

## **Thalawa Pradeshiya Sabha - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Thalawa Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, 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 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 presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Thalawa Pradeshiya Sabha as at 31 December 2021, and of its financial performance and cash flow 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 based 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 Standards for Local Government 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 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 Scope of Audit (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**

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) The following recommendations made by me regarding the financial statements for the previous year had not been implemented as per the requirements mentioned 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities**

<b>Non-Compliance with the reference to a particular Standard</b>	<b>Comments of the council</b>	<b>Recommendation</b>
Budgeted information should be presented in the financial statements for that period in the budget documents in accordance with Sri Lanka Public Sector Accounting Standard No. 3.7 for local authorities, however the financial statements of the pradeshiya sabha was presented without budgeted information.	Accepted.	Action should be taken in accordance to the Sri Lanka's Public Sector Accounting Standard for Local Authorities No. 3.7.

### **1.6.2 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
Stamp duty income amounting to Rs.2,459,950 received in relation to the year 2019 and court fines amounting to Rs.5,010,024 received in relation to the year 2020 were accounted as income of the year under review.	Accepted.	The income related to previous years should be matched to the accumulated fund.

### **1.6.3 Unreconciled Control Accounts or Records**

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
There was a difference of Rs.81,260,569 of 03 accounting items between the values mentioned in the financial statement and the values mentioned in the schedules.	Accepted.	Action should be taken to investigate the reasons for the change and the balance should be corrected.

#### 1.6.4 Lack of Documentary Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
Vouchers had not been submitted to substantiate road rehabilitation expenditure amounting to Rs.1,832,314.	Payments have been made as per engineering recommendations.	Vouchers should be submitted to substantiate all expenses.

#### 1.7 Non- Compliances

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

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

<b>Reference to Laws, Rules Regulations</b>	<b>Non-compliance</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) Section 371 (5) of the Financial Regulations	Although a sub-imprest should be settled within 10 days after the completion of the work after issuing a sub-imprest, yet it was settled late in 08 cases relating to an amount of Rs.225,200.	Action will be taken to settle properly in the future.	Action should be taken as according to Section 371 (5) of the Financial Regulations.
(b) Financial Regulation 757(2) (b)	Action had not been taken according to the Financial Regulations regarding 90 goods and 589 library books shown as shortage goods in relation to 60 types of goods belonging to the Pradeshiya sabha and its related sub-offices according to the Board of survey report of 2020 of the Pradeshiya Sabha.	Action will be taken to rectify in the future.	Action should be taken according to 757(2) (a) of the Financial Regulations.
(c) Paragraph 3.1 of the Public Administration Circular No. 30/2016 dated 29 December 2016	14 vehicles owned by the council had not been tested for fuel consumption.	Action will be taken to rectify in the future.	Action should be taken according to Public Administration Circular.

## 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 2021 amounted to Rs.14,234,885 as against with excess of recurrent expenditure over revenue amounted to Rs.57,025,501 in the preceding year.

### 2.2 Financial Control

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
Action had not been taken to earn any revenue from 04 Government bank current accounts maintained in the name of the council of which excessive money was kept in those accounts throughout the year under review.	Invested in fixed deposits as of now.	Investments should be made in order to earn interest income without keeping money in current accounts.

### 2.3 Revenue Administration

#### 2.3.1 Performance in Revenue Collection

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) Rates and Taxes  Although an assessment tax revenue amounting to Rs.6,336,615 was billed to be collected for the year under review based on the assessment of the year 2009, yet an amount of Rs.3,174,922 was to be collected further.	Accepted.	Action should be taken according to the provisions of the Act and the agreements to collect arrears of income.
(b) Rent		
(i) Action had not been taken to collect a due amount of Rs.5,066,868 for 74-shop room belonging to the council to be received at 31 December 2021.		
(ii) An amount of Rs.1,052,642 which should have been received for 08 cases where the council had leased trading rights as at 31 December of the year under reviewed had not been collected.		
(iii) Although 08 shop rooms in Tambuttegama sub office premises were tendered and given to the shop owners from March 2021, yet Action had not been taken to collect the rent amounting to Rs.3,195,255 due from those shops.		

(c)	License Fees  Action had not been taken to recover an amount of Rs.1,075,508 as at 31 December in the year under review.	} Accepted. }	} Action should be taken according to the provisions of the Act and the agreements to recover the arrears. }
(d)	Other Revenue ----- Action had not been taken to recover an arrears of tender amounting to Rs.430,351 although it had been due from 03 years to 10 years.		

### 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 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) The responsible parties were not identified after carrying out investigations in accordance with Article 104 regarding the loss of Rs.373,585 to the council fund due to the accident of a vehicle belonging to the council at 31 January 2019.	Agreed.	Action should be taken according to conclusions of investigations of the Financial Regulation 104.
(b) The car used by the chairman of the council was involved in an accident on 15 April 2019, and the damage was estimated at Rs.3,400,520 as according to the report submitted by the insurance company. More than 02 years had passed since the accident, yet it had not been repaired and if the cost of the repair is not covered by the insurance, recommendations were given to collect 90 percent of the cost of the repair from the chairman of the council and the remaining 10 percent from the driver, yet it had not been recovered.	Agreed	Action should be taken to complete promptly the repairs related to the accident and obtain the insurance compensation or act according to the inspection report.

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
The construction of the Karagahwewa Compost Yard was contracted on 27 January 2012, under the allocation of an amount of Rs.5,760,735 received from the Central Environment Authority and the work was to be completed within a period of 06 months in 2012, however the work was not completed even as of December 31 of the year under review. The project was abandoned after spending an amount of Rs.1,077,389.	Action will be taken to implement according to the funds received by the council in the future.	This project should be completed as soon as possible.

### 3.3 Assets Management

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) 03 vehicles belonging to the council amounting to Rs.892,000 and a tractor and a milling machine of undisclosed value were lying unused for 02 - 15 years.	Accepted.	Action should be taken to auction these assets or repaired and reused.
(b) The Tambuttegama Satipola building complex built at a cost of Rs.9,500,000 in the year 2017, was not utilized and Tambuttegama Satipola covers were being constructed and held to block the road within the city centre on Wednesday.	Action will be taken to move the Satipola to the new construction site in the future.	Action should be taken to promptly use the new Satipola complex.
(c) The crematorium built by the Pradeshiya Sabha in Eppawala at the cost of Rs.5,421,890 area remained unused for more than 03 years due to lack of installation of furnaces.	The construction is scheduled to be completed within the next 02 months	Action should be taken to promptly install the furnaces and put into use.