

Mirigama Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mirigama Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement , statement of changes in net assets/ equity, 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 provisions of the National audit act No.19 of 2018 and the 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 financial statements give a true and fair view of the financial position of the Mirigama Pradeshiya Sabha as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

1.2. Basis for Qualified Opinion

I express qualified opinion based 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 Sri Lanka Public Sector Accounting Standards, 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 include 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 following recommendations which I made on financial statements for the preceding year had not been included as per the requirement of Section 6(1) (d) (iv) of the National Audit Act, No. 19 of 2018.
1.3 (a), 1.3 (b) (ii), 1.3 (b) (iii)

1.6 Audit Observations in connection the Preparation of Financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) As a result of the value of Rs.13,953,771 pertaining to the year out of the capital grants received during the year under review amounting to Rs.139,537,708 was not transferred to the transfers from government for non-recurrent expenses account , the surplus of the comprehensive income statement had been understated by that amount.	It is kindly informed that the amount of depreciation identified annually in relation to capital grants received in the year 2020 should be entered in the income statement by transferring into the transfers from government for non-recurrent expenses account from the year 2021.	Actions should be taken to account for the capital grants as per the Standards.
(b) Although it has been emphasized that the assets and liabilities should be classified under the correct category in terms of the Circular of the Commissioner of Local Government, Western Province No. LGD/09/2019/01 dated 27 August 2020, there were the following deficiencies in the asset revaluation.		

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| <p>(i) Although classifying of motor vehicles and carts into two categories as motor vehicles and carts and should be depreciated separately as motor vehicles for 4% of and carts for 20%. in the identification of motor cars and carts at its revaluation, the motor vehicles and carts valued at Rs.42,091,910 had been depreciated by Rs.1,683,676 at a rate of 4% each.</p> | <p>Actions will be taken to adjust the depreciation and related asset values for the year 2020 by 2021 through the journal entries and to correct.</p> | <p>Assets should be properly classified and depreciated under the accurate depreciation rate.</p> |
| <p>(ii) It had been capitalized a sum of Rs.159,482,630 as roads, culverts and bridges and a sum of Rs.23,665,106 as other infrastructure during the year under review. Even though the Sabha has set a depreciation rate of 10% for roads, culverts and bridges as per the depreciation policy, a depreciation rate for other infrastructure had not been mentioned and such an asset category had not been introduced as per the Circular.</p> | <p>When depreciates other infrastructure, actions will be taken to identify a specific depreciation rate and take action to depreciate accordingly.</p> | <p>It should be accounted for under the accurate assets categories.</p> |
| <p>(c) In capitalizing the two computer software systems, a sum of Rs.295,000 had been understated.</p> | <p>Actions will be taken to correct it by the journal entries in the year 2021.</p> | <p>Actions should be taken to identify and capitalize the accurate value of assets.</p> |
| <p>(d) As a result of a sum of Rs.512,542 receivable as administrative expenses from Mirigama Divisional Secretariat for the Rural Infrastructure Development Programme- 2020 was not identified and accounted for as income, the surplus in the Comprehensive Income Statement had been understated by that value.</p> | <p>Actions will be taken to correct it by the journal entries in the year 2021.</p> | <p>Actions should be taken to identify all the income receivables.</p> |
| <p>(e) The balance of stamp as at 31 December 2020 amounting to Rs.15,360 had not been accounted.</p> | <p>This will be corrected in the year 2021.</p> | <p>The relevant balance should be accounted.</p> |

1.6.2 Unreconciled Control Accounts

Audit Observation

There was a difference of Rs.34,338,588 in between the balances pertaining to 05 account items totalled to Rs.297,207,257 as per financial statements and the balances shown in the relevant schedules.

Comments of the Sabha

The balances in the schedules are accurate. At present, documents are being maintained accurately and although the schedules obtained from them are accurate, the balance of the accounts remaining for many years is incorrect. Because of the reasons for the differences in between those accounts and schedules could not be found, it is informed that the value of the accounts could not be corrected.

Recommendation

Actions should be taken to prepare the accounts accurately.

1.6.3 Lack of Evidence for Audit

Audit Observation

The transfer orders and deeds pertaining to the lands and buildings valued at Rs.1,785,841 had not been submitted for audit.

Comments of the Sabha

Necessary actions will be taken before the end of the year 2021.

Recommendation

Documentary evidences should be maintained.

2. Financial Review

2.1 Financial Results

The surplus of the Sabha for the year ended 31 December 2020 as per the financial statements submitted was Rs.65,540,331 and the surplus for the preceding year was Rs.33,023,119.

2.2 Revenue Administration

2.2.1 Rates and Taxes

Audit Observation

Although the assessment of rates has to be done by the Valuation Department every 05 years in terms of Section 20 of the Rating and Valuation Act No. 30 of 1946, the last assessment of rates was done by the Pradeshiya Sabha in the year 2009 and actions had not been taken to recover the balance of arrears of rates amounting to Rs.7,103,817 as at 31 December 2020.

Comments of the Sabha

Actions will be taken to collect arrears of rates and conduct an assessment of rates and to increase the revenue collected.

Recommendation

Actions should be taken to get assessed every 05 years and to recover arrears of rates.

2.2.2 Trade Stall Rent

Audit Observation

Agreements had not been signed for 85 leased trade stalls and actions had not been taken to recover the balance of arrears of trade stalls remained as at 31 December 2020 amounting to Rs.6,877,450.

Comments of the Sabha

Agreements will be signed for the trade stalls that have not signed agreements. Approval has been sent to write off a portion of the arrears of trade stall rent. Actions will be taken to recover the balance remained by deducting that arrears once the approval is received.

Recommendation

Actions should be taken to sign agreements and to recover the arrears of trade stall rent.