

Muthur Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Muthur Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information 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 provisions of Sub Section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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 Muthur 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 Principles.

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 Generally Accepted Accounting Principles 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.

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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Pradeshiya Sabha is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

Accounting Deficiencies

Audit Observations	Comments of the Sabha	Recommendations
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(a) Although a sum of Rs.150,000 was shown as an expenditure for honoring the artistes, out of this payment, a sum of Rs.109,500 was deposited without spending, thus the expenditure for the year under review had been overstated by Rs 109,500.	Due to the abnormal situation of the country, it could not be held that year. This event had been held on 31.03.2022.	Only the expenditure incurred during the review year should be charged in the accounts.
(b) The revenue received by heavy vehicles (JCB Motor Grader) which had been handed over by the Regional Assistant Commissioner of Local Government to the Sabha from 2017 to 2020, revenue from sanitizer bag and certificate fee of boundary line totalling Rs. 3,291,700 had not been shown in the revenue account, thus the accumulated fund had been understated b the same amount. Further, revenue of Rs 1,401,750 received in the year under review had been included in deposit account.	Actions will be taken to rectify the amounts in the deposit account as rental income of the JCB, Motor Grader vehicles provided to the Sabha by the Regional Assistant Commissioner of the Local Government.	The revenue of the Sabha should be charged in the relevant financial year.

1.7 Non-compliances

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

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

Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc.	Value	Non-compliance	Comment of the Sabha	Recommendation
	Rs.			
(a) Section 182 of Pradeshiya Sabhas Act No. 15 of 1987	2,324,357	A decision regarding the waiver of an amount exceeding fifty rupees in receivables to the Pradeshiya Sabha should be taken as per to the approval of the Minister. However, it had been written off government revenue arrears from the beginning balance of the year under review.	In the future, actions will be taken after obtaining the approval of the Minister when making such written offs.	Appropriate action should be taken as per Pradesh Sabhas Act.
(b) Financial Regulation 371	11,129,351	It was mentioned that all the advances paid should be settled within 10 days. However, it had not been settled for more than 15 years.	The said balance is prior to the year 2006. Hence, we do not have the relevant documents at present.	Appropriate action should be taken as per Financial Regulation.
(c) Other Circulars				
Financial Regulation 880 and Provincial Finance Circular No. PT/03/2021 of 16 August 2021	97,500	Security deposit had not been obtained from 16 officers working in Pradeshiya Sabha, whose security deposit should be obtained.	Steps are being taken to obtain it.	Appropriate action should be taken as per circular.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, income over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 24,690,240 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 17,810,238.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observations	Comments of the Sabha	Recommendations
(a) Rates and Taxes		
As per Section 158(1) of the Pradeshiya Sabhas Act No. 15 of 1987, the Sabha could not engage in effective development activities as the rates and taxes totalling Rs. 6,488,977 to be recovered even as at the end of the year under review had not been recovered for the period of 13 years.	At present, steps are being taken to recover it.	Steps should be taken to recover the arrears of rate and taxes
(b) Rent		
(i) Bus Stand Shop Rent		
1. On December 31, 2021, a sum of Rs.1,062,101 were in arrears for a period of 07 years, but the Sabha had not taken steps to collect them.	Arrears of rent are being collected step by step and legal action will be taken against defaulters.	Steps should be taken to recover the arrears.
2. According to clause 2 of the rental agreement in 2016, it had agreed to pay rent with an increase of 10 percent of the rental value annually. However, the Sabha had lost income of Rs. 370,348 as the rent was not collected from the increased values.	Action will be taken to increase 10 percent in value.	Appropriate action should be taken to collect rent as per agreement.

(ii) Market Stall Rent

Actions had not been taken to collect a sum of Rs. 529,670 in respect of market stall rent which was in arrears for the period from 1 to 13 years.

Actions will be taken to recover based on data availability in future.

Appropriate steps should be taken to recover the arrears.

(iii) Meat Stall Rent

1. Actions had not been taken to collect the arrears of rent income amounting to Rs. 3,407,886 from the poultry meat stalls in the financial years 2020 and 2021.

At present, tenders had not been invited for lease of poultry meat stalls and action will be taken to write off arrears of Rs. 3,407,886.

Appropriate action should be taken to settle the arrears.

2. The arrears were Rs. 7,279,598 for the period from the year 2009 to the year 2019. However, no appropriate action was taken for recovery.

The rent had been collected completely for the year 2021. Steps will be taken to rectify the outstanding amount of Rs. 7,279,598.

Appropriate action should be taken to collect arrears.

3. Operational Review

The matters observed in respect of execution of activities that should be executed by the Sabha under Section 3 of the Pradeshiya Sabhas Act such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Management Inefficiencies

Audit Observations -----	Comments of the Sabha -----	Recommendations -----
(a) The total allocation of Rs. 516,854 for dengue control program had been deposited in the other deposit account without being utilized for the respective project.	Arrangements will be made to transfer to the income of the Sabha.	Allocation should be utilized for relevant projects.
(b) The management had not done the activities such as obtaining land title deeds and maintaining registers for the matters amounting to Rs. 54,722,750 shown in the financial statements.	Activities such as obtaining land title deeds and entering in the registers are being carried out.	Appropriate action should be taken.

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|-----|---|--|-------------------------------------|
| (c) | Local Authority Participatory Development Plan LAPDP had planned to implement 130 projects from the 04 year composite plan prepared in 2019. However, only 4 projects had been completed even though 03 years had passed and it was observed that other new projects had been implemented without being implemented 126 remaining projects amounting to 3,333 million. Therefore, it was observed that the Local Government Participatory Development Plan was not prepared in an efficient manner. | Since these plans are implemented on the basis of receiving funds for the projects, only a limited number of projects could have been implemented due to availability of limited funds in the Sabha. | Appropriate action should be taken. |
| (d) | Savings accounts of Bank of Ceylon and People's Bank were inactive with the balance of Rs. 555,998 for more than 12 years without investing for sustainable development purposes. | Interest received from the accounts is entered as interest income in the final accounts of each year and the accounts are prepared. | Appropriate action should be taken. |
| (e) | As due to the spread of covid – 19 epidemic and the abnormal situation, the shops were closed in the year under review and the circulation of the people decreased even after the reopening of the shops, the total discounts given to the contractors amounting to Rs. 5,770,983 had been deducted in the financial statements without prior approval from the appropriate authorities. | The documents have been sent to the relevant authorities. A copy will be sent to you once approval is obtained. | Appropriate action should be taken. |

3.2 Operating Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
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By-laws were to be enacted to fulfill 30 main matters under section 126 of the Pradeshiya Sabhas Act No. 15 of 1987. However, by-laws were only enacted for 05 matters even as at 31 December 2021. As a result, the remaining 25 by-laws were not approved, so the income received therefrom remained uncollectible.	It had been forwarded for obtaining approval for publishing activities.	Appropriate action should be taken.

3.3 Assets Management

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Idle Assets -----		
(a) Actions had not been taken to rent out shopping complex valued at 4,967,426 including 12 shops constructed at Thoppur in the year 2014 for 07 years.	Shops constructed in Thoppur will be renovated and rented out in the future.	Appropriate action should be taken.
(b) The market building constructed in 2017 at a cost of Rs. 3,669,340 in sampur has not been used since 04 years.	The market building in sampur was not used as the businessmen did not come forward to rent it due to the decrease in trade. Alternative arrangements will be applied for that.	Appropriate action should be taken.

3.4 Procurement Management

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
According to 2. 1 of the Financial Circular No. 01/2021 of 29 September 2021 contracts totalling Rs. 19,464,854 were awarded to community based institutions only on the recommendations of the CDO without being given by a three-member committee with two representatives nominated by the chairman of the Pradeshiya Sabha and the Divisional Secretary.	It could not be awarded to the community development centers without the recommendation of the community development officer. It can be awarded to the community development centers only after receiving his recommendation and satisfaction etc.	Appropriate action should be taken.

3.5 Deficiencies in Contract Administration

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Renovation of children park, Thoppur Rs. 3,000,000 -----		
(i) Although the Thoppur children park renovation project had spent a cost of Rs. 2,718,202 and fixed sports equipment, no labourers were engaged for maintenance. Also, the rear part of the children's park	The mentioned BOQ No:39 and 03 works could not be completed due to the abnormal situation in the country and due to shortage of goods. But	Appropriate action should be taken.

was located on a dangerous waterfront, which did not provide a suitable environment for children to play.

by now the relevant works have been completed.

(b) Construction of Muthur Amusement Park

(i) An activity of fixing of sports equipment valued at Rs. 81,000 had not been as per details in work completion report.

Action will be taken to avoid such deficiencies in ensuing periods.

Appropriate action should be taken.

(ii) Sports equipment valued at Rs. 180,000 out of above construction works are suitable for long term use without sufficient maintenance.

Action will be taken to avoid such deficiencies in ensuing periods.

Appropriate action should be taken.

(iii) A work supervisor and 02 labourers were employed in the above park, but the grass was grown and sports equipment over worth of Rs. 3,000,000 collected in the year 2017 remained unmaintained and broken.

Employees are assigned daily for watering and maintenance and one employee and one watchman are on duty to issue tickets in the evening.

Regular maintenance should be done.

(c) Construction of toilets for women and disabled people

Although above work scheme was carried out for women and disabled people, the infrastructure to get those facilities (recliners, crutches) was not included in the estimate and the full results of the above work valued at Rs. 437,000 have not yet been obtained.

I would like to inform you that the enamel painting work for the relevant door has been completed by now.

Appropriate action should be taken.

3.6 Human Resources Management

Audit Observation

Comment of the Sabha

Recommendation

(a) Employee vacancies and excesses

Actions had not been taken to fill 22 vacancies including 14 posts of primary level and 08 posts of secondary level.

Letters were sent to the Commissioner of the Local Government in the last year by requesting to fill up the approved staff vacancies.

Appropriate action should be taken.

(b) Employee loans

A disaster loan of Rs. 102,620 given to an employee on the casual basis had remained in arrears since 11 years without being recovered.

Due to the fact that the concerned employee had completed 10 years of service in obtaining the loan, no guarantor was presented for the loan.

Appropriate action should be taken.

4. Accounting Responsibility and Good Governance

4.1 Internal Audit

Audit Observation

Comment of the Sabha

Recommendation

The Sabha had appointed an internal auditor during the year under review. However, no audit work had been carried out.

According to the responsibility of the internal audit officer of the Sabha, duties were performed for 03 days at Sub Office, Kattaiparicchan and the internal audit of the Pradeshiya Sabha were done for the remaining 02 days. Due to this internal audit functions were not carried out.

Appropriate action should be taken.

4.2 Sustainable Development Goal

Audit Observation

Comment of the Sabha

Recommendation

According to Sustainable Development Act No. 19 of 2017, an agenda of the sustainable development goals to be achieved in the year 2030 had not been prepared by the Sabha.

Actions could not be taken due to the covid-19 and bad atmosphere in the country. Although sustainable development activities had been implemented, the agenda for it had not been prepared. It will be done properly in the future.

Appropriate action should be taken.

4.3 Other Observation

Audit Observation

Comment of the Sabha

Recommendation

According to the report issued by the board of survey of the year under review, it was recommended to remove 03 water bowsers, a motorcycle, a solid waste disposal bowser and a pick-up vehicle for pool use etc. in the Sabha, but no action had been taken for more than 05 years.

The related activities will be done after the transfer of ownership of the vehicles.

Appropriate action should be taken.