

Mihinthalaya Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Mihinthalaya Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, cash flow statement, and other explanatory information, 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 Sub-section 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 presented in Parliament appear in this report.

In my opinion, because of the significance of the matters discussed in the basis for Adverse Opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Mihinthalaya Pradeshiya Sabha as at 31 December 2020, 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 Authorities.

1.2 Basis for Adverse Opinion

Based on the matters described in this report, I express my adverse opinion.

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 adverse 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 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 Pradeshiya Sabha's financial reporting process.

As per Sub-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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 identify and assess the risks 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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) As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(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 Policies

Audit Observation	Comment of the Sabha	Recommendation
Even though roads, bridges and culverts had been constructed during the year under review, the useful life or depreciation rate for those fixed assets had not been disclosed in the financial statements.	Accepted.	The depreciation policy of asset, useful life or depreciation rate should be disclosed.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) According to the cash book, the balance in the General Cash and Industrial Cash Accounts of the Sabha as at 31st December of the year under review was Rs.562,164 and Rs.839,676 respectively, it had been stated in the financial statements as Rs. 2,275,72 and Rs. .2,408,483, thus overstating by Rs. .3,282,36.	Accepted.	Correct value of the balance should be disclosed by the financial statements.

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| (b) | Even though Rs. 2,773,300 received by the Pradeshiya Sabha during the year under review for the Regional Development Supporting Project had been deposited in a current account owned by the Sabha, since it had not been brought to account as current assets, the cash balance of the Sabha had decreased by Rs. 2,773,300. | Accepted. | Assets owned by the Sabha should be disclosed by the financial statements. |
| (c) | As interest paid on loans under the Local Loan Development Fund for the year under review amounting to Rs.143,489 had not been brought to account as an expenditure for the year under review, the profit for the year had increased by that amount. | Accepted. | Correct interest expenditure should be disclosed in the statement of comprehensive income. |
| (d) | Although the interest income receivable for fixed deposits of Rs. 4,500,000 of the Sabha as at 31st December of the year under review was Rs. 58,836, it had been brought to account as Rs. 247,500 in the Statement of Assets and Liabilities. As a result, current assets had increased by Rs. 188,664. | Accepted. | Accurate interest income receivable should be accounted for in the Statement of Asset Liabilities. |
| (e) | Since the security deposit of Rs. 4,500,000 obtained during the year under review for leasing 09 shops in the new shopping complex had not been accounted for as payables in the Statement of Assets and Liabilities, liabilities of the Sabha had decreased by Rs. 4,500,000. | Accepted. | Security deposits payable should be brought to account as current liabilities. |
| (f) | Although the accumulated fund balance should be Rs.274,652,431 as at 31st December 2020 after adjusting the profit for the year under review, it had been stated as Rs. .17,462,493 in the Statement of Assets and Liabilities and as a result, the total equity of the Sabha had decreased by Rs. 257,189,938. | Accepted. | The correct balance of Accumulated Fund Accounts should be stated in the Statement of Assets and Liabilities. |

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| (g) | Although the capital expenditure grant received for the year under review was Rs. 9,136,730, it had been stated as Rs.251,621,181 in the Statement of Assets and Liabilities and as a results the equity of the Sabha had increased by Rs.242,484,451. | Accepted. | Accurate capital expenditure grant value should be accounted for in the Statement of Assets and Liabilities. |
| (h) | As the Sabha had not made provision for the audit fees payable for the year under review and brought to account, the expenses and the payable expenses of the Sabha had decreased by that amount. | Accepted. | Expenses and the payable expenses of the Sabha should be brought to account. |
| (i) | Even though the recurrent expenditure grant received for the year under review was Rs. 49,079,130 according to the revenue records, it had been stated as Rs. 20,276,320 in the statement of comprehensive income. As a result, profit of the year had decreased by Rs. 28,802,810. | Accepted. | Correct recurrent expenditure grant value should be stated in the statement of comprehensive income. |
| (j) | As the pension of Rs.679,212 payable as at 31st December of the year under review had not been stated as payables in the Statement of Assets and Liabilities, current liabilities of the Sabha had decreased by that amount. | Accepted. | All expenses payable should be identified and disclosed in the financial statements. |
| (k) | Even though the profit for the year under review was Rs. 6,249,600 according to the of statement of comprehensive income, it had been accounted for as Rs. 5,104,742 when adjusting to the accumulated fund and as such, the cumulative fund had decreased by Rs. 1,144,858. | Accepted. | Correct loss/profit value should be adjusted to the accumulated fund. |
| (l) | Although the long-term loan instalment payments for the year under review were Rs. 601,767, it had been stated as Rs.1,382,475 in the cash flow statement and as a result, the cash flow generated from the financial activities had increased by Rs. 1,984,242. | Accepted. | Payment of loan instalments in cash should be stated as a cash outflow in the cash flow statements. |

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| (m) | Although Rs.4,500,000 had been invested as fixed deposits in the year under review, it had not been brought to account as investment activities in the cash flow statement and as a result, the net cash increase during the year under review had increased by that amount. | Accepted. | Investments in the fixed deposits should be stated in the cash flow statement. |
| (n) | Although the net cash increase from operations, investments and financial activities during the year under review was Rs. 41,555,410, as it had been brought to account as Rs. 3,767,040 in the cash flow statement, the net cash increase of the year had decreased by Rs. 37,788,370. | Accepted. | Cash flow statement should be prepared correctly. |
| (o) | Even though the value of roads, bridges and culverts constructed during the year under review was Rs.9,136,730 according to the progress reports, fixed assets had decreased by Rs. 7,136,730 as it had been brought to account as Rs. 2,000,000 in the Statement of Assets and Liabilities. | Accepted. | Correct fixed asset value should be stated in the Statement of Assets and Liabilities. |
| (p) | Even though Rs.500,000 had been paid in the year under review for a garbage grinder received by the Sabha, it had not been accounted for as fixed assets in the Statement of Assets and Liabilities. | Accepted. | All fixed assets owned by the Sabha should be disclosed in the Statement of Assets and Liabilities. |
| (q) | A sum of Rs. 1,000,000 received by the Sabha in the year under review for providing a garbage grinder to Hikkaduwa Pradeshiya Sabha had not been accounted for as a deposit but it had been accounted for as income for the year and as a result deposit balance had been understated by that amount. | Accepted. | It should only be accounted for as deposits payable to a third party. |
| (r) | As the water bowser worth Rs.1,692,500 and 04 trailers had not been included in the accounts, the fixed assets of the Sabha had decreased by that amount. | Accepted. | All fixed assets should be disclosed in the Statement of Assets and Liabilities. |

1.6.3 Non-reconciled Control Account or Reports

Audit Observation

Comment of the Sabha

Recommendation

A difference of Rs. 47,623,694 was observed between the balances relating to 11 items of account stated in the financial statements and the balances in the relevant subsidiary documents and schedules.

Accepted.

Correct value should be brought to account in the financial statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 6,249,600 for the year ended on 31 December 2020 as against the recurrent expenditure exceeding the revenue for the preceding year amounting to Rs.2,650,387.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation

Comment of the Sabha

Recommendation

(a) Rent

The arrears of rent for 64 shops belonging to the Sabha from the year 2018 were Rs. 5,214,950 and no necessary action had been taken to recover that amount.

Action is being taken to recover the stall rents that remained in arrears from the year 2018.

As the payment of stall rent has been defaulted, legal action should be taken immediately to recover the arrears.

(b) Licence Fees

No records had been maintained regarding arrears of income and necessary action had not been taken to recover the arrears of licence fee of Rs. 375,865.

A survey has been conducted to identify revenue.

Action should be taken to recover the arrears of revenue.

(c) Other Income

No necessary action had been taken to recover the billboard fee of Rs. 274,025 due on 31st December of the year under review.

Reminders have been sent for the recovery of income in arrears.

Action should be taken to collect the other income.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 03 of the Pradeshiya Sabha Act , being 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.

3.1 Management Inefficiencies

Audit Observation

A sum of Rs. 402,300 due to the Sabha from outside parties for rent of backloaders, gully bowsers and water bowsers in 2019 and 2020 had not been recovered.

Comment of the Sabha

The relevant parties have been informed in writing to recover this amount.

Recommendation

Action should be taken to recover the dues.

3.2 Transactions of Contentious Nature

Audit Observation

- (a) A loan instalment of Rs. 50,150 was being paid monthly by the Pradeshiya Sabha for obtaining a loan of Rs. 3,958,710 from the Local Loan and Development Fund for the construction of the Mihintale Library and Auditorium, whereas the construction of the auditorium had not been initiated.

Comment of the Sabha

It is expected to develop the upper floor as a tourist resort under any project.

Recommendation

Steps should be taken to complete the construction of the auditorium and make use of it.

- (b) Although the buildings required for the installation of 02 RO water filters in the two areas of Palugaswewa and 5 Ela Ukkulankulama belong to the Sabha area had been constructed and paid Rs. 2,836,523 in the year 2019, those assets had not been identified as the assets owned by the Sabha.

Accepted.

Expenditure in the form of assets should be identified and accounted for as fixed assets.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation

The Pradeshiya Sabha has stopped collecting garbage stating that there is no definite place to dispose of the garbage and the garbage generated in the area was being dumped into the forest in an informal manner.

Comment of the Sabha

Land has been received for this purpose and the work thereon will be commenced once the allocations are made.

Recommendation

Necessary steps should be taken to dispose of garbage properly.