

Thambalagamuwa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thambalagamuwa Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of Balance sheet as at 31 December 2022, Income and Expenditure Account, Cash Flow Statement for the year and 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 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 financial statements give a true and fair view of the financial position of the Thambalagamuwa Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

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

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.

1.1 Audit Scope (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

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

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) A value of 02 printers purchased for Rs.143,000 in the year under review had been accounted for as recurrent expenditure.	It will be corrected in the financial statements of the year 2023.	Accounts should be corrected.
(b) As on December 31 of the year under review, the interest payable to the Local Credit Development Fund was understated by Rs.180,000.	That will be corrected in the final account of the year 2023.	The accurate values of Loan and interest should be accounted for.
(c) Rs.144,750 received for the solid waste management and organic fertilizer production of Sabha under the capacity building project of the local government bodies was stated as an expense and payable amount without being spent for the specified purposes in the year under review.	The project could not be implemented due to the situation in the country.	Aid should be used for relevant purposes.
(d) A total of Rs.718,234 worth of goods donated by the Local Government Department and Eastern Chief Minister's Offices in the year under review were not accounted for.	Now, It has been accounted for.	It should be accounted for in the relevant year.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Land and buildings worth Rs.92,571,415 could not be satisfactorily verified in the audit due to non-availability of land title deeds and fixed assets registry.	Requests have been submitted for valuation of land and buildings.	Documents confirming ownership of land and buildings should be obtained.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc...

Below are the instances where laws, rules, regulations and management decisions were not complied with.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a) Pradeshiya Sabha Act No. 15 of 1987			
(i) Section 126 (vii)(f)	No by-laws were enacted to collect fees for Advertising boards erected within the area of authority of the Pradeshiya Sabha	That adequate action is expected to be taken by the Revenue Inspectors to recover the fees in the year 2022.	By-laws should be enacted as per the provisions of the Act.
(ii) Section 182	The arrears of butcher's shop rent of Rs.754,423 had been written off without the Governor's approval.	The approval of the Governor has been sought.	Prior approval Should be obtained before writing off the arrears.
(b) Financial Regulations 1646 of the Democratic Socialist Republic of Sri Lanka	Daily running charts for 16 vehicles which were in running condition owned by the Sabha were not submitted for audit.	In the future, it will be submitted for audit in due course.	It should be complied with the provisions of the Financial Regulations.

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 2022 amounted to Rs. 2,317,203 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 8,461,631 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the sabha relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	<u>2022</u>				<u>2021</u>			
	Estimate d Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Rates and Taxes								
Rent	13,150	5,804	5,450	4,028	14,500	--	10,230	3,674
License Fees	1,200	704	710	145	1,503	--	963	151
Other revenue	<u>1,722</u>	<u>995</u>	<u>995</u>	<u>-----</u>	<u>2,341</u>	--	<u>522</u>	<u>-----</u>
	<u>16,072</u>	<u>7,503</u>	<u>7,155</u>	<u>4,173</u>	<u>18,344</u>	--	<u>11,715</u>	<u>3,825</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rates and Taxes</p> <p>As per 134 (1) of the Pradeshiya Sabha Act No. 15 of 1987, no action have been taken to designate the developed areas in the Pradeshiya Sabha area and levy assessment tax.</p>	<p>Preliminary work has been started to collect the assessment tax.</p>	<p>Necessary steps should be taken to recover assessment tax from developed areas.</p>
<p>(b) Rent</p> <p>The weekly fair rent, which was in arrears for more than 03 years, was Rs. 121,200.</p>	<p>The arrears will be paid immediately and legal action will be taken to recover the arrears.</p>	<p>Relevant action should be taken to recover the arrears of rent.</p>
<p>(c) Butcher duty</p> <p>From the year 2017 to December 31, 2022, the amount receivables as rent from Butcher shop was Rs.3,906,962.</p>	<p>In the future, legal action will be taken to collect the arrears.</p>	<p>Relevant action should be taken to collect arrears of rent.</p>
<p>(d) Stamp Fee</p> <p>The stamp duty due from the Chief Secretary of the Provincial</p>	<p>Steps have been taken to collect stamp duty for the period from</p>	<p>Stamp duty should be collected as per Pradeshiya</p>

Council and other authorities on December 31, 2022 was Rs.4,082,928. Due to the failure to collect the stamp duty on the due date, the amount to be charged for the period before the year 2020 had been credited to the revenue of the Provincial Council.

2018 to 2021.

Sabha Finance and Administration Rule 81.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) As of the date of this report, the Sabha had not taken steps to settle the loan of Rs.18,341,778 obtained for the construction of office buildings in the year 2012 from the Local Credit Development Fund and the interest of Rs.4,476,269 due on December 31, 2021.	The loans taken from the Local Credit Development Fund and the interest thereon are not paid because the income of the Sabha is very low. However, steps will be taken to settle the loan.	Relevant steps should be taken to pay the loan and interest.
(b) A provision of Rs.1,000,000 had been released for the production of organic fertilizers in the year 2021, but Rs.803,520 had been spent to set up a work site for it on a land that does not belong to the Sabha. For this, an organic fertilizer production machine costing Rs.1,500,000 was purchased during the year under review and kept in the Pradeshiya Sabha premises without any use.	Relevant measures are taken to be used.	Relevant action should be taken to utilize the assets.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Sabha	Recommendation
The public market building of Tambalagamuwa Pradeshiya Sabha, which was built at a cost of Rs. 5,978,814, was not rented out and no steps were taken to generate income.	Due to the economic crisis in the country, it was not possible to get income from renting the building through continuous bidding and in the year 2023, bids were invited for the purpose of earning income, but no one came forward to acquire the said market building.	Relevant measures should be taken to generate income from assets.

3.3 Management of Vehicle System

Audit Observation	Comments of the Sabha	Recommendation
(a) 04 vehicles belonging to the Pradeshiya Sabha were in unusable condition and no steps were taken to repair them.	Out of 07 vehicles that need to be repaired belonging to our Sabha, three vehicles are currently put to use. The rest of the vehicle repairs will be put into operation in the near future considering the financial situation of the Sabha.	Relevant measures should be taken to use.
(b) In the year under review, the ownership of 02 vehicles received as donations to the Pradeshiya Sabha were not taken over.	That the transfer of ownership of these vehicles to the name of the Sabha is currently being taken.	Relevant action should be taken to transfer it to the name of the Sabha.
(c) There were 23 vehicles in the Pradeshiya Sabha, but the values of 08 vehicles were not assessed and accounted for.	All vehicles currently in use will be assessed in the coming days.	Value should be assessed and accounted for.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As there is variance between budgeted and actual expenditures ranging from 10 percent to 58 percent, the budget was not used as an effective management control tool.	That this situation has arisen as a result of the increase in prices due to the prevailing economic crisis last year and the problems in revenue collection.	Relevant measures should be taken to prepare the budget rationally.

4.2 Environmental Issues

Audit Observation	Comments of the Sabha	Recommendation
Due to dumping of approximately 30 tons of garbage collected by the Sabha for one month and the waste of animals slaughtered in the slaughterhouse in the forest area of A6 - Kandy Road, Sinhakanda, without being unclassified; Elephants and other animals were affected and the environment was also polluted.	As soon as the Sabha receives the collected garbage, it is sorted and disposed of and it can be used in such a way that it does not pollute the environment and does not affect other animals.	Relevant measures should be taken with the aim of protecting the environment.