| As on December 31 of the year under review, 02 unrecognized account balances of Rs. 754,812 included in the financial statements, but not included in the documents and schedules, that were carrying forward from previous years, had not been settled. | It has been informed that the relevant balance is being rectified. | Balances should be identified and settled. |

1.7 **Non- Compliances**

Non-compliance with Laws, Rules and Regulations

Following are the instances of non-compliance with laws, rules and regulations observed during sample audits

| Reference to Laws, Rules Regulations etc. | Non- Compliances | Comments of the Sabha | Recommendation |
|-----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| (a) Section 149 of the Pradeshiya Sabha Act No. 15 of 1987 | Without verifying the actual income of 09 hotels run in the sabha area of authority according to the financial statements Fees of Rs.741,181 had been charged. | Some of the hotels included in the observation are not registered with the Tourism Board and further action will be taken after confirming this | Revenues receivable should be accurately identified and fees should be collected. |
| (b) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| (i) 371(2)(b) of the Finance Regulations as amended by Public Finance Circular No. 01/2020 dated 28 August 2020 | Although the Ad hoc Sub imprest should be settled as soon as the work is completed, the Ad hoc sub imprest of Rs. 1,698,650 which was given on 17 occasions during the year under review was settled after a delay of 07 days to 303 days. | It has been informed that the advance will be settled as soon as the relevant work is completed. | Action should be taken to settle the Ad hoc sub imprest without delay, as per the financial regulations. |

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|------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------|
| (ii) | Financial regulation 571 (2) | Regarding 68 deposit balances amounting to Rs.1,107,403 which were deposited more than 02 years ago, the relevant actions were not taken according to the financial regulations. | It has been informed that in the year 2022, further work will be done regarding deposits that have exceeded 02 years. | Financial regulations should be followed. |
|------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------|

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. 31,365,221 as compared with the excess of revenue over recurrent amounted to Rs. 22,588,403 in the preceding year.

2.2 **Revenue Administration**

Performance in Revenue Collection

| Audit Observation ----- | Comments of the Sabha ----- | Recommendation ----- |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Rates and taxes ----- | | |
| (i) Only Rs.296,672 or 26 percent of the outstanding assessment balance of Rs.1,119,875 as at the beginning of the year under review had been recovered and the arrears had not been collected as per the provisions of 158 of the Pradeshiya sabha Act. | It has been informed that the assessment will be collected under a formal plan. | The arrears of revenue should be recovered as per the provisions of the Pradeshiya Sabha Act. |
| (ii) Water meters were not installed for 151 out of the total 911 water consumers of the sabha, i.e. 17 percent, and since monthly charges of Rs. 150 are charged for domestic customers and Rs. 500 for businessmen, the council had lost revenue to be received on water consumption. Also, the arrears of water charges that should have been collected on December 31 of the reviewed year was Rs.874,551. | It has been informed that necessary work will be done to regularize the water scheme by installing water meters and the water connection of those who have not paid the fees has been disconnected. | Water meters should be installed for water consumers and charged based on water consumption and Arrears of water charges should be recovered. |

(b) Shop rent

(i) As on December 31 of the year under review, the balance of rent receivables was Rs. 4,142,177 and no arrangements had been made to recover the outstanding balance as per the agreements. Thereof the balance due for 13 stalls that exceeded Rs.100,000 was Rs.2,158,880.

So far Rs.363,000 has been paid, Rs.178,483 has been written off and Rs.377,283 has been referred for writing off.

The arrears should be recovered as per the agreements.

(ii) Due to the collection of only Rs. 3,327,169 in the reviewed year as Rs.916,290 out of the rent balance of Rs.4,232,629 due on January 01 of the reviewed year and Rs.2,410,879 out of billing of Rs.3,130,747 in the reviewed year, the progress of revenue collection was 45 percent.

While the conciliation board has been referred to collect the arrears it had been informed that case will be filed for arrears as on 30th June 2022.

Monthly rents and outstanding balances should be collected as per the agreements.

(iii) According to the assessment of the year 2015, rent of the shops had been collected under the old agreements without amending the agreements in relation to the 06 stalls owned by the sabha

It has been informed that the implementation of new assessments and entering into new agreements has been temporarily suspended and the Local Government Commissioner has been notified in writing for instructions to implement the new assessments.

According to the new assessment, the agreements should be revised and rents should be recovered.

(c) Other income

Out of the three-wheeler charges in arrears of Rs.2,320,335 due on December 31 of the year under review, Rs.952,970 was outstanding for more than 05 years, and Rs.795,495 was outstanding for a period of 2 to 4 years and no action had been taken by the Council to recover the arrears.

In this arrears, Rs.365,100 is billed incorrectly and it has been referred to be written off It has also been informed that a formal plan will be prepared to recover the remaining fees.

Income in arrears should be recovered.