

Medawachchiya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Medawachchiya Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary of significant accounting policies, was carried out 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 Sabhas 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Medawachchiya Pradeshiya Sabha as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 for Local Authorities, 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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.

- As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accenting Policies

Audit Observation	Comment of the Sabha	Recommendation
Financial statements had not disclosed the depreciation policy on the revaluated asset as at 01 January 2020, the transitional day.	Accepted	The depreciation policy of the asset as at transition day should be disclosed in the financial statements.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) A sum of Rs. 2,595,432 receivable from the Pura Neguma Shopping Complex for the year 2019 had not been credited to the Accumulated Fund and it had been shown in the financial statements as income for the year under review. Accordingly, the revenue for the year under review had been understated by that amount.	Accepted.	Adjustments related to the preceding period should be made in the Accumulated Fund.

(b)	Instead of crediting court fine revenue of Rs. 371,830 for the last 03 months of 2019 to the accumulated fund, it had been credited to the sundry income account as an income for the year under review and as such the revenue for the year under review had been overstated by that amount.	Accepted.	Adjustments related to the preceding period should be made in the Accumulated Fund.
(c)	The land containing 14 parcels valued at Rs. 11,513,000 vested in the Sabha for a public purpose had not been disclosed in the financial statements.	Accepted.	Value of the assets assigned to the Sabha should be disclosed in the financial statements.
(d)	Thirty five culverts valued at Rs. 6,333,388 constructed during the year under review had been accounted for as recurrent expenditure in financial statements.	Accepted.	The value of culverts should be accounted for as capital expenditure
(e)	Billboard revenue for the year under review amounting to Rs. 240,725 had not been mentioned in the financial statements.	Accepted.	Revenue for the year under review should be disclosed in the financial statements.
(f)	Recurring Grants of Rs. 29,161,495 received for the construction of gravel roads during the year under review had been brought to account as non-recurrent grants in the Statement of Comprehensive Income and as such, deficit of the year under review had increased by that amount.	Accepted.	Construction of gravel roads should be accounted for as recurrent expenditure.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation

Information required for audit relating to 04 items of account totaling Rs. 3,252,323 had not been furnished.

Comment of the Sabha

Action will be taken to settle it.

Recommendation

Necessary audit evidence should be furnished.

1.7 Non-compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
(a) Extraordinary Gazette Notification No. 1533/16 issued on 25th January 2008 in accordance with the Environmental Act No. 47 of 1980	The Siyambalagaskada and Moors Halmillewa cattle slaughterhouses had been maintained without obtaining environmental licence.	Accepted.	Environmental licence should be followed.
(b) Section 09 By-Laws 32 in the Gazette Notification of the Standard By-Laws dated 23rd August 1988.	Although an authorized Public Health Inspector had been appointed to inspect the slaughtered animals in slaughterhouses in the Sabha area and to apply official marks and he had inspect the meat and applied official marks, charges of Rs. 1,042,660 due for that purpose had not been recovered.	Action has been taken to recover the charges from the year 2021.	Gazette notification should be followed.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 35,673,108 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 1,093,356.

2.2 Revenue Administration

2.2.1 Performance in Revenue Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and Taxes		
Necessary action had not been taken to recover the arrears of Rates of Rs. 2,052,214 as at 31 December of the year under review.	Action will be taken to recover the arrears after setting up the legal basis.	Action will be taken to recover the arrears of Rates.
(b) Rent		
No action had been taken to recover the stall rent of Rs. 11,112,436 due as at 31 December of the year under review.	Action has been taken to initiate legal action to recover the stall rents.	Action has been taken to recover the stall rent on the due date.
(c) Licence Fees		
No action had been taken to recover the trade licence fee of Rs. 594,900 due as at 31 December of the year under review.	Action is being taken to recover the dues.	Action should be taken to recover the dues.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 03 of the Pradeshiya Sabha Act , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a)		
Deposits of Rs. 6,803,877 received for 03 years for the Pura Neguma New Shopping Complex had been dormant in a State Bank current account for more than a period of two years.	Action will be taken to deposit it in a deposit account expeditiously.	Action should be taken to invest the money effectively.

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| (b) No action had been taken to recover the employees loan of Rs. 346,100 due from the employees who are not currently serving in the Sabha that had not been recovered for a period from 01 to 20 years as at 31 December 2020. | Necessary action will be taken to recover the dues. | Action should be taken to recover the dues. |
| (c) Out of the Rs. 7,900,000 allocated for a road project under the Local Development Supporting Project (LDSP), a sum of Rs. 3,478,300 had remained dormant in the LDSP account without being used for that project. | Due to the implementation of this project by the Provincial Road Development Authority, this amount has not been used for that project. | When allocating funds, it should be clearly identified to which institution the project belongs. |