

## **Medawachchiya Pradeshiya Sabha - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Medawachchiya Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets / equity and cash flow statement for the year then ended, and notes to the financial statements, 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 Subsection 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 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 Medawachchiya Pradeshiya Sabha as at 31 December 2021, 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 Governments.

#### **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 Sri Lanka Public Sector Accounting Standard for Local Governments, 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

#### **1.4 Scope of Audit Auditor's Responsibility for the Audit of the 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:

- 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 the Pradeshiya Sabha's 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 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.

- (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 Accounting Deficiencies**

<b>Audit observation</b>	<b>Comments of the Pradeshiya Sabha</b>	<b>Recommendation</b>
The financial cost of Rs.1,824,131 to be paid for the ensuing year for the loan obtained by the Pradeshiya Sabha from the Local Loans and Development Fund had not been indicated as current liabilities and the entire balance had been indicated as non-current liabilities in the statement of assets and liabilities.	Accepted	Loans payable for the ensuing year should be recognized as current liabilities in the financial statements.

### **1.6.2 Unreconciled Control Accounts or Reports**

<b>Audit observation</b>	<b>Comments of the Pradeshiya Sabha</b>	<b>Recommendation</b>
There had been a difference of Rs. 8,128,453 between the value of property, plant and equipment according to Note No. 16 of the financial statements and the value of property, plant and equipment according to schedule.	This difference has arisen as the adjustments made to rectify the deficiencies pointed out in the report of the Auditor General of the year 2020 had not been recorded in the asset summary register.	Action should be taken to rectify differences in the schedules.

### **1.6.3 Adequate Evidence not made Available for audit**

<b>Audit observation</b>	<b>Comments of the Pradeshiya Sabha</b>	<b>Recommendation</b>
Detailed schedules and age analysis had not been submitted for 02 accounting items with a total value	Local Government Department has been informed to settle.	Acceptable written evidence must be submitted to confirm the

of Rs.9,015,115.

balance.

## 1.7 Non-compliance

### 1.7.1 Non-compliance with laws, rules, regulations and management decisions

Instances of noncompliance with laws, rules, regulations and management decisions are mentioned below.

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Pradeshiya Sabha</b>	<b>Recommendation</b>
(a)	Sections 99 (1) and 104 (1) of the Motor Traffic Act No. 14 of 1951	A Traffic tractor worth Rs.1,500,000 owned by the Pradeshiya Sabha had been driven without registration.	Referred to the Ministry of Local Government for registration.	Action should be taken as per the Motor Traffic Act.
(b)	Section 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016	Fuel consumption tests for 04 vehicles that had been in the running condition owned by the Council had not been done as per the Circular.	I will take action to test the fuel consumption.	Action should be taken in terms of the Circular.

## 2. Financial review

### 2.1 Financial Results

According to the financial statements presented, the revenue over the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2021 had been Rs.3,868,526 and correspondingly, the revenue over the recurrent expenditure of the previous year had been Rs. 35,673,108.

## 2.3 Administration of Revenue

### 2.3.1 Performance in the Collection of Revenue

<b>Audit observation</b>	<b>Comments of the Pradeshiya Sabha</b>	<b>Recommendation</b>
(a) Rates and Taxes  Action had not been taken to recover assessment tax amounting to Rs.3,288,548 that had to be recovered by 31 December of the year under review and business tax amounting to Rs.501,900 to be recovered from 288 units and industrial tax amounting to Rs.232,750 to be recovered from 52 units.	Accepted.	As per the instructions of the Act, arrangements should be made to collect the assessment tax.
(b) Rents  Action had not been taken to recover shop rents amounting to Rs.19,690,818 to be collected from 31 shops in the public shopping complex owned by the council, 46 shops in the Pura Neguma shopping complex and 49 properties that had been tendered for leasing in the year under review and previous years.	Accepted.	Action should be taken in terms of the Pradeshiya Sabhas Act to recover the revenue arrears.
(c) <b>Licence Fees</b>		
(i) A survey of the number of telephone service transmission towers within the limits of the Pradeshiya Sabha had not been conducted and arrangements had not been made to collect licence fees.	A survey is being conducted.	Action should be taken to conduct a survey and collect licence fees.
(ii) Action had not been taken to recover trade license fees amounting to Rs.90,500 to be recovered from 88 units by 31 December of the year under review.	Arrears are being recovered.	Action should be taken to recover the arrears.

### 3. Operational Review

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

#### 3.1 Management Inefficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) According to the survey of goods conducted on 31 December 2020, 545 books with a value of Rs.100,069 and 81 books, for which the value cannot be identified had been misplaced from the Medavachchiya Library. The Pradeshiya Sabha had not taken action to identify the parties responsible for that to recover the loss and to introduce an internal control system to prevent misplacing books in that manner.	Accepted	Actions should be taken to recover the losses and a proper internal control system should be implemented.
(b) Forty-six (46) shops constructed under Pura Neguma project and handed over to the Pradeshiya Sabha on 20 July 2017 had been tendered and leased in the year 2018. Even though a sum of Rs.32,685,100 should have been recovered as arrears of rent and late fees by 30 November 2021, Pradeshiya Sabha had not taken action to black list the lessees, who had violated the terms of the agreement, and to re-invite tenders.	It has been informed to the Department of Valuation to assess.	The rent arrears should be collected according to the agreements.
(c) A sum of Rs. 2,072,601 should have been recovered as arrears of rent and late fees for 54 shops owned by the Pradeshiya Sabha by 30 November 2021.	Arrears amounts are being collected.	
(d) As of Arrears of shop fees amounting to Rs. 385,000, receivable from the shop No. 01 and arrears of shop fees amounting to Rs. 256,500, receivable from the shop No. 02 located in C.P. City for the year 2021 had not been recovered even by 31 December 2021. The Chairman, according to his personal discretion, had written off revenue amounting to Rs.520,500, receivable for those shops in the year under review.	According to the instructions of the former chairman, these shop rents had not been collected and the shops were again provided to those persons.	Action should be taken to write off only after obtaining the approval of the Governor instead of getting the approval of the Minister in charge of the Subject.

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| (e) | There had been an amount of Rs.6,803,877 in a current account maintained in a state bank pertaining to Pura Neguma project for more than 03 years and the Pradeshiya Sabha had not paid attention to earn income by investing the money in a fixed deposit.   | Action will be taken to invest in a fixed deposit account. | Action should be taken to invest in a fixed deposit account. |
| (f) | Even though a sum of Rs. 4,394,172, receivable by 31 December of the year under review had been carried forward in financial statements for a period more than 07 years and 03 account balances amounting Rs. Rs.1,678,511, payable had been carried forward in financial statements for a period from 02 to 11 years, those balances had not been settled even by the year under review. | Action should be taken to settle.                          | Action should be taken to recover.                           |

### 3.2 Idle or Underutilized Property, Plant and Equipment

<b>Audit observation</b>	<b>Comments of the Pradeshiya Sabha</b>	<b>Recommendation</b>
(a) Four (04) vehicles owned by the Pradeshiya Sabha remained idle for 10 years.	Action will be taken to dispose of Motorcycle bearing No. 147 – 7730 and tractor bowser as per the goods survey report for the year 2021. Agrotech hand tractors are in working condition. Tractor bearing No. 49 - 1459 is currently being repaired.	Action should be taken to utilize.
(b) Six (06) air conditioners, which had been installed at a cost of Rs.706,140 in the Pradeshiya Sabha hall on the upper floor of the Pradeshiya Sabha in the year 2017 remained idle for a period of 03 years as the wiring installation system for installing the three-phase electricity system had not been installed to the standard.	I will take action to fix the electrical wiring system properly.	Arrangements should be made expeditiously to utilize the air conditioners.
(c) The toilet system (Bathroom) built in the Pradeshiya Sabha hall on the upper floor of the Pradeshiya Sabha at the cost of Rs. 227,139 in the year 2017 remained unutilized for a period of 03 years as a water supply system had not been installed and other related activities had not been carried out.	Action will be taken to fix the water supply in the toilet system.	Action should be taken expeditiously to use the toilet system.