

Mihintale Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of Mihintale Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, 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, because of the significance of the matters described in the section 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Mihintale Pradeshiya Sabha as at 31 December 2022 and its financial performance, and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

1.2 Basis for Adverse Opinion

The basis for adverse opinion on the financial statements is expressed based on the matters set out in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for adverse audit 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 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 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 Audit Scope (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:

- Appropriate audit procedures were designed and performed to identify and assess the risk 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 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 Noncompliance with Sri Lanka Public Sector Accounting Standard for Local Governments

| Audit observation | Comments of the Council | Recommendation |
|--|-------------------------|---|
| The statement that the financial statements had been prepared in accordance with Accounting Standard for Local Governments - 2017, the details of notes 2 and 3 which include going concern, consistency, basis of measurement, basis of presentation currency and accounting policies had not been presented in the financial statements. | Accepted. | Action should be taken in terms of the Sri Lanka Public Sector Accounting Standard. |

1.6.2 Accounting Deficiencies

| Audit observation | Comments of the Council | Recommendation |
|---|-------------------------|---|
| (a) A sum of Rs. 21,860 that should be received for the sea fish stall in Mihintale town as at 31 December 2022 had not been accounted under the receivables. | Accepted. | Receivables must be accurately accounted. |
| (b) Arrears of the shop rent amounting to Rs.198,000 to be received as at 31 December of the year under review for the shop at the Agricultural Marketing Centre had not been indicated in the financial statement. | -Do- | -Do- |

- | | | | |
|-----|--|--|---|
| (c) | An amount of Rs.293,140 of the loan amount obtained by the Local Credit Development Fund and finalizing after paying in the year 2023 had been stated as long-term borrowings. | Since it was a loan prevailing from the year 2012, it has been indicated under long-term borrowings. | Current liabilities should be correctly identified. |
| (d) | The purchase of computer accessories amounting to Rs.660,000 in the year under review had not been indicated as purchases of property, plant and equipment in the cash flow statement. | Accepted. | Purchases of assets made in cash should be indicated in the cash flow statement. |
| (e) | Even though the Council had fixed deposits amounting to Rs. 5,000,000 owned by the Council as at 31 December of the year under review, it had been indicated as Rs.4,500,000 in the statement of assets and liabilities and thereby, it had been understated by Rs.500,000. | -Do- | The accurate value should be accounted. |
| (f) | Interest received for the year under review for fixed deposits of the Pradeshiya Sabha amounting to Rs. 606,335 had not been stated in the cash flow statement. | -Do- | Interest receipts should be disclosed in the cash flow statement. |
| (g) | Even though the interest paid during the year under review for the loans obtained from the Local Credit Development Fund amounting to Rs.53,478 should be deducted as interest paid under investment activities, it had been added and indicated in the cash flow statement. | -Do- | Interest payments should be accurately indicated in the cash flow statement. |
| (h) | A sum of Rs.113,780 that had been paid out of the allocation of the LDSP project in the year under review for the installation of solar panels on the roof of the office building had not been stated under property, plant and equipment. | It had not been indicated under property, plant and equipment as it had been paid for the newspaper advertisement and for the CEB. | Since it had been incurred for property and plant, it should be accounted under that. |

- | | | | |
|-----|--|---|--|
| (i) | Even though the Pradeshiya Sabha had received capital grants amounting to Rs.1,133,826 during the year under review, it had not been indicated as capital grant receipts in the statement of comprehensive income. | Accepted. | Capital grant receipts must be accurately accounted. |
| (j) | Even though 02 cases had been filed against the Pradeshiya Sabha by the other parties, it had not been disclosed in the financial statements. | Accepted. | Details should be disclosed through notes. |
| (k) | The value of lands amounting to Rs.150,203,292 belonging to property, plant and equipment had not been indicated in Note No. 16 of the statement of assets and liabilities. | Even though the land values have not been indicated under the heading of lands, the total values have been included in the balance. | The details of the notes should be submitted accurately. |

1.6.3 Unreconciled Control Accounts or Records

| Audit observation | Comments of the Council | Recommendation |
|---|---|--|
| (a) Even though shop rentals receivable belonging to the receivables from exchange transactions had been Rs.285,150 as per the schedules, it had been Rs.388,642 as per the statement of assets and liabilities in the year under review, and as a result, there had been a difference of Rs.103,492. | Accepted. | Schedules should be reconciled with the corresponding records. |
| (b) Even though the total of expenditure mentioned in the statement of comprehensive income had been Rs.42,443,130 it had been Rs.36,587,995 according to the Note 08 related to it and as a result, there had been a difference of Rs.5,855,135. | This difference has occurred due to indicating the depreciation separately. | Schedules should be reconciled with the corresponding records. |

1.6.4 Documentary Evidence not made available for Audit

| Audit observation | Comments of the Council | Recommendation |
|---|--|----------------------------------|
| (a) As the ledger accounts had not been maintained for 50 accounts mentioned in the trial balance, they could not be satisfactorily vouched and verified during the audit. | Prevailing for a longer time period and there had been no time analysis. | Confirmations must be submitted. |
| (b) As sufficient audit evidence could not be submitted in respect of 06 accounting subjects with the value of Rs.1,019,728 they could not be satisfactorily vouched during the audit. | -Do- | -Do- |
| (c) Even though a sum of Rs.2,700,565 had been mentioned as adjustments for the year in the cash flow statement of the year under review, the details to confirm it had not been submitted. | -Do- | -Do- |

1.7 Non-compliance

Noncompliance with Laws, Rules, Regulations and Management Decisions

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

| Reference to laws, Rules and Regulations | Non-compliance | Comments of the Council | Recommendation |
|--|--|-------------------------|---|
| Financial Regulation 210 (2) | Late fees amounting to Rs.21,630 paid for obtaining revenue licenses in the year under review had not been recovered from the relevant officers responsible. | Accepted. | Action should be taken in terms of Financial Regulations. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure, which exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2022, had been Rs.3,760,906 and as against the revenue, which had exceeded the expenditure in the previous year had been Rs.8,740,711.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

Information about estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year is mentioned below.

| Revenue Source | 2022 | | | | 2021 | | | |
|-----------------------|-------------------|----------------|-------------------|---------------------------------|-------------------|----------------|-------------------|---------------------------------|
| | Estimated Revenue | Billed Revenue | Collected Revenue | Total Deficit as at 31 December | Estimated Revenue | Billed Revenue | Collected Revenue | Total Deficit as at 31 December |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| (i) Rates and Taxes | 1,045,050 | 1,296,700 | 1,296,700 | 101,844 | 1,124,050 | 1,173,700 | 1,173,700 | 101,844 |
| (ii) Rents | 8,419,674 | 8,336,571 | 11,007,626 | 2,106,649 | 7,783,529 | 6,161,529 | 7,075,856 | 4,777,704 |
| (iii) License Charges | 105,000 | 143,840 | 85,340 | 58,500 | 610,150 | 1,324,820 | 1,324,820 | - |
| (iv) Other Revenue | 4,084,250 | 7,170,583 | 6,908,338 | 5,992,569 | 3,967,250 | 7,623,244 | 7,623,214 | 5,730,324 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | 13,653,974 | 16,947,694 | 19,298,004 | 8,259,562 | 13,484,979 | 16,283,293 | 17,197,590 | 10,609,872 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

2.2.2 Performance of the Collection of Revenue

The observations in relation to the performance of the collection of revenue in the Pradeshiya Sabha are mentioned below.

| Audit observation | Comments of the Council | Recommendation |
|---|--|---|
| (a) Rates and Taxes | | |
| (i) Action had not been taken even in the year under review to identify the developed areas and to levy assessment tax in terms of Section 134 (II) of the Pradeshiya Sabha Act No. 15 of 1987. | Necessary activities are being carried out in this regard. | Necessary activities should be expedited. |
| (ii) Action had not been taken even in the year under review to collect arrears of garbage tax amounting to Rs.101,844 prevailing from the year 2019. | Action will be taken to recover. | The amount should be recovered. |
| (b) Rental | | |
| (i) The arrears of the rental revenue to be recovered by 31 December of the year under review had been Rs.2,106,649. | The remaining amount, except Rs.671,260 out of this arrears amount has been recovered. | -Do- |
| (ii) The arrears tender rental prevailing from the year 2019 had been Rs.768,592. | That action will be taken to recover. | Do- |
| (c) Other Revenue | | |
| (i) A sum of Rs.954,645 had not been recovered even by 25 December 2022 for the billboards displayed in the Pradeshiya Sabha limit. | A sum of Rs.378,070 has been recovered. | Do- |
| (ii) Action had not been taken to make court fines amounting to Rs.2,463,823 and stamp duty amounting to Rs.2,574,101 delivered from the Chief Secretary of the Provincial Council and from the other authorities as at 31 December 2022. | It has been forwarded to the Department of Local Government for obtaining this amount. | Requests must be submitted to the relevant institutions to obtain the amount. |

3. Operational Review

Performance of Functions Assigned by the Act

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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 and all amenities within such area, are mentioned below.

Asset Management

| Audit observation | Comments of the Council | Recommendation |
|---|--|----------------------------------|
| Action had not been taken to utilize even in the year 2022 the garbage shredder, which had been received to the Council in the year 2021. | After the construction of the garbage yard, I will take action to utilize this garbage shredder. | Utilization should be expedited. |

4. Accountability and Good Governance

4.1 Environmental Issues

| Audit observation | Comments of the Council | Recommendation |
|--|-------------------------|--|
| Even though taking all the necessary measures to dispose of all the garbage in the garbage houses in the streets should be a task of the Pradeshiya Sabha according to Section 93 (c) of the Pradeshiya Sabha Act No. 15 of 1987, the Pradeshiya Sabha had not taken action accordingly. | Accepted. | It is the responsibility of the Council to make arrangements to systematically dispose of garbage. |