

## Minipe pradeshiya sabha – 2022

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### 1. Financial Statements

#### 1.1 Qualified Opinion

The audit of the financial statements of the Minipe pradeshiya sabha for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, 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 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 presented in 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 Minipe pradeshiya sabha as at 31<sup>st</sup> December 2022, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

#### 1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 generally accepted accounting practices, 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 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 financial statements presented includes all the recommendations made by me in the previous year of this report as per the requirement of section 6(1)(d)(iv) of the National Audit Act, No.19 of 2018.

## 1.6 Financial Statements

### 1.6.1 Accounting Deficiencies

| Audit Observation  | Comments of the Sabha               | Recommendation                       |
|--|-------------------------------------|--------------------------------------|
| (a) In accounting of the year under review, Rs.150,000 due from the last year lease of a part from the pradeshiya sabha office premises to Mahaweli Authority was debited to the rent account due from Mahaweli Authority, but the accumulated funds account was not credited. | Will be corrected in the next year. | Accounts should be corrected.        |
| (b) In the journal entries of the year under review, Rs.111,028 have been credited to the account of contribution from income to capital, but the respective ledger account has not been credited.   | -Do-                                | -Do-                                 |
| (c) The rental income of Rs.216,000 from 02 shops in the old court building and Rs.204,000 from the old meeting hall of the in Hasalaka related to the year under review was not accounted.  | -Do-                                | Revenue should be account correctly. |
| (d) Although it was accounted as Rs.544,088 the income of 05 weekly markets belonging to the sabha was Rs.896,552.   | -Do-                                | -Do-                                 |
| (e) Fixed deposit interest receivable in respect of the year under review amounting to Rs.323,216 was not accounted.   | -Do-                                | -Do-                                 |

- (f) Rs.250,000 of the value of stall No.06 removed from the land and building account should be debited to the contribution from income to capital account, but the accumulated fund account was debited. -Do- Accounts should be corrected.
- (g) There was a difference of Rs.325,826 between the contribution from income to capital account and the fixed asset balance of the sabha as on 31<sup>st</sup> of December of the year under review. Will be reported after the investigations. Accounts balances should be corrected.
- (h) During the year under review the recurring expenditure of sabha Rs.937,060 had been capitalized. The estimated cost is 14 lakhs, and that amount has not been paid till now. Recurrent expenses should not be capitalized.
- (i) As at 31<sup>st</sup> of December of the year under review, the sum of Rs.119,317 which is the 40 percent amount due in relation to the portion used by the Sri Lanka Mahaweli Authority in the main electricity bill of the sabha was not accounted. will be included in the final account in year 2023. Receivable money should be accounted.
- (j) The stationery stock balance of Rs.177,623 at the beginning of the year under review was credited to the Income Contribution Account to Capital, though it should have been credited to the accumulated funds account. Accepting that an error has occurred and working to correct it. Should be accounted correctly.
- (k) As on 31<sup>st</sup> of December of the year under review, the amount payable to the contractor for the construction of Hasalaka Library over stated by Rs.694,503 in the financial statements.

### 1.6.2 Suspense Account

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>   | <b>Recommendation</b>        |
|---|--|------------------------------|
| As on 31 <sup>st</sup> of December of the year under review, the suspense account balance of Rs.367,300 in the financial statements had not been settled. | The balances of this suspense account will be further investigated and corrected | Account should be corrected. |

### 1.6.3 Documentary Evidences not made available for Audit

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>  | <b>Recommendation</b>   |
|--|---|---|
| Due to non-submission of detailed schedules and file documents to audit the amount of Rs.8,465,441 relating to 03 accounting subjects unable to satisfactorily monitored during the audit. | Will be further investigated and reported regarding the income debtors, pre-school fees and deposits. | The necessary schedule evidence should be maintained to prove the account balances. |

## 1.7 Non- Compliances

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

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

|     | <b>Reference to Non-compliance Laws, Rules Regulations etc.</b>           | <b>Comments of the Sabha</b>   | <b>Recommendation</b>  |                                 |
|-----|---|--|--|---------------------------------|
| (a) | Pradeshia sabha (Finance and Administration) Rules Nos. 59 and 60 of 1988 | A survey was not carried out regarding business organization subject to trade licenses, tax on business and trade taxes in the sabha area and a list was not prepared. | Due to the vacancy of Revenue Inspector, the survey could not be conducted. That surveys will be conducted and reported in the future. | Rules should be followed.       |
| (b) | Extra Ordinary Gazette No. 1533/16 dated 25 <sup>th</sup> of January 2008 | It had not been dealt regarding expired environmental protection licenses.   | While many works remain inactive due to the prevailing economic situation reminders have been sent to other works.                     | The gazette should be followed. |

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs.12,284,008 as compared with the excess of revenue over recurrent expenditure amounted to Rs.12,014,634 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

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

| Revenue source      | Estimated revenue | Billed revenue    | 2022              |   | Estimated revenue | Billed revenue    | 2021              |   |
|---------------------|-------------------|-------------------|-------------------|---|-------------------|-------------------|-------------------|---|
|                     |                   |                   | Collected revenue | Total arrears as at 31 <sup>st</sup> December |                   |                   | Collected revenue | Total arrears as at 31 <sup>st</sup> December |
|                     | (Rs)              | (Rs)              | (Rs)              | (Rs)  | (Rs)              | (Rs)              | (Rs)              | (Rs)  |
| (i) Rates and taxes | 1,335,885         | 1,333,672         | 848,500           | 2,832,967                                     | 1,404,884         | 1,333,672         | 794,356           | 2,347,795                                     |
| (ii) Rent           | 7,592,442         | 5,627,771         | 4,187,388         | 14,109,443                                    | 6,039,300         | 6,000,818         | 670,139           | 12,669,060                                    |
| (iii) License Fees  | 1,717,000         | 1,360,008         | 1,279,477         | 221,156                                       | 1,898,500         | 1,586,407         | 1,672,282         | 140,625                                       |
| (iv) Other Revenue  | 12,609,000        | 16,147,595        | 10,114,377        | 15,616,900                                    | 45,259,720        | 46,449,226        | 32,938,195        | 9,583,682                                     |
| <b>Total</b>        | <b>23,254,327</b> | <b>24,469,046</b> | <b>16,429,742</b> | <b>32,780,466</b>                             | <b>54,602,404</b> | <b>55,370,123</b> | <b>36,074,972</b> | <b>24,741,162</b>                             |

#### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the sabha are given below.

|     | Audit Observation  | Comments of the Sabha   | Recommendation   |
|-----|--|---|--|
| (a) | From the total revenue sources as on 31 <sup>st</sup> of December 2021 The deficit was Rs.24,549,381 and as on the last day of the year under review the same value was Rs.32,780,466 and the deficit revenue had increased by 34 percent. | The revenue collection work is currently being done under a formal program, its progress will be presented in the future. | Arrears revenue should be collected.                               |
| (b) | <b>Rates</b><br>As on 31 <sup>st</sup> December of the year under review Rs.711,407 due had not been collected from 31 properties where the deficit per assessment unit exceeded Rs.10,000.  | The assessment taxes outstanding will be investigated and collected.  | Arrears should be collected by following the provision of the act. |

**(c) Water Tax**

Rs.549,635 from 225 water consumers whose water connection was disconnected in 10 water projects and Rs.53,365 from 02 water projects abandoned without maintenance by the sabha had not been collected.

A formal program is being prepared and implemented regarding this.

Arrears revenue should be collected.

**(d) Rent**

47 stalls in 08 marketing complexes owned by the pradeshiya sabha land 04 mobile stalls were rented out, and due to non-payment of rent on time, there was a deficit of Rs.12,605,834 as on 31<sup>st</sup>December of the year under review.

That the collection of revenue was delayed with a vacancy of Revenue Inspector for a long time.

Actions should be taken to collect rent arrears or take legal action.

**(e) Advertisement Board Chargers**

Although a survey should be conducted and fees charged of the advertisement boards installed in the pradeshiya sabha area, fees of Rs.81,975 were not collected from 27 advertisement boards located on Morayaya Road.

That a survey will be conducted and the relevant fees will be charged.

The revenue should be collected.

**(f) Court fines and stamp duty**

Court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31<sup>st</sup> of December 2022 were Rs.9,299,390 and stamp duty was Rs.1,003,650.

The collection of court fines and stamp duty is in progress.

Court fines and stamp duty should be remitted promptly.

**3. Operational Review****3.1 Performance of functions assigned by the Act**

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 sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>                    | <b>Recommendation</b>                    |
|--|---|--|
| Under Section 126 of the pradeshia sabha Act, by-laws should have been enacted to ful fill 22 main matters, but at the 31 <sup>st</sup> of December 2022 By-laws had been enacted only for 03 matter | That 03 by-laws have been enacted by the sabha. | Provision of the act should be followed. |

### 3.2 Identified Losses

| <b>Audit Observation</b>   | <b>Comments of the Sabha</b>  | <b>Recommendation</b>                              |
|--|---|--|
| Due to the demolition of an illegally constructed foundation, the sabha gave a unilateral decision to pay an amount of Rs.530,500 to the complainer party in the year 2018 by giving a unilateral decision to pay an amount of Rs.530,500 for the case assigned by the concerned person claiming a loss of Rs.500,000 for the loss of Rs.24,710. The compensation had been paid, and due to the fact that the cab owned by the sabha was parked as a litigation item for over 15 years, there was a loss of Rs.1,374,200 along with the repair cost of Rs.843,700. Out of this loss Rs.530,500 was recommended to be charged to 04 persons in the amount of Rs.134,950 from 04 persons according to the F.R. 104(04) investigation, but it had not been charged by the end of the year under review. | F.R104(4) investigation has been conducted and 04 responsible persons have been named for it. Letters have been presented to the concerned persons, and that they will be charged and reported in the future. | Losses should be charged as per inspection report. |

### 3.3 Management Inefficiencies

| <b>Audit Observation</b>  | <b>Comments of the Sabha</b>  | <b>Recommendation</b>   |
|---|---|---|
| As of 31 <sup>st</sup> December of the reviewed year, the outstanding rent of 20 stall in Hasalaka market complex was Rs.9,674,763, and the lessees had not paid the rent for about 10 years. All the stalls had not been contracted after 2009, illegal constructions were | At present the commissioner of local government is empowering several cases regarding the removal of lessees. | The ownership of the land should be acquired and formally contracted, illegal constructions should be removed and stall rent should be collected on time. |

done at the back of all the stalls and they were permanently settled behind the stalls, and the lessees had built unauthorized constructions on the upper floor.

### 3.4 Idle or underutilized Property, Plant and Equipment

#### Audit Observation

As of the last day of the reviewed year 03 vehicles totalling Rs.1,978,050 have not been in running condition for about 08 years, and these vehicles have not been repaired or made suitable for use.

#### Comments of the Sabha

That the recommendations will be taken to cab to be repaired and the tractor and trailer to be auctioned.

#### Recommendation

Action should be taken to repair the vehicle which can be repaired and disposed the other vehicles.

### 3.5 Assets Management

#### Audit Observation

- (a) Worth of Rs.139,278,220 lands and 59 cemeteries owned by the sabha had not been taken over.

#### Comments of the Sabha

That the relevant agencies have been informed and sent requesting letters to hand over the assets owned by the sabha.

#### Recommendation

The ownership of the lands should be taken over.

- (b) The 7,000 square feet area on the second floor of the multifunctional building built at a cost of Rs.71,949,560 under the Pura Nenguma project remained idle as at 31<sup>st</sup> December of the year under review.

The income of the pradeshiya sabha decreased further due to the economic situation in the country in the last 03 years. Therefore, funds could not be allocated for development activities.

Buildings should be used for effective purposes.

### 3.6 Defects in Contract Administration

#### Audit Observation

- (a) **Drainage development Rs.425,388**

- (i) In this project, according to work number 03 of the estimate, shuttering is estimated Rs.126,325 at Rs.1,587 per square meter as per HSR ST-57 for 79.58 square meters, but according to HSR ST-112 shuttering related to drain sides While a rate of Rs.830 had been

#### Comments of the Sabha

The letters have been send to recover the overpaid amount of Rs.60,257 from the contractor.

#### Recommendation

Payments should be made only for work done and officers who recommended overpayments should be identified and action should be taken.

introduced, due to shuttering payments to the contractor based on the higher rate, Rs.60,257 had been paid more.

**(b) Repair of Hasalaka Public Library-Rs.5,001,755**

- |       |   |   |  |
|-------|---|---|--|
| (i)   | The project was awarded as 02 projects for a value of Rs.5,001,755 exceeding the limit of the Government Finance Circular No. 01/2021 dated 29 <sup>th</sup> of September 2021. Due to this, the advantage of executing the contract at the lowest cost by following the tender procedure, leading to a competition, had been lost. | The Sabha prepared two estimates under two provisions and proceeded according to circulars for the repair of the Hasalaka Public Library. | Procurement should be procured on the basis of the total cost estimate for construction of buildings when funds are available. |
| (ii)  | According to the Building Standard Rate (BSR), the council fund had incurred a loss of Rs.286,589 due to using the rate used for contracts below 05 million rupee instead of using the rate used for contracts above 05 million rupee.  | The rates were used correct.  | In case of exceeding 5 million rupee, the rates applicable as per BSR shall be used.   |
| (iii) | The section 03 of both the agreements signed with Various Services Cooperative Society Limited on 30 <sup>th</sup> December 2022 did not specify the date of completion and handover of the project , and the project was not completed by 06 <sup>th</sup> of April 2023   | A period of 03 months is given from the date of commencement and late charges will be charged for the additional period.                  | The provisions of the agreement should be followed.  |