

## **Minuwangoda Pradeshiya Sabha - 2020**

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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 Minuwangoda 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 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 Minuwangoda 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**

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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**

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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)**

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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 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 implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.  
1.2.2(b),(c), (d), (e), 1.2.3, 1.2.4, 1.2.5(a) (i) and (b)

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non-compliance with Reference to the Relevant Standard	Comments of the Recommendation Council
<p>(a) The statement of net assets / equity changes had not been prepared in accordance with the exemplary models of the Sri Lanka Public Sector Accounting Standards for Local Governments and accordingly, changes in accounting policy and errors in previous periods and the account balance of contribution to capital from income amounting to Rs. 671,475,941 and the balance of contribution to capital from grants amounting to Rs. 45,954,605 had not been shown under reserves and provisions as equity.</p>	<p>It is informed that the actions will be taken to prepare the formats accurately when preparing accounts in future.</p> <p style="text-align: right;">Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities .</p>
<p>(b) The land and buildings had not been identified separately in accordance with the letter No. LGD / 10A / 4 / න.ප. / 2019 dated 22 February 2021 from the Commissioner of Local Government regarding the preparation of accounts according to the Standards.</p>	<p>It is informed that the activities on separations of the values of land and buildings are being carried out as per the new Accounting Standards.</p> <p style="text-align: right;">Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities .</p>

- (c) The payments made during the year from the capital expenditure grant receipts under Note 10 in the financial statements should be deducted as grants identified in surplus and the balance should be recorded under net assets / equity, under grants unrecognized in surplus in terms of 9.9 . Nevertheless, although the external capital expenditure received was Rs.131,784,289 the total capital expenditure including Sabha funds was mentioned as Rs. 250,485,961 and the balance had not been indicated.
- It is informed that the actions will be taken to prepare the formats accurately when preparing accounts in future.
- Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities .

## 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Instead of indicating Salary Reimbursement Note No. 4 amounting to Rs.61,542,000 under transfers made by government for recurrent expenditure, the value of donations of Rs. 45,954,605 which was a balance of equity as at 01 January 2020 remaining for many years had been indicated and accordingly, the surplus had been understated by Rs. 15,587,395 .	Instead of indicating the salary reimbursement amounting to Rs.61,542,000, it is informed that the value of donations which was the equity balance of Rs.45,954,605 as at 01 January 2020 had been shown by a mistake .	It should be accurately accounted for.
(b) As a result of the total expenditure for the year under review amounting to Rs.121,330,668, had been stated as income under Note No. 5 transfers made by the Government for non-recurrent expenses, the surplus had been overstated by that value.	It is informed that the total expenditure appeared under Note 8 amounting to Rs.121,330,668 has been indicated under Note No.5 as well.	It should be accurately accounted for.
(c) Because of fixed deposit interest and sales income amounting to Rs. 5,232,570 had been shown within the both Notes No. 6 which indicates the return on non-transactional business and Note No. 7 which indicates the income from the transactional business, the surplus had been overstated by that amount because that value is was double computed.	It is informed that the values recorded twice in Note Nos. 6 and 7 has been noted only under other sales revenue under No.7	It should be accurately accounted for.

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| (d) | Instead of indicating Provincial Council grants for capital expenditure amounting to Rs. 131,789,289 in Note No. 10, since it had been indicated as income from non-transactional business in Note No. 6, the surplus had been overstated by that amount.                                      | It is informed that the Provincial Council grants for the capital revenue in new forms amounting to Rs.131,784,289 has been indicated under Note No. 5 . | It should be accurately accounted for. |
| (e) | Because of the grand total of Notes 4,5,6 and 7 of the statement comprehensive income amounting to Rs. 575,624,676 had been added in twice, the surplus had been overstated by that amount   | It is informed that the instructions have been given to be careful when entering values to new account forms in future.                                  | It should be accurately accounted for. |
| (f) | Although a sum of Rs.17,666,031 had been accounted for as financial expenses by Note No. 9 of the statement of comprehensive income , since the prepaid amount of Rs. 15,734,593 was included within that expenditure had been overstated and the surplus had been understated by that amount. | It is informed that, this error will be corrected and submit.  | It should be accurately accounted for. |
| (g) | Pre-payments and advances amounting to Rs. 15,734,593 had not been accounted for as current assets.  | It is informed that the mistakes have made when entering the pre-payments and advances valued at Rs. 15,734,593 in to new accounts formats.              | It should be accurately accounted for. |
| (h) | Even though the value of non-current investments had been stated as Rs.211,539,943, since the interest on fixed deposit investments is done in the form of face value addition, the investment had been understated by Rs. 4,192,209 of earned interest as at 31 December 2020 .               | It is informed that it will be calculated accurately and corrected and submitted in future .   |  |
| (i) | The accounting for the debtors amounting to Rs. 45,100,303 as assets had been omitted.   | It is informed that the debtors under Note No. 12 should be Rs. 46,621,024 .   |  |
| (j) | Accounting for the balance pertaining to 06 short term payable accounts amounting to Rs. 3,405,804 under liabilities had been omitted .  | It is informed that it had not included in the formats prepared as per new Standards by a mistake.   |  |

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| <p>(k) Creditors for contracts 2020 amounting to Rs. 68,343,327 had been accounted for as expenses instead of accounting for as assets or work- in- progress.</p>  | <p>Since it had been entered into agreement for these contracts in the year 2020 , it is informed that it has been brought to accounts as expenditure.</p> | <p>It should be accurately accounted for.</p> |
| <p>(l) A sum of Rs. 18,394 had been added to the balance as funds not transferred from sub office accounts to Head Office in the reconciliation and since a sum of Rs. 3,389 that had paid to the Head Office account by the online system of the Minuwangoda Sub- office is included in the bank balance, although it should be deducted to get the balance of the cash book, the cash balance had been shown doubled and overstated by Rs. 6,778 by adding it.</p> | <p>It is informed that the corrections have been made by journal entries in the year 2021 .</p>  |   |

**1.6.3 Unreconciled Control Accounts or Records**

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**Audit Observation**

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A difference of Rs. 82,974,773 was observed in the balances pertaining to 06 accounting items shown in the financial statements totalled to Rs. 233,167,499 and in between the balances shown in the schedules relevant to that.

**Comments of the Sabha**

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It is informed that the actions will be taken to correct the final account 2021 .

**Recommendation**

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Actions should be taken to correct comparing the differences in the relevant balances.

**1.6.4 Lack of Written Evidence for Audit**

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**Audit Observation**

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Information required to audit pertaining to the 02 accounting objects totalled to Rs. 2,893,536 had not been furnished to audit. .

**Comments of the Sabha**

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It is informed that the actions will be taken to correct the final account 2021 .

**Recommendation**

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Actions should be taken to correct comparing the differences in the relevant balances.

## 2. Financial Review

### 2.1 Financial Results

The surplus of the Sabha for the year ended 31 December 2020 in the Financial Statements submitted was Rs. 1,012,252,654 and the revenue higher than recurrent expenditure for the preceding year was Rs. 160,213,391 .

## 3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

### 3.1 Procurement Management

#### 3.1.1 Goods and Services

##### Audit Observation

Despite it had received 03 bids to purchase 78 compost bins and the Procurement Committee had recommended to purchase from the lowest bidder on 15 July 2020 when the lowest price had remained as Rs. 4,750 , incurring a sum of Rs. 398,268, purchases had been made on 21 December 2020 for a Rs. 5,106 per each from another private company which had not produced quotations .

##### Comments of the Sabha

Since the standard of that bin in the institution from where previously obtained is higher than in quality of the sample of the company recommended for purchase in the year 2020, it is informed that it had decided to buy from that company.

##### Recommendation

The decisions of the Procurement Committee should be implemented.