

Medadumbara Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Minipe Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Income and Expenditure Account 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 Provisions of the National Audit Act No.19 of 2018 and with Sub-Section 172 (1) of the Pradeshiya Sabha Act No.15 of 1987 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 Medadumbara Pradeshiya Sabha as at 31 December 2020, and of its financial performance 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 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 Urban council, 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.

- 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.
- 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 on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) Value of Rs.500,000 was not capitalized which has been spent to repair the Theldeniya Central Library during the year under review.	Action will be taken to correct in the future.	Correction should be done when preparing financial statements for the next year.
(b) There was no provisions were made in the accounts for audit fees in the year under review.	Action will be taken to correct in the future.	Correction should be done when preparing financial statements for the next year.
(c) The payable development project creditors balance was understated by Rs.448,479 as at 31 December the year under review.	Action will be taken to correct in the future.	Correction should be done when preparing financial statements for the next year.

1.6.2 Un reconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
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Rs.5,417,668 difference was observed due to value being Rs.33,818,178 with	Action will be taken to correct in the future.	Correction should be done when preparing

the interest relating to the year according to the source documents that have been presented with the financial statements even though the fixed deposits in the Regional Development Bank as at the year under review was shown as Rs.28,400,510.

financial statements for the next year.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
It was unable to verify in a satisfactory manner due to not presenting balance confirmation source documents and documents that amounted to Rs.100,192,671 relevant for 04 account items.	Action will be taken to correct in the future.	All the needed information for the audit should be presented.

1.7 Non - compliances

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

Occasions of Non – compliances to rules, regulations and management decisions are as follows.

Refer to Laws, Rules, Regulations and management decisions	Non - compliance	Comments of the Sabha	Recommendation
No. 1533/16 under section 23 (a) of the state Environmental Act No.47 of 1980 and the special Gazette Notification issued by the Minister of Environment and Natural Resource dated 25 January 2008.	Action has not been taken to issue license even 01 month to 04 months time period has been spent after getting committee recommendation for 05 applications that received during the year under review to get environment permits. Also 02 permits were not renewed as at the end of year under review.	Action will be taken to issue license in the future.	Action Should be taken according to terms of the Act.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, excess of revenue over recurrent expenditure for the year ended 31 December 2020, amounted to Rs.22,594,073 as compared with the corresponding amount in excess of revenue recurrent expenditure for the proceeding year amounted to Rs.4,989,546. That is mainly due to increase of recurrent revenue from 36 percent compared with the corresponding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates		
A total of Rs.1,119,815 was not collected as Rs.564,106 from billings of the year Rs.1,474,067 and Rs.783,361 from the arrears balance of Rs.1,245,937 as at the beginning of the year under review.	Action will be taken to collect in the future.	Action should be taken to collect the arrears revenue without delay.
(b) Acreage Tax		
Balance of Rs.93,982 was to be collected as at the end of year under review and only Rs.41,025 was collected during the year, from the arrears balance of Rs.122,322 as at the beginning of the year under review. Balance of Rs.81,297 which exceeded one year period was included in that balance.	Action will be taken to collect in the future.	Action should be taken to collect the arrears revenue without delay.
(c) License Fees		
Arrears license fees Rs.283,800, industrial tax Rs.64,250 and business tax Rs.56,400 were not collected from 410 institutions as at 31 December the year under review.	Action will be taken to collect in the future.	Action should be taken to collect the arrears revenue without delay.

(d) Other Revenue

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| (i) | A total of Rs.2,050,035 was not collected as Rs.418,040 from Rs.742,545 billings of the year and Rs.1,631,995 from Rs.1,884,715 arrears vehicle rent income as at the beginning of the year under review. | Action will be taken to collect in the future. | Action should be taken to collect the arrears revenue without delay. |
| (ii) | A total of Rs.1,427,716 was not collected as Rs.1,089,751 from Rs.3,365,311 billed revenue of year under review and Rs.337,965 from Rs.874,247 arrears water charges balance as at the beginning of the year under review. | Action will be taken to collect in the future. | Action should be taken to collect the arrears revenue without delay. |

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

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) The shop stall was not taken back even though revenue of Rs.501,500 during the year under review and Rs.501,500 during the previous year was lost due to giving the shop stall of Theldeniya bus stand as a rest room for Theldeniya Depo driver and the conductor on 17 December 2017.	Action will be taken to collect in the future.	Action should be taken not to give the assets owned by the Sabha to another party without the proper approval.
(b) Rs.27,600,000 has been taken as a key money amount from 93 lease holders after planning to build 170 shop stalls in the public market complex that is proposed to build in the Theldeniya city. Rs.435,000 had to be spent as attorney fees during previous and the year under review due to 22 lease holders have sued against the Sabha relating to problem of separating shop stalls and Rs.1,260,000 had to be paid back for 13 lease holders from the key money amount that was collected.	Construction activities cannot be made quick due to exist of enjoining orders.	Action should be taken to increase the revenue and action should be taken not to inter vent with judicial proceedings by acting according to rules and regulations.

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| (c) | 2 other debtors accounts balances and total of Rs.120,520,055 development projects debtors were not collected which included Rs.5,358,465 that has not been settled for a period which exceeds 5 years, Rs.115,161,590 that exceeds the period between 1 year and 5 years as at 31 December the year under review. | Action will be taken to collect in the future. | Action should be taken to collect without delay. |
| (d) | Total of Rs.95,825,472 development projects creditors, other creditors and storage creditors account balances were not collected which included Rs.3,233,059 that exceeded a period of 5 years Rs.92,592,419 that was not settled for a period between 1 to 5 years as at 31 December the year under review. | Action will be taken to collect in the future. | Action should be taken to collect without delay. |

3.2 Human Resource Management

Audit Observation

Recruitments were not done for 16 vacancies in the approved and actual staff.

Comments of the Sabha

Action will be taken to fill the vacancies in future.

Recommendation

Action should be taken to fill the vacancies.