

## **Thirappane Pradeshiya Sabha - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Thirappane 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 and cash flow statement for the year then ended, and notes to the financial statements, 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 Subsection 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 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 accompanying financial statements give a true and fair view of the financial position of the Thirappane Pradeshiya Sabha as at 31 December 2021, 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 Governments.

#### **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 Governments, 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 Scope of Audit 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:

- 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 the Pradeshiya Sabha's 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 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 Financial Statements

### 1.6.1 Accounting Deficiencies

<b>Audit observation</b>	<b>Comments of the Pradeshiya Sabha</b>	<b>Recommendation</b>
(a) The 04 bridges worth Rs.153,133,568 constructed by the Provincial Road Development Authority last year and transferred to the Pradeshiya Sabha, a water filter building worth Rs.1,344,000 and a road laid with paving stones constructed by the LDSP project worth Rs.253,168 had not been credited to the capital grant account and had been adjusted to the accumulated fund. As a result, the transfer value of government for non-recurrent expenditure and capital grant value recognized in surplus / deficit had been understated by Rs.15,372,312.	Action will be taken to rectify in the preparation of the financial statements for the year 2022.	Action should be taken to rectify.
(b) Although the expenditure of a project had not been certified and since the increase in lands, building and assets of the project had been accounted as Rs.17,545,953, the lands and buildings and capital grants had been overstated by that amount.	Action will be taken to rectify in the preparation of the financial statements for the year 2022.	Action should be taken to rectify.
(c) Even though it had been entered in to a contract for the construction of an agricultural products shop under the LDSP project and it had not been certified that any work had been carried out, the contractual value had been accounted as creditors and debtors. Therefore, creditors had been overstated by Rs.17,500,000 and debtors had been overstated by Rs.6,324,303.	Action will be taken to rectify in the preparation of the financial statements for the year 2022.	Action should be taken to rectify.

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| (d) | Since the total provision had been accounted instead of accounting the certified works of 04 projects capitalized under lands and buildings in the year under review, the lands and building value and capital grants value had increased by Rs. 6,164,136. | Action will be taken to rectify in the preparation of the financial statements for the year 2022. | Action should be taken to rectify. |
| (e) | A photocopier costed at Rs.20,000 sold during the year under review had not been disclosed as taking off in the Note No.16 and it had deducted from the additions of the year.  | Action will be taken to rectify in the preparation of the financial statements for the year 2022. | Action should be taken to rectify. |

## 1.6.2 Unreconciled Control Accounts and Reports

### Audit observation

There had been a difference of Rs. 2,712,303 between the values of 03 items and the value mentioned in the schedules according to Note No. 16 related to the statement of assets and liabilities of the year under review.

### Comments of the Pradeshiya Sabha

Action will be taken to rectify it by the financial statements prepared in the future.

### Recommendation

Action should be taken to rectify.

## 2. Financial review

### 2.1 Financial Results

According to the financial statements presented, the recurrent expenditure over the revenue of the Pradeshiya Sabha for the year ended 31 December 2021 had been Rs. 13,771,043 and correspondingly, recurrent expenditure over the revenue of the previous year had been Rs. 8,192,258.

## 2.2 Revenue Administration

### 2.2.1 Performance in the collection of Revenue

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) <b>Rates and Taxes</b>	Action will be taken to recover.	Action must be taken to recover.
Action had not been taken to collect the assessment and garbage tax revenue amounting to Rs.564,603 as at 31 December of the year under review.		
(b) <b>Rents</b> -----		
Action had not been taken to collect the rental income of Rs.405,245 even by 31 December of the year under review.		
(c) <b>Licence Fees</b> -----	The Pradeshiya Sabha does not have sufficient information about the institutions, from which the revenue should be collected.	Before the start of the year, a survey should be carried out in relation to the project and billed.
The estimated income of Rs.1,700,000 receivable from Ulgalla Hotel, which had not been estimated accurately had been included in the revenue collected from licence fee amounting to Rs.1,766,040 as at 31 December of the year under review, and action had not been taken to collect the said revenue arrears.		

## 3. Operational review

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.

### 3.1 Management Inefficiencies

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Even though the Pradeshiya Sabha had received a sum of Rs.50,000 for the Uttimaduwa Kuchchivalikkam development project on 05 June 2018, which had been proposed to be implemented in the year 2017,	Action will be taken to implement or redirect the project.	The Management should take action to duly complete the project.

the project had not been implemented and the value had been stated as creditors in the statement of assets and liabilities in the year under review.

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| (b) | The Pradeshiya Sabha had not taken action to pay the audit fees payable for the years 2018, 2019 and 2020 amounting to Rs. 369,200 even during the year 2021.                                       | I will pay as soon as I receive the money.                               | Action should be taken to pay the amount. |
| (c) | Six (06) account balances amounting to Rs. 285,874 as at 31 December of the year under review and had been prevailed in the financial statements for more than 5 - 11 years had not been recovered. | It has not been possible to settle as there is no evidence to confirm.   | Actions should be taken to settle.        |
| (d) | Stamp duty amounting to Rs. 128,050 collected by the Pradeshiya Sabha during a period of 02 years had been retained by the Pradeshiya Sabha without remitting to the Inland Revenue Department.     | I will take action to remit the amount to the Inland Revenue Department. | Arrangements should be made to remit.     |

### 3.2 Idle or underutilized property, plant and equipment

Audit observation	Comments of the Pradeshiya Sabha	Recommendation
(a) Four (04) vehicles and equipment had been inoperative for more than 06 years as at 31 December in the year under review and action had not been taken to dispose of those vehicles in accordance with the Public Finance Circular No. 02/2015 dated 10 July 2015.	Action will be taken to dispose of in the future.	Action should be taken in compliance with the Circular.
(b) Thirty-three (33) items of goods received by the Pradeshiya Sabha on 29 December 2018 for the construction of a day care centre had been kept in the warehouse without being used for the related work.	It has not been possible to start the day care centre due to the prevailing economic encumbrances.	} Action should be taken to utilize.
(c) Equipment of Rice Processing Centre worth Rs. 640,300 received from the North Central Provincial Council in the year 2010 had been retained in the warehouse without utilizing.	It has not been possible to auction due to the objections of the General Council.	