

Mihintale Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Mihintale Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets / equity 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, 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 Mihintale Pradeshiya Sabha as at 31 December 2021, 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 Governments.

1.2 Basis for Qualified Opinion

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

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 Governments, 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 Scope of Audit 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:

- 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 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 Pradeshiya Sabha	Recommendation
(a) Although budgeted information of budgets that had been prepared by an entity should be presented in the financial statements for that period in accordance with Sri Lanka Public Sector Accounting Standard for Local Government No. 3.7, the financial statements of the Pradeshiya Sabha had been presented without budgeted information.	I will take action to submit budgeted information in the preparation of the financial statements for the year 2022.	Financial statements must be prepared in accordance with Sri Lanka Public Sector Accounting Standards for Local Government.
(b) The statement of changes in net assets had been presented not in compliance with the format of the statement of changes in net assets as introduced by the Standard.	Accepted.	Financial statements must be prepared in accordance with Sri Lanka Public Sector Accounting Standards for Local Government.

1.6.2 Accounting Deficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Although the bill of the audit fee for the previous year had been Rs.131,100, it had been indicated as Rs.300,000 in the statement of assets and liabilities. As a result, liabilities had been overstated by an amount of Rs.168,900.	Accepted.	The correct audit fee should be accounted.
(b) Due to the inclusion of Rs.426,794 payable in relation to the years 2017 and 2020 (Rs.300,000) within the audit fee expenses of the year under review, the surplus of the year under review had been decreased by that value.		The audit fee related to the year should be accounted.
(c) Purchase of property, plant and equipment amounting to Rs.22,525,439, not taken place in cash, had also been included under cash flows from investment activities in the cash flow statement of the year under review.	Accepted.	Only cash transactions should be indicated in the cash flow.
(d) Although an expense payable amounting to Rs. 263,433 related to the year under review had been paid in the year 2022, that expense had not been accounted on accrual basis.		Expenses should be accounted on the accrual basis.
(e) Value of creditors and debtors amounting to Rs.2,684,770 prevailed as at 31 December in the year under review had not been indicated under notes 13 and 17 of the statement of assets and liabilities.		Creditor and debtor values relating to the year under review should be disclosed in the financial statements.
(f) An amount of Rs. 39,200, receivable for hiring the backhoe loader machine and gully bowser of the Pradeshiya Sabha had not been accounted as income receivable	Accepted.	Revenue receivable relating to the year under review should be accounted in the financial statements.
(g) Expenditure of Rs.873,037 for gravelling two roads as additions to roads, bridges and culverts in the year under review had been indicated as fixed assets and as a result, the fixed assets in the year under review had	Accepted.	Construction of gravel roads should not be accounted as fixed assets.

increased by that value.

1.7 Non-compliance

1.7.1 Non-compliance with laws, rules, regulations and management decisions

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Pradeshiya Sabha	Recommendation
Paragraph 3.1 of the Public Administration Circular No. 30/2016 dated 29 December 2016	Fuel consumption of 08 vehicles owned by the Pradeshiya Sabha had not been tested.	Accepted.	Action should be taken in compliance with the Circular.

2. Financial review

2.1 Financial Results

According to the financial statements presented, the revenue that had exceeded the recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2021 had been Rs.8,740,711 and correspondingly, the revenue that had exceeded the recurrent expenditure of the previous year had been Rs.6,249,599.

2.2 Financial Control

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
An amount exceeding Rs.1,000,000 had been retained in a current account of a State Bank for more than one year.	Retained in current accounts as the amounts should be used in an emergency.	Action should be taken to invest additional amounts and to earn income.

2.3 Administration of Revenue

2.3.1 Performance in the Collection of Revenue

	Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a)	Rates and Taxes		
(i)	Action had not been taken to identify the developed areas and to charge assessment taxes according to Section 134 (1) of the Pradeshiya Sabhas Act No. 15 of 1987.	Action is being taken to recover assessment taxes.	Action should be taken as per the Pradeshiya Sabhas Act.
(ii)	Action had not been taken even in the year under review to collect the garbage tax amounting to Rs. 101,844 to be recovered from the year 2019.	I will take action to collect the arrears of garbage tax in the future.	Actions should be taken to recover.
(b)	Rents		
(i)	The arrears of shop rents amounting to Rs.3,640,712 as at 31 December of the year under review had not been recovered.	Arrangements have been made to offset from the deposit.	Arrears of rent should be recovered.
(ii)	Rent had been collected for 68 shops located in the commercial complex, which had been indicated as A, B, C, D and for which the Pradeshiya Sabha had leased the commercial rights contractually and in the public market complex according to the assessment made in 2009, without reassessing the rent.	Due to various political reasons, rents are being levied on the assessment of 2009.	Rent should be recovered as per a new assessment.
(iii)	It had not been possible even during the year under review to recover the arrears of tender rents (slaughter houses) amounting to Rs. 379,260 prevailed since 2019.	Due to the closure of the butcher shop as per the request of the Divisional Secretary and the general public, the payment of rent arrears has been refused.	Action should be taken to recover the arrears of rent as per the agreement.

(c) **Other Revenue**

The outstanding revenue from hoarding boards amounting to Rs.577,482 to be recovered by 31 December 2021 had not been collected.

I will take action to recover expeditiously.

Action must be taken to recover.

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 Inefficiencies

Audit observation

Although action had been taken to write off the rent of Rs.151,500 receivable for the year 2020 for a shop located on the ground floor of the Trade Complex of the Pradeshiya Sabha, the approval of the Minister in charge of the Subject had not been obtained in accordance with Section 182 of the Pradeshiya Sabha Act No. 15 of 1987.

Comments of the Pradeshiya Sabha

I will check the facts and submit it to the General Assembly to get relief and arrangements will be made subsequently to send it to the relevant Ministry in charge of the subject or to the Governor.

Recommendation

Action should be taken as per stipulated in the Pradeshiya Sabhas Act.