

## **Matale Pradeshiya Sabha - 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 Matale Pradeshiya Sabha including the financial statements for the year ended 31<sup>st</sup> December 2021 comprising the Balance Sheet as at 31<sup>st</sup> 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 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 reported 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 Matale Pradeshiya Sabha as at 31<sup>st</sup> December 2021 and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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

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I expressed qualified opinion 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 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**

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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

### Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the accounting policies state that the stamp duty receivable from land transfers during the year under review is treated as stamp duty income in the financial year, the estimated stamp duty revenue of Rs.50,000,000 had been accounted for as stamp duty revenue for the year. Also, no stamp duty revenue was collected during the year under review.	That the estimated stamp duty revenue was included in the final accounts due to non-receipt of monthly reports from the Registrar offices.	Financial statements should be prepared correctly.
(b) By capitalizing the finished work value of Rs.41,691,510 in Palapatwala Maternal and Health Services Center and Community Hall as Rs.46,629,525 the value of fixed assets had been overstated by Rs.4,938,015.	That will be corrected by journal entries in the year 2022	Financial statements should be prepared correctly
(c) The amount of Rs.2,945,520 spent in the previous year and the year under review for the construction of the public toilet in Madawala had not been capitalized.		
(d) Due to the fact that the value of Rs.90,000 of 02 plots of land has been accounted twice under land and buildings, fixed assets had been overstated by Rs.90,000.		
(e) According to the letter confirming the balance of the Local Government Service Pension Contributory Fund, the balance of Rs.186,737 brought forward as having been overpaid to the said fund in previous years, had not been accounted under debtors.		
(f) The water meter charges of Rs.80,000 which should have been collected from the water consumers as on December 31 <sup>st</sup> of the year under review, had not been presented under debtors.		

- (g) Advertising board revenue of Rs.389,605 receivable as on December 31<sup>st</sup> of the year under review has not been accounted for or collected. No answers. Financial statements should be prepared correctly

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31<sup>st</sup> December 2021 amounted to Rs55,243,576 as compared with the excess of revenue over recurrent expenditure amounted to Rs.59,915,854 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Water charges of Rs.1,212,959, which were in arrears for a period of 06 to 11 years, had not been collected in 05 inactive water schemes belonging to the Sabha and Rs.217,292 water charges due from 46 water consumers for a period ranging from 02 to 10 years whose water supply was disconnected had not been collected.	That the outstanding balances will be recovered from the deposits and by taking legal action.	Action should be taken to recover the arrears of water charges.
(b) The stamp duty receivable from the Chief Secretary of the Central Province and other authorities as on 31 <sup>st</sup> December 2021 was Rs.2,933,000.	Although reports have been given in writing to the authorities responsible for stamp duty and to the relevant institutions, the money has not been given to the Sabha	Action should be taken to recover the arrears of Stamp duties.

#### 2.2.2 Surcharges

Audit Observation	Comments of the Sabha	Recommendation
According to the provisions of the Pradeshiya Sabha Act, an amount of Rs.1,627,825 was to be recovered on December 31 <sup>st</sup> , 2021 in relation to the surcharges imposed by me in previous years.	That the Local Government Department has filed a lawsuit and is in the process of recovering the surcharge amount.	Surcharges should be collected in accordance with the provisions of the Pradeshiya Sabha Act.

### 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 03 of the Pradeshiya Sabha Act are shown below.

#### 3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) At the end of the year under review, the total of 05 accounts receivable balances amounting to Rs.73,189,895 had not been recovered, It included Rs.68,840,206 of which uncollected period is less than 01 year and the balance of Rs.3,572,936 more than 01 year and less than 05 years and the balance of Rs.776,753 more than 5 years.	That the arrears will be recovered in the future	Actions should be taken to recover the receivables.
(b) At the end of the year under review, the Project creditors balance of Rs.15,178,079 was not settled, it included Rs.14,972,078 Outstanding balance less than 01 year and the balance of Rs.206,001 more than 01 year and less than 05 years.	That, action should be taken to settle the outstanding balances immediately.	Payables should be settled.

#### 3.2 Asset Management

Audit Observation	Comments of the Sabha	Recommendation
The ownership of 38 unspecified plots of land used for various functions of the council such as offices, libraries, public toilets and cemeteries had not been taken over.	These lands are government lands and have been requested to be handed over from the relevant institutions.	Relevant deeds or transfer orders for land should be obtained.

### 3.3 Human Recourse Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The total balance of distress loans, festival advances and special advances amounting to Rs.835,227 of 04 officers who had been transferred between 01 and 2 ½ years and an officer who left the service last year had not been recovered.	While there are mismatch regarding loan balances of transferred and incoming officers, and legal actions are being taken in relating to retired officer.	Outstanding loan balances should be settled.
(b)	A total of Rs.1,400,841 distress loans, festival advances and special advances balances of 07 officers who had been transferred and 02 to 09 years had been passed; had not been settled, and The sum recovered from the said officials, amounting to Rs.751,867 instalments, was held in the general deposit account.	Due to a mismatch in the reports of the Chief Secretary regarding the loan balances of the transferred officers, it has not been possible to settle these loan balances.	Recovered loans should be correctly accounted for.