

Mihinthalaya Pradeshiya Sabha
Anuradhapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year 2017 had been presented to Audit on 29 March 2018 and the Auditor General's Report relating to those financial statements had been sent to the Chairman on 20 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Mihinthalaya Pradeshiya Sabha as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following matters were observed.

- (a) As expenditure of Rs. 9,776,553 incurred by the Puraneguma Project had been stated as expenditure of the Sabha, expenditure of the year under review had been overstated by that amount.
- (b) Since the employees loan amounting to Rs. 1,609,744 granted by the Sabha Fund had been accounted as expenditure, expenditure of the year had been overstated by that amount.
- (c) Transfer of cash amounting to Rs. 2,142,429 carried out among 03 cash books maintained by the Sabha had been brought to account as expenditure and therefore, expenditure of the year had been overstated by that amount.
- (d) The repayment of deposits and advances totalling Rs. 732,378 during the year under review had been brought to account as expenditure, thus overstating the expenditure of the year by that amount.
- (e) Unidentified expenditure of Rs. 1,469,025 relating to 05 Objects had been debited to the Income and Expenditure Account and as such, expenditure of the year had been overstated by that amount.
- (f) As the interest of Rs. 251,573 relating to the year under review of the loan obtained from the Local Loan and Development Fund for the construction of Library and the meeting hall in the year 2012 had been indicated as Rs. 451,325 in the Income and Expenditure Account, expenditure of the year had been overstated by Rs. 199,752.

- (g) According to the register of repayment of loans, the loan balance of Rs. 2,602,992 payable to the Local Loan and Development Fund as at 31 December of the year under review had been stated as Rs. 2,351,417 and as such, loan capital had been understated by Rs. 251,575.
- (h) Value of the Pre-school building which had been stated as Rs. 20,000,000 in the Register of Fixed Assets had been stated as Rs. 2,000,000 in the financial statements and as such, fixed assets and Revenue Contribution to Capital Input Account had been understated by Rs. 18,000,000.
- (i) A sum of Rs. 28,226,038 spent on the Weekly Fair Building, Mihinhale had been stated as Rs. 1,200,000 in the financial statements and as such, fixed assets and Revenue Contribution to Capital Input Account had been understated by Rs. 27,026,038
- (j) Although the rent income relating to 102 trade stalls stood at Rs. 2,644,800 during the year under review, it had been stated as Rs. 2,731,799 in the accounts. Therefore, revenue of the year had been overstated by Rs. 86,999.
- (k) As the rent income of Rs. 920,700 annually receivable for leasing out of 04 properties belonging to the Sabha had been shown as Rs. 1,136,411 in the financial statements, revenue of the year had been overstated by Rs. 215,711.
- l) Although revenue of Rs. 920,700 indicated in Paragraph (k) above had been adjusted under Item of Revenue No. 5-23 in the financial statement, it had been shown again under Item of Revenue No. 5-24 and as such, revenue of the year had been overstated by that amount.
- (m) As unidentified sum of Rs. 807,056 had been credited to the revenue, revenue of the year under review had been overstated by that amount.
- (n) Fixed assets worth Rs. 856,200 received by the Sabha from the Local Government Department had not been brought to account.
- (o) As accrued expenditure totalling Rs. 139,859 pertaining to the year 2017 had not been recognized, liabilities and expenses had been understated by that amount.
- (p) Even though fixed assets totalling Rs. 814,294 had been removed from using in various instances, relevant assets had not been eliminated from the schedule and therefore, fixed assets and the Revenue Contribution to Capital Input Account had been overstated by that amount.
- (q) Although the stamp fees receivable as at 31 December 2017 amounted to Rs. 1,121,265, it had been stated as Rs. 6,970,643 in the financial statements, thus overstating the current assets by Rs. 5,849,378.

1.3.2 Unreconciled Accounts

The following matters were observed.

- (a) There was a difference of Rs. 1,837,800 between the revenue indicated in the P.S. 04 report maintained by the Sabha and the revenue indicated in the financial statement.
- (b) Even though arrears of trade stalls rent as at 31 December 2017 amounted to Rs. 225,775, it had been stated as Rs. 622,645 in the financial statements and as such, a difference of Rs. 396,870 was observed.

1.3.3 Accounts Receivable and Payable

Action had not been taken to recognize and settle 11 receivable account balances worth Rs. 1,668,839 and 13 payable accounts balances totalling Rs. 2,730,468 continued to exist over a 05 years.

1.3.4 Lack of Documentary Evidence for Audit

Since necessary information had not been furnished, 02 items of accounts totalling Rs. 283,809 could not be satisfactorily verified in audit.

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Pradeshiya Sabha Act No.15 of 1987. Section 117	By laws had not been imposed relating to the establishment of a gratuity scheme for the payment of gratuity for the temporary and casual employees of the Sabha.
(b) Rules (Financial and Administration) of Pradeshiya Sabha, 1988 (i) Rule 5.11	An insurance coverage had not been obtained in respect of cash in transits and other valuable goods of the Sabha.
(ii) Rule 217 and 218	A register as per the Format P.S.46 had not been maintained in respect of lands and buildings belonging to the Sabha and all lands and buildings had not been examined once in every year.
(c) Section 2 (i) of the Motor Traffic Act (Cap.203).	A Taffe Tractor, trailer, landmaster and 02 water bowsers belonging to the Sabha had not been registered.
(d) Treasury Circular No.IAI/2002/02 dated 28 November 2002.	A seperate register had not been maintained relating to computer, accessories and software used by the Sabha.
(e) Local Government Circular No.09 dated 14 November 2006.	Forty five cemeteries of 120 acres in extent situated within the area of authority of the Sabha had not been declared in accordance with the Cemeteries and Burials Ordinance. Similarly, boundary fences had not been erected

- for their protection and ownership of certain lands had not been taken over.
- (f) Guideline 2.9.1 of the Government Procurement Guidelines 2006. One member of the Procurement Board of the Sabha had not participated in any Procurement Meeting.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of expenditure over recurrent revenue of the Sabha for the year ended 31 December 2017 amounted to Rs. 6,618,435 as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 3,056,159.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue, and Revenue in Arrears

Information submitted regarding the billed revenue, collected revenue and arrears revenue relating to the year under review is shown below.

Source of Revenue	Opening Balance as at 01 January 2017	Revenue Billed for 2017	Revenue Collected for 2017		Revenue in Arrears as at 31 December 2017
	Value	Value	Deficit as at 01.01.2017 Value	From the Amount Billed for 2017 Value	Value
	Rs.	Rs.	Rs.	Rs.	Rs.
Trade Stall Rents	140,605	2,644,800	2,566,250	2,425,645	219,155
Tender Charges	920,700	920,700	-	923,849	-
Charges for disposal of waste	-	551,232	-	594,054	-
Weekly Fair	-	1,500,000	-	1,673,660	-
Total	1,061,305	5,616,732	2,566,250	5,617,208	219,155

2.2.2 Rates and Taxes

The Sabha had not taken action to declare the developed areas of the jurisdiction of the Sabha, carry out annual assessment of the properties and recover the Rates in terms of Section 134 of the Pradeshiya Sabha Act, No.15 of 1987.

3. Operating Review

3.1 Performance

Matters revealed in 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 in terms of Section 3 of the Pradeshiya Sabha Act, are as follows.

(a) By-Laws

Even though By-laws should have been imposed under Section 126 of the Pradeshiya Sabha Act for the execution of 28 key functions, by-laws had not been imposed relating to the execution of those functions even by 31 December 2017.

(b) Action Plan

An Annual Action Plan had not been prepared in respect of the activities to be carried out by the Sabha.

(c) Solid Waste Management

Solid and sewerage wastes gathered in the area of authority of Sabha had been disposed to a reservation land in the area without being subject to any recycling process.

(d) Environmental Issue

It was observed that the disposal of solid waste and sewerage waste collected in the area of authority of the Sabha in to the environment and burial and burning of such wastes cause a severe environmental damage and air pollution, thus posing threats to the health of the animals that used to eat such garbage.

(e) Sustainable Development Goals

The Sabha had not been aware of the Agenda 2030 on the Sustainable Development Goals adopted by the United Nations Organization.

3.2 Management Inefficiencies

The following matters were observed.

- (b) Necessary information for the confirmation of balances totalling Rs. 1,410,017 relating to 06 accounts balances was not available in the Sabha over a number of years and necessary steps had not been taken to recover such balances after being confirmed their accuracy or eliminate them from accounts.
- (b) According to the Board of Survey conducted in 2017, seventy items of goods of which the value had not been stated had been misplaced.
- (c) Although the transfer of properties within the area of authority from the year 2004 to 2015 had been examined and the Stamp Fees revenue receivable to the Sabha had been computed as Rs. 6,108,263, the amount recommended by the Provincial Revenue Commissioner as receivable to the Sabha amounted to Rs. 2,284,650. The Sabha had not taken action to ascertain and recover the arrears of Stamp Fees amounting to Rs. 3,823,613 for which the recommendation of the Provincial Revenue Commissioner was not received.
- (d) Action had not been taken in terms of the recommendation of the Board of Survey to remove 04 water tanks of 1000 liters as unserviceable goods.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) The disused trailer with shelter, double cab vehicle and a motorcycle belonging to the Sabha had been parked allowing to decay.
- (b) Although lessees had subleased 31 trade stalls of the Sabha while breaching agreements, no proper steps had been taken thereon during the year under review and the owners of the trade stalls had carried out unauthorized renovations and new constructions to the above trade stalls.
- (c) Trade stalls had not been assessed after the year 2009 and agreements had not been updated relating to 58 trade stalls.
- (d) Agreements had not been signed in relation to lease out of 02 trade stalls.

3.4 Annual Procurement Plan

A Procurement Plan had not been prepared relating to the year under review.

3.5 Identified Losses

As the revenue licences of the motor vehicles of the Sabha had not been obtained on due date, fines amounting to Rs. 6,510 had to be paid.

3.6 Solid waste management

Solid waste and sewage waste collected in the area of authority of the Sabha had been disposed to a reservation land without being subjected to any recycling process.

4. Good Governance and Accountability

4.1 Budgetary Control

The following matters were observed.

- (a) Since the budget had been prepared without making proper forecasting, variations ranging from 52 per cent to 166 per cent could be observed between the budgeted and actual revenue of 05 items of revenue and variations ranging from 55 per cent to 4,733 per cent could be observed between the budgeted and actual expenditure of 05 items of expenditure.
- (b) Although provisions had not been made by the Budget as the payment of interests, dividends and expenditure on bonus for the year under review, expenditure of Rs.2,065,890 had been incurred.

4.2 Internal Audit

Although an Internal Auditor had been appointed in terms of Paragraph 06 of the Circular No. 04/2015 dated 18 March 2015 of the Commissioner of Local Government of North Central Province, Internal audit reports had not been issued.

4.3 Audit and Management Committees

The Audit and Management Committee meetings had not been prepared for the year 2017 in terms of Circular No.DMA/2009 (i) dated 09 June 2009 issued by the Management Audit Department.

5 Systems and Control

Deficiencies observed during the audit test check were brought to the notice of the Sabha from time to time. Special attention is needed in the following areas of systems and controls.

System	Deficiency
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(a) Accounts Receivable and Payable	Failure to properly recognize and settle.
(b) Internal Control	(i) Failure to implement Internal Audit. (ii) Failure to conduct Audit and Management Committees.
(c) Annual Action Plan, Procurement Plan	Failure to prepare Annual Action Plan and Procurement Plan.
(d) Assets Management	(i) Failure to enter into agreements in leasing out properties. (ii) Failure to maintain properties properly
(e) Vehicle Control	(i) Non-registration of vehicles. (ii) Failure to obtain revenue licences.
(f) Solid waste management	Failure to carry out manage solid waste management.