

Mihintale Pradeshiya Sabha - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Mihintale Pradeshiya Sabha for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023 and the statement of Comprehensive Income, statement of changes in Net Assets / Equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, 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 Sabhas 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 accompanying financial statements give a true and fair view of the financial position of Mihintale Pradeshiya Sabha as at 31 December 2023, 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

My opinion is qualified 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 Standard for 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared of the Pradeshiya Sabha.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Pradeshiya Sabha;
- Whether the Pradeshiya Sabha 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 are 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 include 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 related to the preparation of financial statements

1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standard for Local Authorities

Audit Observation	Comments of the Sabha	Recommendation
(a) According to paragraph No. 3.29 of the Standard, purchases of property and equipment amounting to Rs.68,500 had not been indicated under investment activities in the cash flow statement during the year under review.	This was included in miscellaneous deposit accounts.	The accurate value should be accounted.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The value of motor vehicles amounting to Rs.935,000 received as capital grants in the year under review, and the value of furniture amounting to Rs.134,500 purchased from the fund of the Council had been credited to the accumulated fund.	Accepted.	The accurate value should be accounted.
(b) The cost of installing solar panels of 10 kilowatts in the building of the council office during the year under review amounting to Rs.2,963,142 had not accounted as a fixed asset.	-Do-	Fixed assets should be identified correctly and accounted.

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| (c) | Even though only a sum of Rs.7,388,142 had been received as capital receipts from the LDSP project in the year under review, the expenses related to that had been overstated as Rs.7,554,606. | -Do- | The accurate value should be accounted. |
| (d) | Since the revenue from court fines amounting to Rs.340,668 relating to the months of October and November in the year 2023 had not been accounted as the revenue of the year under review, the revenue from stamp duty receivable had been understated by that value. | Since it is a loan prevailed from the year 2012, it has been indicated under long term borrowings. | The accurate value should be accounted. |
| (e) | Even though the value of the expenses incurred by the people who built the shops for the construction of shops on a land belonging to the Council had been estimated as Rs. 48,614,832, the amount to be paid to them by the Council had not been recognized and accounted as an expense of the Council and the amount had been credited to the accumulated fund | Accepted. | The accurate value should be accounted. |
| (f) | Although the revenue to be billed for 67 shops had been Rs.3,912,000, it had been underbilled as Rs.1,956,000. | -Do- | The accurate value should be identified and accounted. |
| (g) | Purchases of furniture worth Rs.66,000 during the year under review had been double accounted and as a result, the fixed assets had been increased by that value. | -Do- | The accurate value should be identified and accounted. |
| (h) | The value of computers amounting to Rs.1,690,000 and received as capital grants in the year under review, and the value of machines amounting to Rs.2,735,000 had been credited to the accumulated fund without crediting it to the capital grants account. | -Do- | The accurate value should be identified and accounted. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though the value of grants received for recurrent expenses and grants received for physical planning had been Rs.34,772,213 according to the statement of comprehensive income, those values were Rs.24,876,523 according to the accounting notes. Therefore, there had been a difference of Rs.9,895,690.	Accepted.	The schedules should be reconciled with corresponding reports and should be corrected.
(b) Although the purchases of computers in the year under review were Rs.1,956,616 according to the schedule, it was Rs.2,129,616 according to Notes No. 16 of the financial statements. As a result of that, there was a difference of Rs.173,000.	-Do-	-Do-

1.6.4 Lack of Written Evidences for Audit

Subject	Amount	Unsubscribed Audit evidences	Comments of the Sabha	Recommendation
Cemeteries	Rs. 110,300,000	<ul style="list-style-type: none"> • Balance confirmations • Time Analysis Detailed Schedules 	A schedule has been submitted.	Confirmations should be submitted.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure, which had exceeded the revenue of the Pradeshiya Sabha for the year ended 31 December 2023 had been Rs.1,613,198 and corresponding to that, the expenditure, which had exceeded the revenue in the previous year had been Rs.3,760,906.

2.2 Revenue Administration

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

According to the information submitted by the Secretary of the Sabha, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year are mentioned below.

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,280,200	1,674,260	1,674,260	101,844	1,045,050	1,296,700	1,296,700	101,844
(ii) Rents	10,368,103	15,329,120	1,417,169	16,018,600	8,419,674	8,336,571	11,007,626	2,106,649
(iii) License Charges	225,100	635,813	634,308	60,005	105,000	143,840	85,340	58,500
(iv) Other Revenue	4,359,850	19,025,959	17,865,420	7,153,108	4,084,250	7,170,583	6,908,338	5,992,569
	<u>16,233,253</u>	<u>36,665,152</u>	<u>21,591,157</u>	<u>23,333,557</u>	<u>13,653,974</u>	<u>16,947,694</u>	<u>19,298,004</u>	<u>8,259,562</u>

2.2.2 Performance in the Collection of Revenue

The observations in relation to the performance in the collection of revenue in the Pradeshiya Sabha are mentioned below.

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rates and Taxes</p> <p>The Council also failed in the year 2023 to collect the waste tax arrears amounting to Rs.101,844 existed as at 01 January 2023.</p>	<p>Recovery will be done after construction of the garbage yard.</p>	<p>Must be recovered promptly.</p>
<p>(b) Rents</p> <p>As on December 31, 2023, rent of Rs.1,628,148 remained outstanding.</p>	<p>Most of the arrears have already been collected.</p>	<p>Arrears of rents should be recovered promptly.</p>

(c) Other Revenue

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| (i) | Charges amounting to Rs.964,150 receivable for billboards including the arrears of the year 2023 had not been recovered. | Action will be taken to recover in the year 2024. | Arrangements should be made to recover promptly. |
| (ii) | Court fines amounting to Rs.3,012,849 should have been received by 31 December 2023 from the Chief Secretary of the Provincial Council and other authorities and stamp duty of Rs.1,718,500 should have been received. | Action will be taken to recover | Action should be taken to recover the amount receivable. |

3. Operational Review**3.1 Performance of Functions Assigned by the Act**

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, 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 and all amenities within such area, are mentioned below.

Audit Observation	Comments of the Sabha	Recommendation
Even though by-laws could have been enacted under Section 126 of the Pradeshiya Sabhas Act to fulfill 30 major matters, By-laws had not been enacted for those matters even by 31 December 2023.	Action will be taken to enact By-laws in the year 2024.	Action should be taken to enact the By-laws in terms of the Pradeshiya Sabhas Act.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
Since the Council had not collected garbage in the year 2023, the Council had also lost revenue that should have been received to the Council, and garbage in the limits of the Pradeshiya Sabha had been disposed of informally.	Action will be taken to systematically dispose of garbage from the year 2024.	Garbage of the limits of the Pradeshiya Sabha must be collected and disposed of systematically.

3.3 Transactions of Contentious Nature

Audit Observation

A sum of Rs.162,610 had been paid in June 2023 to 04 officials of the Pradeshiya Sabha for Poson Festival 2023, as an allowance equal to their monthly salary, in accordance with Section 132(r) of the Pradeshiya Sabhas Act, No. 15 of 1987.

Comments of the Sabha

These allowances had been paid to the officers who had performed the work at the relevant time. The payment is fair and just in terms of the Pradeshiya Sabha Act.

Recommendation

Since payments cannot be made for this under Section 132 (r) of the Pradeshiya Sabha Act, that should be recovered.

3.4 Asset Management

Audit Observation

Five (05) vehicles which had been removed from use had been parked in the premises of the Pradeshiya Sabha without taking steps to dispose of them.

Comments of the Sabha

Action will be taken to repair the RK 80 hand tractor and road roller or if it is not possible to do so, they will be auctioned.

Recommendation

Disposal activities should be completed promptly.

4. Accountability and Good Governance

4.1. Lack of Allocation of Provision

Audit Observation

The Council had not prepared an action plan for the functions expected to be carried out in the year under review and submitted it to audit.

Comments of the Sabha

It has been planned to implement that from the year 2024.

Recommendation

An action plan should be prepared and submitted to audit.