

## **Muthur Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Muthur Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of Statement of Balance sheet as at 31 December 2022, Income and Expenditure Account, , 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 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 financial statements give a true and fair view of the financial position of the Muthur Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

I expressed qualified opinion 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 Relevant 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 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'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 Relevant 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 Relevant in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the Relevance 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 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 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) In the year under review, only the proceeds from the sale of the four-wheeler tractor of Rs.150,000, which had a book value of Rs.760,000 had been credited to the Motor vehicle account.	That will be corrected in the final accounts of the year 2023.	Accounts should be corrected.
(b) A total of Rs.160,400 revenue from machineries and Environmental Protection License Fees (EPL), received during the year under review was accounted for as refundable deposits.	Steps have been taken to transfer it to the revenue of the Sabha by means of cross entries.	The income of the Sabha should be accounted for in the prescribed period.
(c) Rs.3,895,402 spent on the installation of equipment at Mutur Children's Park was not capitalized.	It will be corrected in the final accounts of the year 2023.	The value of fixed assets should be accounted for.
(d) In the year under review, the value of the equipment which was donated to the Sabha amounted to Rs.406,699 was not accounted for.	- Do -	Accounts should be corrected.
(e) Total of Rs.4,510,204 salary and allowances due for the month of December of the year under review had not been accounted for.	- Do --	- Do --

### 1.6.2 Documentary Evidences not made available for Audit

<b>Unsubmitted audit evidence</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
03 account balances worth Rs.203,987,206 as on December 31 of the year under review could not be satisfactorily verified during the audit due to non-submission of title deeds, fixed asset registry, balance confirmations and revaluation reports.	That the documents will be completed and submitted.	Evidence must be submitted to confirm all account balances shown in the financial statements.

## 1.7 Non- Compliances

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

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

Reference to Laws, Rules Regulations etc	Non-compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987 Section 182	Rs.2,324,357 had been written off from the opening assessment arrears balance of the financial year 2021 without obtaining the Minister's approval.	it has been sent to seek the approval of the Hon. Governor by the Commissioner of Local Government.	The prior approval of the minister in charge of the subject should be obtained when writing off the income.
(b) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial regulation 371	Advances of Rs.11,129,351, which have been carried forward for more than 15 years, have not been settled till now.	To adjust the advances that have been carried forward for a long time, it has been sent for the approval of the Governor.	Advances should be settled.
(ii) Financial regulation 1645	Log books were maintained but not updated.	Actions are being taken to update the log books.	Log books should be updated.
(iii) Financial regulation 1646	Original copies of daily running charts and monthly summaries of 14 vehicles in use by the Sabha were not submitted for audit.	The daily running charts for all vehicles are submitted for audit on the scheduled date.	Financial regulations should be followed.
(c) Other circulars			
(i) Provincial Finance Circular No. PT/03/2021 dated 16 August 2021	Security deposits of Rs.83,000 were not collected from 16 officials who are performing the duties of the local council and should have deposited security deposits.	That the security deposit will be collected from the officers who should have been charged security deposits.	Arrangements should be made to recover the security deposit.

- (ii) Extraordinary Gazette No. 1553/16 published on 25 February 2008. Although the environmental protection licenses should be renewed 03 months before the expiry date, no action was taken regarding 44 environmental protection licenses in the year under review. It will be act as per the gazette. It should be act as per the gazette.

## 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.33,728,379 as compared with the excess of revenue over recurrent expenditure amounted to Rs.24,690,240 in the preceding year.

### 2.2 Revenue Administration

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

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 31 December	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
Rates and Taxes	2,336	692	464	6,782	1,735	445	371	6,555
Rent	35,832	27,142	26,924	13>154	35,266	21,847	18,605	12,936
License Fees	2,879	1,154	1,154	39	2,326	1,090	1,090	39
Other revenue	2,452	1,208	1,208	406	2,116	999	999	406
Total	<u>43,499</u>	<u>30,196</u>	<u>29,750</u>	<u>20,381</u>	<u>41,443</u>	<u>24,381</u>	<u>21,065</u>	<u>19,936</u>

#### 2.2.2 Performance in Revenue Collection

##### Audit Observation

##### Comments of the Sabha

##### Recommendation

##### (a) Rates and Taxes

According to Section 20 of the Assessment and Valuation Act No. 30 of 1946, assessments should be valued once in 05 years, but the Sabha had not valued assessments in 19 years.

Requests have been made.

Assessment should be expedited.

**(b) Rent**

**(I) Bus Stand Shop Rent**

- (i) As on December 31, 2022, outstanding Shop rent for more than 05 years was Rs. 1,165,422. Arrangements will be made to recover arrears. Relevant action should be taken to recover the arrears.
- (ii) According to clause 2 of the lease agreement signed in 2014, the Sabha had lost income of Rs.455,383 due to non-collecting of rent increasing by 10 percent of the previous rent value annually, since 2016. The arrears will be fully recovered. Rent should be charged as per agreement.

**(II) Butchers' shop rent**

There was no provision made in the by-laws of the Pradeshiya Sabha regarding the collection of rent from poultry shops. From the year 2009 to 31st December 2022, arrears of Rs.12,469,466 were not recovered. The poultry shop rents in arrears will be written off as per the Governor's approval. According to the agreements, the rents in arrears should be collected.

**(c) Stamp Duty**

Stamp duty due from the Deputy Secretary of the Provincial Council and other authorities, on 31 December 2022 was Rs.4,548,533. Action will be taken to correct. Stamps duties should be remitted.

**3. Operational Review**

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) A balance of Rs.572,909 in the savings accounts of the Bank of Ceylon and People's Bank remained inactive for over 13 years.	Interest earned from savings accounts is shown in the final accounts. These will be deposited in fixed deposits in the future.	Money should be used effectively.
(b) As per Section 16 of the Employees' Fund (ETF) Act No. 46 of 1980, a fine of Rs.31,800 was paid from the Sabha fund for non-payment of contributions on due date.	Steps will be taken to prevent such payments in the future.	Employees' Provident Fund contributions should be paid on the due date.

### 3.2 Idle or underutilized Property

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) The shopping complex with 12 stalls built at Toppur in 2014 at a cost of Rs.4,967,426 has not been rented out since 08 years.	In the future, it will be renovated and rented out.	It should be used for the respective purposes.
(b) The market building built in 2017 at a cost of Rs.3,669,340 in Sampur was not used for 5 years..	Due to the fact that the businessmen did not come forward to get rent, alternative measures will be applied in the future.	- Do -
(c) A building was constructed by the contractor and handed over to the Sabha on December 07, 2016 to implement the bio gas project worth Rs. 1,115,226 under the provincial specific development financial provision, but until now the building remained idle without implementing the said project.	The biogas production building was not operated, due to insufficient technical instructions and machinery. That gas production will be carried out in the near future when the resources are available.	- Do -
(d) The boat landing project at Mootoor Recreation Park, which cost Rs. 2,589,515 under the provincial specific development financial provision, was completed and handed over to the Sabha on December 06, 2019, but As of the date of this report, it remained idle without using.	Although efforts have been made on various occasions, the approval to travel on the boat has not been received so far. That will be done after having approval.	- Do -
(e) The Sewerage Treatment Plant, which was granted to the Sabha on August 22, 2012 under UNICEF financial provisions, had not been implemented until now.	It was not operated due to non-availability of technical instructions and machines. When the resources are available for that, the work will be done in the future.	- Do --

### 3.3 Assets Management

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
<b>Unclaimed assets</b>		
Although the Sabha had used 29 vehicles received as donations, It had not been taken over by Sabha.	Several vehicles have been taken over, but in the case of cancellation of the departments and ministries from which certain vehicles were given, such ministries or departments cannot be formally identified, so steps have been taken to seek the advice of the Chief Secretary of the Eastern Province in this regard.	Relevant action should be taken to take over.

### 3.4 Human Resources Management

#### Audit Observation

#### Comments of the Sabha

#### Recommendation

#### Employee loan

A distress loan of Rs.102,620 given to a casual employee 11 years ago and Rs.323,750 to be settled in the year under review remained outstanding.

Rs. 323,750 to be settled in the reviewed year will be collected.

Relevant action should be taken to recover the arrears.

### 4. Accountability and Good Governance

#### 4.1 Internal Audit

#### Audit Observation

#### Comments of the Sabha

#### Recommendation

In the year under review, an internal auditor was appointed by the Sabha, but no audit work was carried out.

No internal audit work has been carried out from 2020

Relevant measures should be taken to carry out internal audit functions.

#### 4.2 Budgetary Control

#### Audit Observation

#### Comments of the Sabha

#### Recommendation

The Budget was not used as an effective management control tool, as variances between estimated costs and actual costs ranged from 24 percent to 81 percent.

Due to the fact that the expected revenues in the budget could not be earned in full, it was not possible to carry out the expenses related to it.

Relevant measures should be taken to avoid wide range variations.