

## **Mahaoya Pradeshiya - 2021**

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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 Mahaoya Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Balance Sheet as at 31 December 2021, Income and Expenditure Account 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 the 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 accompanying financial statements give a true and fair view of the financial position of the Mahaoya Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Practices, 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 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 and Regulatory Requirements

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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- 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.
- The financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Council	Recommendation
(a) The value of 03 constructions of Rs.5,220,413 completed in the reviewed year had not capitalized.	Actions will be taken to rectify and capitalize in the year 2022.	Financial statements should be prepared accurately.
(b) The sum of Rs. 5,178,825 due from the line ministry for 04 construction works had not been shown in the financial statements.	Actions will be taken to rectify and prepare a new debtor register and creditor register in the year 2022.	- Do -
(c) An amount of Rs.5,040,898 due to three creditors had not been shown in the financial statements.	Actions will be taken to rectify and prepare a new debtor register and creditor register in the year 2022.	- Do -
(d) An advance of Rs.1,697,000 provided in the year under review for repairing works of JCB machine and construction of organic fertilizer production center had not been shown in the financial statements.	Actions will be taken to add this amount to the accumulated fund and rectify and enter the amount in the advance register.	- Do -

## 1.6.2 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
There was a difference of Rs. 1,185,079 between the creditor balance as per financial statements and as per ledger.	Actions will be taken to enter this value in the debtor register.	Inconsistencies should be detected and rectified.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2021 amounted to Rs. 4,148,060 as compared with the excess of revenue over expenditure amounted to Rs. 388,145 in the preceding year.

### 2.2 Revenue Administration

#### Revenue Collection Performance

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>Rental</b>		
(a) The council had not taken action to recover the arrears of shop rent amounting 72 percent or Rs. 3,329,235 out of Rs. 4,059,274 even though a period of 1 to 5 years had lapsed as at 31 December of the year under review.	The arrears have been informed in writing.	Arrears should be recovered promptly.
(b) The amount of Rs. 1,379,062 due from tax supplies on bids had not been recovered as at 31 December 2021.	Legal action has been taken to recover the relevant money.	- Do -

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

### 3.1 Management Inefficiency

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<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<p>In relation to the 28,000 cubes of soil excavated from the land of the local council area in the year under review, council had been lost an income of Rs.2,344,900 since the council had not charge transportation fees at the rate of Rs.200 per cube, transportation fees had been charged at the rate of Rs.100 per 14,580 cubes of sand based on the request for sand excavating and Rs.100 per only 17,971 cubes out of 28,000 cubes of sand for carrying external places along the road.</p>	<p>Actions will be taken to contact the Mahaweli Development Authority in writing to collect the fees due to the council.</p>	<p>Revenue due to the council should be collected.</p>

### 3.2 Operational Inefficiency

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<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<p>The council had been rented 24 shop rooms located in the shopping center of the sales center, which was completed at a cost of Rs. 32,083,469 under the Nelsip program in the year 2015 but they had been closed unused by the tenants for more than 05 years and council had not been taken any legal action to collect the outstanding rent of Rs. 3,306,033 due for these shops.</p>	<p>Actions will be taken to make a decision by the council and take further action in the future.</p>	<p>Actions should be taken to recover rent arrears.</p>