

Minuwangoda Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Minuwangoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net assets/ equity and 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 Section 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 report to parliament appear in this report.

I do not express an opinion on the financial statements of the Pradeshiya Sabha. Because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2. Basis for Disclaimer of Opinion

I expressed Disclaimer of opinion regarding the financial statements on the matters described in paragraph 1.6 of this report.

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 the 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 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 responsibility is to conduct an audit of the Pradeshiya Sabha's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities Non Compliance with the Comments of the council Recommendation reference to particular Standard

As per Standard No. 3.18(c), fixed deposits of Rs. 427,619,015 were shown under non-current investments instead of current assets.	Inform that the journal entries will be corrected while preparing the financial statement report for the year 2023.	Assets should be properly classified.
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1.6.2 Accounting Deficiencies

Audit Observation	Comments of the council	Recommendation
(a) Although Rs.18,269,920 should be depreciated for the assets of computer software and road culverts, as only Rs.5,824,005 was depreciated, the depreciation was accounted understated by Rs.12,445,895.	That will be discussed with the audit and corrected.	Depreciation should be calculated correctly.
(b) Fixed deposit interest of Rs.5,415,707 related to the year under review and receivable fixed deposit interest balance of Rs.18,583,712 was accounted as understated.	That it is re-examined and corrected and submitted for audit.	Actions should be taken to prepare the accounts correctly.
(c) Although the transfers made by the government for recurring expenses in the year under review were Rs.81,711,389, the total income of the council was understated by Rs.339,334 as it was stated as Rs.81,372,055 in the comprehensive income statement.	-do-	-do-

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the council	Recommendation
According to the financial statements of the year under review and the schedules submitted with the financial statements, there was an unreconciled difference of Rs. 38,920,917 in 04 account balances.	That documents are being rechecked and corrected.	Actions should be taken to find the reasons for the differences and to correct.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) 03 account balances amounting to Rs.15,919,486 as at 31 December of the year under review could not be satisfactorily verified in the audit due to non-submission of ledger accounts and approvals of the council for write-off.	That it is examined and submitted for audit.	The required evidence must be submitted for the audit.
(b) Records related to the assets of Rs. 15,284,971 of the council were not maintained and no written evidence was submitted to the audit to confirm the land deeds and plans.	That updating and re-assessing the assets from 2021 and documenting has been started.	Written evidence should be submitted for audit.

1.7 Non- Compliances

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

Instances of non-compliance with laws, rules, regulations and management decisions are mentioned below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Rules on accounting matters relating to local council financial administration			
(i) Rule 12(IX) and F.R.395(c)	A consolidated bank reconciliation statement was prepared for 02 current bank accounts maintained in 02 state banks.	That the Bank of Ceylon current account closed from the date of 01 June 2023 and amount of Rs..233,258.07 was transferred to the current account of People's Bank.	Should be complied to the referred rule.
(ii) Rule 48	There was no survey regarding the stock of Rs.648,903 in the work sites.	Checked by year-end board of survey and attached in board of survey report.	-do-
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F. R. 571	The deposit balance of Rs. 14,468,973 belonging to the council, which exceeded two years, was not regulated.	That the necessary activities to receive the income are carried out.	Should be complied to the referred regulation.

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| (c) | Local Government
Circular No.
LGD/09/2019(I)
24 August 2020 | Annual loan limits were not sanctioned in respect of employee loans in the form of Advance "B" Account of Government Officers. | That the loan limits are approved annually in relation to employee loans. | Should be complied to the referred circular. |
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2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the council for the year ended 31 December 2022 amounted to Rs. 257,692,865 as compared with the excess of revenue over expenditure amounted to Rs. 171,652,556 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the council	Recommendation
(a) As non-doing of relevant accounting after checking with the bank and making corrections on the credit card receivables amounting to Rs.13,310, over received amounting to Rs.6,832, under received for internet payments amounting to Rs.30,072 and over received amounting to Rs.14,025 from February 2021 to April 2022, they had been continually stated in preparing the bank reconciliations.	That these balances will be corrected in the bank reconciliation as soon as possible.	Relevant accounting should be done after checking with the bank and making corrections.
(b) Although the credit card (head office) received by the bank on 31 December 2021 was shown as direct credit of Rs.24,675 in the bank reconciliation prepared as at 31 December 2022, action had not been taken to settle as at audit date on 06 April 2023.	That this amount will be settled as soon as possible.	Action should be taken to find the information and to settle.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Secretary, information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'	(Rs) 000'
(i) Rates and Taxes	35,220	29,735	25,666	36,938	34,779	39,143	36,456	31,272
(ii) Rent	1,516	1,430	1,430	603	2,586	2,693	2,516	1,079
(iii) License Fees	1,110	1,180	1,180	-	910	1,253	1,279	-
(iv) Other revenue	1,131	220	692	179	569	682	624	220
	----- 38,977 =====	----- 32,565 =====	----- 28,968 =====	----- 37,720 =====	----- 38,844 =====	----- 43,771 =====	----- 40,875 =====	----- 32,571 =====

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) Although there was a balance of Rs.784,907 exceeding 20 years under prepaid/advance balance in current assets, action had not been taken to settle.	A special committee will be appointed to correct these balances.	Action should be taken to settle.
(b) Rs. 233,258 which had been lying idle for several years had not been invested effectively.	That this amount will be invested in a fixed deposit.	Surplus money should be invested in a fixed deposit.
(c) The council had acquired computer software at a cost of Rs.6,750,000 on 3 occasions from the year 2018 and it was informed that the software was able to provide facilities for 13 main tasks of the council, but it was observed that the software did not contribute to the completion of any of those tasks.	That preliminary work is being done for all the works.	When purchasing software for the council, the needs should be identified correctly and the purchased software should be put to use.
(d) The council had not implemented such a control system even though the inventory should be recorded on the basis of Goods Received Notes (GRN), the goods should be released from the stores based on the Issue Orders, and the expenditure vote should be recorded by debiting according to the correct price method.	That the system indicated by the audit is being implemented.	A formal control system should be implemented.

3.2 Procurement Management

Audit Observation	Comments of the council	Recommendation
(a) A solar panel system was installed in the main office building as totalling Rs.6,800,000 in the year 2015 by spending Rs.2,000,000 from the provincial council fund and Rs.4,800,000 from the council fund. The following observations are made in this regard.		
(i) A feasibility study had not been conducted and a project report had not been prepared and it had not been indicated which method would be beneficial to the council between Net Accounting and Net Plus.	That it will be done in the future as shown audit.	A feasibility study should be conducted to evaluate which method is beneficial to the council.
(ii) Maintenance and service conditions and warranty period were not included in the contract.	It is also stated that the maintenance period after providing services is 05 years. The first part of the procurement document has been attached to the contract, and the second part has been neglected to be attached to the contract.	Maintenance and service conditions and warranty period should be included in the contract.
(iii) Although the electricity generation exceeded 1000 units in the years 2020 and 2021, the production was between 400-600 units from November 2021 to July 2022. Even before 07 years have passed, the reasons for the decrease in the amount of electricity units being generated had not been investigated and no service and maintenance work had been reported.	After testing the solar system by the company that purchased the solar system, see that the solar panel has solidified.	The reasons for the decrease in the number of electrical units should be discovered and service and maintenance activities should be carried out.
(iv) With an investment of Rs.6,800,000, it was not possible to reach the expected goal of paying the electricity bill within 25 years.	Further discussion and appropriate action will be taken in this regard.	Necessary measures should be taken to reach the goal.
(b) A total of Rs.6,198,477 was spent for the construction of the		

Udugampala walking lane, crematorium and aquarium and Rs.1,314,777 and Rs.4,884,000 for providing the solar system and the following observations are made in this regard.

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| (i) | While the council income could have earned nearly Rs.8,000 per month, the number of units generated from September 2021 to July 2022 was lower in the range of 600-500 due to the implementation under the net accounting system. | Further investigations will be carried out. | Arrangements should be made so that the council can earn income. |
| (ii) | There was no evidences on free suppling of maintenance and suppling of service for 02 years. | That the service agreement has been renewed since the warranty period has expired | Evidences of maintenance and servicing should be submitted to the audit. |

3.3 Defects in Contract Administration
Audit Observation

Comments of the council Recommendation

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| (a) | The council had completed 09 constructions of Seva Piyas and Prajashalas as in phases. The following matters were observed in this regard. | | |
| (i) | The construction had been done without the preparation of total cost estimates and preliminary plans, without approval of the building plans by the council and without proper supervision of the construction. | That appropriate action will be taken in this regard in the future. | Total cost estimates and preliminary plans should be prepared and building plans should be approved by the council and construction should be carried out with proper supervision of the construction. |
| (ii) | Even though more than 10 years have passed since the construction of Prajashalas and Sevapias started in the local council jurisdiction, the constructions were not completed even by 20 August 2022. | That the work will be completed as soon as money is received in the future. | The construction must be completed before the deadline. |

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| (b) | The construction of Seva Piyasa as a two-storied building in the Doranagoda South Gramseva Domain with an estimated cost of Rs.1,200,000 in the year 2009 had been started and construction works had not been ended up to the date of 25 September 2022. A total cost estimate and a preliminary plan had not been prepared in this regard and the construction work had been carried out at a cost of Rs. 1,145,446 without the approval of a building plan. | It is very difficult to estimate the total cost and prepare a plan. | A total cost estimate and preliminary plan must be prepared and a building plan must be approved. |
| (c) | A contract for the construction of a building for a general product sales centre was contracted for Rs. 4,072,449 and the following matters were observed in this regard. | | |
| (i) | The building plan had not been approved by the council. | That appropriate action will be taken in this regard in the future. | The building plan must be approved by the council. |
| (ii) | The SLS 1144-1997 certificate required for ready mix concrete was not submitted. | That no organization has obtained SLS certifications for ready mix concrete. | SLS 1144-1997 certificate must be submitted. |

3.4 Human Resources Management

Audit Observation	Comments of the council	Recommendation
A loan balance of Rs.149,517 of a retired person and a non-recoverable loan balance of Rs. 24,821 related to 04 employees was included in the disaster loan balance of Patthaduwana sub office	That the pension has been included in the no-claim certificate for recovery to this council and that recovery is in progress.	Action should be taken to recover the loan.