

## **Minipe Pradeshiya Sabha – 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Minipe Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations for the year, Cash Flow Statement of the year, 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 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 financial statements give a true and fair view of the financial position of the Minipe Pradeshiya Sabha as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices.

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

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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 appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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)

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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

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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

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the Sabha	Recommendation
(a) During the year under review, the retention amount of Rs.297,000 related to 03 projects completed utilizing the provisions of external institutions was not accounted for as Projects debtors and refundable deposits.	It has been informed that it will be corrected through journal entries in the preparation of the final account in 2022.	Financial statements should be prepared correctly.
(b) Stationery stock of Rs.193,795 relating to 14 stock items was not stated in the financial statements.	The officer was informed to prepare stock registry correctly.	Stock registers should be updated and financial statements should be prepared accurately.

### 1.6.2 Unreconciled Control Accounts or Records

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Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs.125,528 since, the balance in relation to 2 types of deposits as of December 31 of the year under review was Rs.6,055,662 according to the financial statements, but according to the deposit register, the balance was Rs.6,043,634.	It has been informed that the reasons for the difference will be found and corrected in the future	Differences should be identified and accounts should be corrected.

### 1.6.3 **Documentary Evidences not made available for Audit**

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Audit Observation	Comments of the Sabha	Recommendation
----- It was not possible to confirm the asset balance of Rs.14,023,545 due to the lack of regular maintenance of records of general stores, furniture and fixtures, office equipment and machinery and plant.	----- It has been informed that it will be prepared being able to adjust in the account as at December 31, 2022	----- Source documents should be updated and financial statements and schedules should be prepared accurately

### 1.7 **Non- Compliances**

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#### **Non-compliance with Laws, Rules and Regulations**

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Following are the instances of non-compliance with laws, rules and regulations observed during sample audits

Reference to Laws, Rules Regulations etc.	Non- Compliances	Comments of the Sabha	Recommendation
----- Section 149 of the Pradeshiya Sabha Act No. 15 of 1987	----- Licensing fees to be charged from 2 hotels registered with the Tourism Board in the council area had not been collected.	----- It has been informed that the license fees will be charged in the future.	----- Fees shall be charged as per the provisions of the Act.

## 2. **Financial Review**

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### 2.1 **Financial Result**

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 12,014,634 as compared with the excess of revenue over recurrent amounted to Rs. 11,225,811 in the preceding year.

## 2.2 Revenue Administration

### 2.2.1 Performance in Revenue Collection

#### Audit Observation

As on 31st December of the year under review, the shop rent due in relation to Hasalaka Public Market Road and Public Market - Pallewatta stalls was Rs.2,023,279 thereof outstanding balances for more than a year was Rs. 1,704,779. Although lawsuits were filed to recover the arrears, the lawsuits were dismissed due to the agreement has not been specified the time and defects in the contracts and Due to the fact that the sabha does not have the right to the land where these shops are located, it was also not possible to file a lawsuit to take over the possession. Also, the arrears of Rs. 8,711,434 due in relation to 20 stalls in Hasalaka town had not been collected according to the shop rental agreements.

#### Comments of the Sabha

It had been informed that they agreed with the audit.

#### Recommendation

Arrears balances should be recovered as per the agreements.

## 3. Operational Review

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

### 3.1 Uneconomic Transactions

#### Audit Observation

Even though the court ordered to pay Rs.24,709 for the loss caused by demolition of the foundation of a building belonging to a private party In the year 1997 by the chairman. Due to the non-payment of that amount, the sabha had to pay Rs. 530,500 to the concerned party again based on the court order. Investigations had been conducted in this regard and no action had been taken to recover the loss to the council fund from the concerned parties.

#### Comments of the Sabha

It has been informed that an inquiry committee has been appointed by the Local Government Commissioner to investigate the loss and those responsible for it and after conducting the relevant investigation and giving the report; it will be reported to you.

#### Recommendation

The loss incurred to the council fund should be recovered from the concerned parties.

### 3.2 Management Inefficiencies

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Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) Although the number of water consumers in the council is 1651, only 438 water consumers have been charged according to the water meter. Also, the number of inactive water meters was 795 and the number of water consumers without installed water meters was 411.	It has been informed that water connections will be provided to all water consumers and formalized as soon as the Gurulupotha water filter is prepared.	Water meters should be installed and water should be supplied regularly.
(b) As on December 31 of the year under review, the balance of water charges to be collected was Rs. 4,529,064, thereof Rs. 618,896 was to be charged to consumers whose water connections had been disconnected. Also, no action had been taken to recover the arrears as per the agreement.	It has been informed that a program such as disconnection of insufficient water connections, dealing with legal channels, sending officials from door to door and collecting mobile services has been used.	Actions should be taken to collect the arrears of water charges as per the agreements.

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

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Audit Observation -----	Comments of the Sabha -----	Recommendation -----
04 vehicles belonging to the Sabha worth Rs.2,070,950 were parked in the council premises for 8 years as of December 31 of the year under review without any repairs or dispose.	It has been informed that a price estimate has been obtained from the Central Provincial Engineer for auctioning the tractor and the trailer and permission has been obtained from by submitting to the Central Provincial Engineer to repair and use the single cab.	Action should be taken to repair and put to use or auctioned.