

Morawewa Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Morawewa 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, 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 accompanying financial statements give a true and fair view of the Financial Position of the Morawewa 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

Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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, 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)

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 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 Council	Recommendation
(a) Receivables and payables of Rs.2,570,368, for 03 construction contracts of which the agreements entered into during the year under review, and 05 purchases of fixed assets, were not accounted for.	Action will be taken to correct during the preparation of the final accounts of 2022.	Financial statements should be prepared accurately.
(b) The credit balance of the suspense account of Rs. 7,864,759, which exists from the year 2011, had not been identified and settled even at the end of the year under review.	Necessary steps are being taken for settlement.	Arrangements should be made to settle.

1.7 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 159 of the Pradeshiya Sabha Act No. 15 of 1987	Actions were not taken to recover the arrears of Rs.1,317,632 due at the end of the year under review. Out of which Rs. 202,922 are arrears of income that have existed for more than 03 years.	Arrangements have been made to recover all arrears in the year 2022.	Arrangements should be made to recover the arrears of income promptly.

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| (b) | Rule 218 of the Pradeshiya Sabha (Finance and Administration) Code of Rules of 1988, published in Gazette Extraordinary No. 554/5 dated 17 April, 1989 | The land and buildings costing Rs.60,076,799 were not surveyed every year. | Necessary arrangements will be made. | Action should be taken according to the Pradeshiya Sabha rules. |
| (c) | Eastern Province Financial Circular PT/03/2021 | Security deposits amounted to Rs.75,000 were not deposited for 11 officers of the Pradeshiya Sabha who were required to give security. | Arrangements have been made to properly deposit the employee's security. | The circulars should be followed. |
| (d) | Public Finance Circular No. PFD/PMD/Cir/2021/01 dated 29/09/2021 of the Treasury Secretary | 06 contracts valued at to Rs.3,337,915 were awarded on 06 occasions without verification of qualifications by a three-member committee appointed by the head of the institution and Divisional Secretariat in awarding direct contracts to community-based organizations. | Planned to follow from now on. | The circulars should be followed. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 109,478 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 2,024,363 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation

Comments of the Council

Recommendation

Rent

Compared to the previous year, the rental income had decreased by Rs.636,703 from Rs.3,079,835 to Rs.2,443,132 in the year under review.

The vacancy in the post of Revenue Inspector has severely hindered the collection of arrears.

Efforts should be made to increase the income and recover the arrears promptly.

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 Idle or Under Utilized Property, Plant and Equipment

Audit Observation -----	Comments of the Council -----	Recommendation -----
The public toilet built by the council in the year under review at a cost of Rs.610,068 in the Morawewa Public Market was still inoperative at the end of the year under review.	It remains idle because no suitable party has come forward to maintain and run it.	Assets should be utilized effectively.

3.2 Management Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) The council had not taken action to prepare the detailed documents even by the end of the reviewed year related to 09 asset balances amounting to Rs.94,035,781.	Detailed documentation is being prepared.	Schedules should be prepared and maintained.
(b) A sum of Rs.950,536 due from revenue debtors for more than 12 years had not been settled even at the end of the year under review.	Action is being taken to settle..	Action should be taken to settle.
(c) No action was taken even in the year under review, to settle the amount of Rs.1,826,485 that had been given as advance in the year 2017.		

4. Accountability and Good Governance

Budgetary Control

Audit Observation -----	Comments of the Council -----	Recommendation -----
A sum of Rs. 31,004,084 were saved from the allocations made for 20 expenditure objects and it was in the range of 50 percent to 98 percent of the estimated allocation value.	This situation has arisen because only essential expenses are incurred.	The annual budget should be used as a formal control instrument.