

Minuwangoda Pradeshiya Sabha – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Minuwangoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in net assets/ equity, 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 reported 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 financial statements give a true and fair view of the financial position of the Minuwangoda 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 Authorities.

1.2. Basis for Qualified Opinion

I express qualified opinion based 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 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 include 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 following recommendations which I made on financial statements for the preceding year had not been implemented 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 Non-Compliance with the Public Sector Accounting Standards for the Local Authorities

| Audit Observation | Comment of the Sabha | Recommendation |
|---|--|--|
| ----- | ----- | ----- |
| (a) Capital Grants received for the year under review of Rs.42,275,685 had been stated as a revenue of the year. | Inform that actions would be taken to prepare accurate formats when making the Accounts. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards |
| (b) The Statement of Equity Changes in the set of Financial Statements according to the Standard No.3.13 had been an uncertified statement by the Chief Accounting Officer and a blank statement that did not declare any of the accounts. Even though the balance of the Accumulated Fund account of Rs.204,292,317, the balance of the Contribution to the Capital by Revenue of Rs.764,862,957, and the balance of the Contribution to the Capital by Grants of Rs.46,022,990 as at 31 December 2021 should be shown in the Statement of equity changes, it had been stated under Note No.17 of the Liabilities as Trade Payables. | Inform that actions would be taken to prepare accurate formats when making the Accounts. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |

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| (c) | The Cash Flow Statement had not been prepared according to the Detailed Explanation of the Public Sector Accounting Standard EG No.06. | Inform that actions would be taken to prepare accurate formats when making the Accounts. | Actions should be taken according to the Standards imposed on the Provincial Councils by the public Sector Accounting Standards. |
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1.6.2 Accounting Deficiencies

| ----- Audit Observation ----- | Comment of the Sabha ----- | Recommendation ----- |
|--|--|---|
| (a) Even though when adjusting the other comprehensive income to the comprehensive income statement , the comprehensive income for the year should be stated by adding the amount rest after deducting the value of the Grants for Capital Expenditure realized on the excess/ shortage from the grants for the capital expenditure for the year, but the grants for the capital expenditure had been deducted by the excess during the year under review therefore excess had been understated by Rs.113,186,756. | Inform that actions would be taken to prepare accurate formats when making the Accounts. | The Accounts should be accurately made. |
| (b) Also the amount of grants for the capital expenditure that had not been realized on the revenue of the year should be added to the excess/shortage in the Statement of Changes in Equity and that amount of Rs.56,593,378 should be stated in the in the Statement of Assets and Liabilities added to Liabilities but Equity and liabilities had been understated by that amount because it had not been done. | Inform that actions would be taken to prepare accurate formats when making the Accounts. | The Accounts should be accurately made. |
| (c) An amount of Rs.2,389,900 for 2108 direct labour hours for the industries preceding year and Provisions allocated Rs.18,736,393 for the Creditors not to be paid in the future, therefore the Creditors had been overstated by Rs.21,126,293. | Inform that actions would be taken to prepare accurate formats when making the Accounts. | The Accounts should be accurately made. |

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| (d) | Amount spent of RS.2,390,000 for the Online Software System had been stated as expenditure except for stating it as an Assets, therefore the excess had been understated by that amount. | Inform that it had been corrected by the Journal Entry No.03 of the year 2022. | The Accounts should be accurately made. |
| (e) | Cash had been received of Rs.42,275,685 out of Rs.98,869,062 of the External Capital Expenditure Allowances for the year under and the Industrial Debtors of rs.56,593,377 had been stated as Rs35,788,249 therefore the debtors had been understated by Rs.20,805,128. | Inform that actions would be taken to prepare accurate formats when making the Accounts. | The Accounts should be accurately made. |
| (f) | Rates had been billed of Rs.780,412 on 47 Property owned by the Sabha and the rates in arrears had been overstated by that amount. | Actions would be taken to write-off in the future. | The Accounts should be accurately made. |
| (g) | Rates balances regarding 08 properties of Rs.523,243 had been stated twice for the year under review therefore the balances of the rates in arrears had been overstated. | Inform that the balances would be recognized and actions would be taken to remove it by the Computer System. | The Accounts should be accurately made. |

1.6.3 Unreconciled Control Accounts

Audit Observation

Comment of the Sabha

Recommendation

There was a difference of Rs.18,127,834 relevant for 05 item of accounts,as at 31 December 2021 between the balances as per the financial statements and the balances as per the corresponding reports.

Actions would be taken to make it correct in the future.

Actions should be taken to reconcile the balances and make them correct.

1.6.4 Accounts Receivable

Audit Observation

Comment of the Sabha

Recommendation

Advance balance of Rs.784,907 paid during the year 2000 to 2006 had been brought forward in the Advance Account and actions had not been taken to recover this amount.

This is an advance balance over 15 years. Necessary actions would be taken on this matter after appointing a committee.

The Accounts should be taken to recover.

1.7 Non-Compliances

1.7.1 Non Compliances with the Rules, Regulations and Management Decisions

| Ref. to the rules, regulations and management decisions | Non- Compliance | Comment of the Sabha | Recommendation |
|---|--|---|---|
| The Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| F.R. 571(3) | <p>i. The amount of Rs.291,557 had been sent by the Public Health inspector through the Court as Fines from the year 2011 to the year 2020 had been deposited in an account.</p> <p>ii. An amount of Rs.1,000,000 by a company for the Water Supply Project in Dewalapaya Meegaspitiya Estate land in the year 2013 and An amount of Rs.2,000,000 to build a Water Tank in the auction land at Nilpanagoda had been remained in an deposit without using it for the relevant task.</p> | <p>Actions would be taken to add it to the revenue in the future.</p> <p>Actions would be taken after the necessary investigations.</p> | <p>Actions should be taken according to the referred financial regulations.</p> <p>Actions should be taken to do the tasks.</p> |

2. Financial Review

2.1 Financial Results

According to the financial statements presented surplus of the Sabha amounted to Rs.171,652,556 for the year ended on 31 December 2021 as compared with the corresponding surplus for the preceding year amounting to Rs.1,012,252,654.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

| Audit Observation | Comment of the Sabha | Recommendation |
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| (a) The rates in arrears balance exceeding Rs.50,000 of 19 rate units, of Rs.1,904,843 incurred in the balance rates in arrears as at 31 December 2021. | A difficult situation had been arisen to recover therefore inform that actions would be taken to collect the arrears as soon as possible. | Actions should be taken to recover the arrears in revenues. |
| (b) Stall rent and the lease rent had been of Rs.201,280, and Rs.700,333 respectively included in the begging of the year under review in the balance of rent in arrears but only Rs.10,000 out of the stall rent had been recovered out of it during the year under review and none had been recovered by the lease rent. | Actions had been taken to obtain the approval by the Commissioner of Provincial Councils after receiving the Sabha Approval and actions would be taken to recover the rest of the arrears. | Actions should be taken to recover the rent. |

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha 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 | Comment of the Sabha | Recommendation |
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| Mabodala Gonamadewatta land of 13 Acres 02 Roods and 12.7 Perches had been purchased of a loan obtained by the Local Loans Development Fund on 02 October 2014 of Rs.32,500,000. According to the Project Proposal presented to the purchase, the land could supply 48,000 Coconuts per year, accordingly coconut had been priced for Rs.60 and the expenditure to pick coconut had been Rs.8,000 per month, | The revenue officer of the Mabodala Sub-office had been informed to prepare a detailed report on the expansive trees in this land and inform that the actions would be taken to prepare a register according to that. | Actions should be taken to raise the productivity of the land and to make a register including the expensive trees in the land. |

therefore approximately Rs.2,784,000 income per annum should be earned. But the income earned for the year 2021 had been Rs.591,130 and it had been observed that the aim could not be satisfied from the year purchased up to now. Also the expensive Trees in the land like Jack Fruit, Teak, Mahogany, Millla had not been identified, numbered and entered in a register.

3.2 Unfinished Project

| Audit Observation | Comment of the Sabha | Recommendation |
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| ----- | ----- | ----- |
| Provisions for Creditors had been allocated in the year 2019 on a private company for supplying an Ariel Work Platform Vehicle for Rs.16,500,000 but it had not been obtained as at 30 April 2022. | This Project had been delayed because of the current situation of the country however inform that this project would be still continued. | The projects which made agreements should be implemented without delays. |

3.3 Delayed Projects

| Audit Observation | Comment of the Sabha | Recommendation |
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| ----- | ----- | ----- |
| Phase I of the construction of the Community Hall at Mahagama by the Sabha Funds had been commenced in the year 2018 and sent Rs.499,817 even though the work commenced in the year 2018 had been stopped till April 2022, therefore the primary expense of Rs.499,817 had been an idle expense. | Inform that the Actions had been taken to write off the provisions for Creditors after obtaining the Sabha approval. | Actions should be taken to consume the amount allocated. |