

Thanamalwila Pradeshiya Sabha - 2023

1. **Financial Statements**

1.1 **Disclaimer of Opinion**

The audit of the financial statements of the Thanamalwila Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial operations, statement of changes in net assets, 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 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 report to parliament appear in this report.

I do not express an opinion on the financial statements of the Thanamalwila Pradeshiya Sabha. Because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 **Basis for disclaimer of opinion**

I expressed Disclaimer of opinion on the matters described in paragraph 1.6 of this report.

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.

1.4 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 has not been included 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 Policies

Audit Observation	Comments of the Sabha	Recommendation
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<p>In preparing the financial statements for the year under review, the accounting policy followed by the Sabha for inventory valuation, revenue recognition and accounting for work in progress was not disclosed.</p>	<p>That, accounting policies will be disclosed in the preparation of financial statements in the year 2024.</p>	<p>Accounting policies relevant to the preparation of financial statements should be disclosed.</p>

1.6.2 Accounting Deficiencies

Audit Observation

Comments of the Sabha

Recommendation

(a) In relation to 02 industries whose work was completed in the year under review and in the previous year, Rs.12,595,688 was not accounted under land and buildings.	This amount will be accounted for in future.	Value of industry of which work completed should be capitalized.
(b) Danduma public market of Rs.15,000,000, Nelum Weva water project of Rs.200,000 and Anandagama water project of Rs.800,000 included in the fixed assets register had not been accounted under land and buildings.	That, the correction will be made in the preparation of the financial statements of the year 2024.	All assets owned by the Sabha should be accounted for.
(c) Although the contribution from income to capital application as on December 31 of the year under review was Rs.1,834,191,813 , a difference of Rs.11,064,482 was observed between the balances since it was Rs.1,845,256,295 under property plant and equipment.	In the future these account balances and its schedule balances will be reconciled and the difference between balances will be balanced off.	Financial statements should be prepared correctly.
(d) In the year under review, the value of the library books purchased had been understated by Rs.380,989 in the library books account.	This mistake will be corrected in the year 2024.	Assets owned by the Sabha should be accurately accounted for.
(e) In the year under review, the court fine income had been overstated by Rs.147,000 in the financial statements.	This mistake will be corrected in the year 2024..	Financial statements should be prepared correctly.

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| (f) In the year under review, general administrative other income of Rs.886,141 had been overstated in the financial statements. | This mistake will be corrected in the year 2024. | Financial statements should be prepared correctly. |
| (g) Healthcare license fees of Rs.807,294 were understated in the financial statements. | This mistake will be corrected in the year 2024. | Financial statements should be prepared correctly. |
| (h) Physical services and other incomes of Rs.372,000 were understated in the financial statements in the year under review. | This mistake will be corrected in the year 2024. | Financial statements should be prepared correctly. |
| (i) Physical service capital assistance amounting to Rs.59,269,425 was overstated in the financial statements. | That the difference has been resulted by not being able to account for a balance of Rs.59,269,425 under capital assistance. | Financial statements should be prepared correctly. |
| (j) In the reviewed year, the cost of equipment related to the welfare service, the cost incurred for the improvement of land had been overstated by Rs.59,565,837 in the financial statements. | That will be corrected in the preparation of financial statements for the year 2024. | Financial statements should be prepared correctly. |
| (k) Rs.34,222,115 received under the Regional Development Assistance Project and the expenses incurred thereof were not included in the statement of financial operations. | That will be corrected in the preparation of financial statements for the year 2024. | Financial statements should be prepared correctly. |
| (l) In the statement of financial operations as on December 31 of the year under review, the surplus was Rs.25,879,718, but it was understated by Rs.10,109,731 since it was shown as Rs.15,769,987 in the statement of change in net assets, | That will be corrected in the preparation of financial statements for the year 2024. | Financial statements should be prepared correctly. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
There was a difference of Rs. 50,366,865 between the balances shown in the financial statements and the schedules presented in relation to 06 accounting subjects.	That the related documents and schedules will be checked further and this mistake will be corrected immediately.	Documents and schedules should be updated and any differences should be corrected.

1.6.4 Documentary Evidences not made available for Audit.

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
Due to non-submission of evidence such as schedules, fixed asset register, valuation reports and title deeds in respect of 08 asset subjects and 02 liability subjects with a total value of Rs.1,717,502,186, it was not possible to verify satisfactorily during the audit.	Action will be taken to update fixed assets register, other documents and schedules.	The balances shown in the financial statements should be supported by written evidence.

1.7 Non- Compliances

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

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

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Comments of the Sabha -----	Recommendation -----
(a) Pradeshiya Sabha Act No. 15 of 1987 (i) Section 19 (xii)	Although 03 shops at Tanamalvila bus station were leased for a period of 30 years from the year 2007, the approval of the concerned minister was not obtained.	The officer-in-charge was instructed to take necessary action in this regard.	The provisions of the Act should be followed.

(ii) Section 24(1)	According to the road inventory maintained by the Sabha, 256 roads belonging to the Sabha were not gazetted.	It will be published in the road gazette as soon as possible.	The provisions of the Act should be followed.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka FR 571	21 deposit balances worth Rs. 1,708,680 which exceeded 02 years were not disposed.	The balances will be looked into and dealt with according to the financial regulations in the future.	It should be complied with financial regulations
(c) Section 83(1) of the Urban Development Authority Act No. 41 of 1978;	80 building plans that were approved from the year 2016 to the year 2020, had not been inspected and certificates of conformity had been issued.	Necessary Actions will be taken to formalize regulatory affairs further more.	Building construction activities within the Sabha area of authority should be regulated.
(d) Circular dated 17th August, 2010 of the Secretary, Ministry of Power and Energy.	A census of the street lights maintained by the Sabha had not been implemented and no contract had been entered into with the Ceylon Electricity Board regarding the lighting of the street lights.	After inquire the Local Government Commissioner In this regard, necessary further action will be taken	An agreement should be entered upon as per the 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 of the current year amounted to Rs. 23,211,085 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 3,360,922 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 Secretary of 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.

		2023				2022			
Source of Revenue		Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
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		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	60,000	140,000	140,000	-	50,000	162,500	162,500	-
(ii)	Rent	13,420,720	1,959,950	1,538,178	421,772	13,190,170	1,772,700	8,102,426	(6,329,726)
(iii)	License Fees	1,051,580	1,051,580	1,679,586	(628,006)	1,235,465	1,235,465	1,390,595	(155,130)
(iv)	Other revenue	87,711,407	87,711,407	10,867,803	76,843,604	58,270,788	58,270,789	2,274,129	55,996,660
	Total	102,243,707	90,862,937	14,225,567	76,637,370	72,746,423	61,441,454	11,929,650	49,511,804

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation

Rates and Taxes

Rs.12,079,268 due for the lease of the properties owned by the sabha in relation to previous years and Rs.199,324 due for the lease of 06 properties in the reviewed year had not been recovered as of December 31.

Comments of the Management

Actions are being taken to collect arrears.

Recommendation

Arrears should be recovered immediately.

Rent

Out of the Rs.2,077,350 billed shop rent income in the year under review, Rs.540,250 or 26 percent remained outstanding.

Steps are being taken to collect arrears.

Revenue in arrears should be recovered immediately.

Other Revenue

(a) The outstanding water charges of Rs.1,593,342 due from 537 water consumers for the period 2015 – 2023 had not been collected by December 31 of the year under review.

The instructions have been given to the Revenue Inspectors for recovery of dues.

Revenue in arrears should be recovered immediately.

(b) Arrears machinery rental income of Rs.2,996,970 due for rental of vehicles and machinery for the period 2014 – 2023 had not been recovered as on 31st December of the year under review.

The measures have been taken to recover the relevant arrears.

Revenue in arrears should be recovered immediately.

(c) Court fines of Rs.9,793,006 and stamp duty of Rs.2,484,655 due as on December 31 of the year under review were not collected..

Written notices have been given to the relevant institutions and action will be taken to recover the outstanding fees immediately.

Revenue in arrears should be recovered immediately.

2.3 Surcharges**Audit Observation**

According to the provisions of the Pradeshiya Sabha Act, an amount of Rs.52,608 was to be recovered as on December 31 of the year under review regarding a surcharge imposed by me against the responsible persons.

Comments of the Management

The relevant money is being charged in instalments.

Recommendation

Surcharges should be recovered immediately.

3. Operational Review

3.1 Fulfillment of functions assigned by the Act

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

Audit Observation -----	Comments of the Management -----	Recommendation -----
The quality of the water provided by the Anandagama and Nelum Lake water projects, which were started in 2015, had not been tested to check whether if it was suitable for drinking. Accordingly no attention was paid to public health as per the Section 78 of the Pradeshiya Sabha Act No. 15 of 1987,	That, necessary measures are taken to carry out quality tests for water.	Tests should be conducted on the quality of drinking water.

3.2 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Three (03) shops were constructed without permission, at the location of Suriyaara shops belonging to the Pradeshiya Sabha and no further action was taken regarding these unauthorized constructions.	In this regard, it was agreed to negotiate with the shop owners and enter into an agreement to hand over these shops to the Sabha on a lease basis.	Construction activities in the Sabha area of authority should be regulated.
(b) Value of 14 lands and 94 cemeteries owned by the Sabha were not assessed and accounted for.	By now, fees have been paid for surveying some lands and burial grounds and requests have been made for acquisition of other lands.	The value of the lands owned by the Sabha should be assessed and accounted for.

(c) The value of 04 office equipment and 02 water tanks received in the year 2023 was not assessed and accounted for.

Those values will be accounted for in the year 2024.

Assets owned by the sabha should be assessed and accounted for.

3.3 Operational Inefficiencies

Audit Observation

Comments of the Management

Recommendation

(a) According to Section 134 of the Pradeshiya Sabha Act No. 15 of 1987, the developed areas were not identified considering the level of development in the area of the Sabha, the assessment tax was not declared and the fees were not collected.

The necessary activities for this regards are currently being carried out.

In respect of developed areas, assessment tax should be declared and charges should be levied.

(b) when leasing out 42 shop plots located in 11 locations owned by the Sabha on a three-year lease basis In the year 2023, were not assessed by professional valuer to determine the minimum bid amount.

In the future, it will be formally assessed and leased.

A formal assessment should be conducted regarding the value of the shops.

(c) In determining the monthly rent amount related to 61 shops located in 06 places belonging to the Sabha, the assistance of professional valuers was not obtained.

In the future, it will be formally assessed and leased.

A formal assessment should be conducted regarding the value of the shops.

(d) According to the assessment reports of the year 2014, monthly rents were being charged for shops from No. 01 to No. 07 at Suriyaara and no arrangements were made to assess the rents of the shops.

In the future, it will be formally assessed and leased.

A formal assessment should be conducted regarding the value of the shops.

(e) On February 06, 2023, 42 shop plots owned by the Sabha were leased through tenders, but no agreement was reached regarding the lease of 09 shop plots. Also, the initial amount of Rs. 3,173,000 due for this purpose had not been recovered by February 05, 2024.	The arrears are collected promptly.	The relevant money should be recovered properly.
(f) Although the validity period of the lease agreements of 31 shops leased by the Pradeshiya Sabha had been elapsed from 1 year to 09 years, the lease agreements had not been renewed.	According to the new assessment in this year, all the shops are to be contracted.	In case of lease of property owned by the Sabha, the matter should be done properly.

3.4 Transactions of Contentious Nature

Audit Observation -----	Comments of the Management -----	Recommendation -----
Shops No. 05 and No. 06 nearby Danduma weekly fair belonging to Thanamalwila Pradeshiya Sabha were leased in the year 2019 and there, the documents related to the lease of the shops stated that 50 percent of the procurement bid amount of Rs.1,500,200 was paid as the initial amount, but the amount had not been credited to the sabha fund.	It is confirmed during the inspection that the money in question has not been credited to the Sabha fund, and the local government commissioner has been informed to take further action in this regard.	The relevant transaction should be investigated and the responsible parties should be identified and recovered.

3.5 Assets Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Legal ownership of 03 vehicles used by the Sabha was not taken over to the Pradeshiya Sabha.	The legal ownership of the vehicles will be taken over as soon as possible.	Legal ownership of vehicles owned by the Sabha should be taken over.

<p>(b) Revenue licenses were not obtained for 22 vehicles and machinery owned by Thanamalvila Pradeshiya Sabha, and registration certificates were not obtained for 07 vehicles. Regarding 10 vehicles, revenue licenses were not obtained for a period of 01 to 22 years.</p>	<p>Action will be taken to resolve this problem quickly.</p>	<p>Revenue license should be obtained for vehicles and machinery within the stipulated time.</p>
<p>(c) 08 vehicles and machineries owned by the Padeshiya Sabha have been inactive for a period of 01 to 18 years, and the respective vehicles have not been repaired and used or disposed of.</p>	<p>The necessary further steps in respect of these vehicles will be taken expeditiously.</p>	<p>Inactive vehicles should be repaired and put to use or disposed of.</p>
<p>(d) The building of solid waste management unit located in Sevanagala, the hauler and motor and the banana cutting machine remained idle.</p>	<p>The other prevailing practical problems will be resolved and arrangement will be made to produce fertilizers quickly.</p>	<p>The assets owned by the Sabha should be used with maximum efficiency.</p>
<p>(e) 03 stalls located at Nugegalaya weekly fair land, built in the year 2019 at a cost of Rs.1,967,506 from the Sabha fund, remained idle even at the end of the year 2023.</p>	<p>Even though these shops were tendered on several occasions, they could not be leased out due to non-appearance by applicants.</p>	<p>The assets of the Sabha should be utilized efficiently.</p>
<p>(f) The engine number of the cab owned by the Sabha is 4D56DE9507. But the engine number on the registration certificate was 4D56JN0914.</p>	<p>Since the file does not contain the information that a new engine was installed, a request has been made to the Commissioner of Local Government to conduct a formal investigation on this matter.</p>	<p>Attention should be paid to the use and safety of assets owned by the Sabha.</p>
<p>(g) The Sabha did not have the registration certificates for 02 tractors belonging to the Sabha.</p>	<p>That, there is no record on how the vehicle was received by the Sabha.</p>	<p>The legal ownership of the assets owned by the Sabha should be confirmed.</p>

3.6 Procurement Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
According to paragraph 6.2.2 of Circular No. 08 of the National Procurement Agency dated January 25, 2006, at least 21 days should be given in the case of national competitive bids, but only 14 days were given for the submission of bids related to the tender property lease for the year 2023.	Action will be taken to minimize such problems in future	Procurement should be conducted properly.

3.7 Contract Administration

Audit Observation -----	Comments of the Management -----	Recommendation -----
Approved societies can give advance subject to a maximum of Rs.200,000 if they are satisfied about their ability to complete the work as per the National Procurement Guidelines Code, 2006. However, an advance of Rs. 399,247 was given to a society for the construction of Thalpathgama Community hall. As on February 02, 2024, the advance was not settled.	Action will be taken to settle that amount in future	Construction work should be formalized and transparent.

3.8 Human Resources Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) As on December 31 of the year under review, there were vacancies of 06 employees in relation to 04 positions and surplus of 02 officers in relation to 02 positions.	Although they had been informed, the vacancies were not filled as the new recruitments were stopped and the management services department had been informed through the Department of Local authority.	Actions should be taken to fill the vacancies and approve the posts of surplus staff.

(b) Loans of Rs. 298,279 which had been given to 09 employees and remained unpaid for more than 1 year, had not been recovered even at the end of the year under review.

The steps will be taken to resolve this issue immediately.

Employee loan balances should be recovered immediately.

4. Accountability and Good Governance

4.1 Audit and Management Committee

Audit Observation

Comments of the Management

Recommendation

In accordance with Section 41(1) of the National Audit Act No. 19 of 2018 and the Internal Audit Guidelines Circular of the Department of Management Audit No. DMA/01-2019 dated 12 January 2019, no Audit and Management Committees were held for the year under review.

That, audit management committees are expected to be held as scheduled in the future.

Arrangements should be made to hold audit management committees according to the relevant acts and circulars.

4.2 Budgetary Control

Audit Observation

Comments of the Management

Recommendation

According to the budget prepared by the Pradeshiya Sabha for the year under review, when comparing the estimated income and expenses with the actual income and expenses of the year, there were variations from 11 percent to 133 percent in 07 income subjects and 14 percent to 99 percent in 06 expenditure subjects. Thus, it was observed that the budget was not used as an effective control tool.

It is expected that the preparation of the budget will be carried out in a realistic manner in the future.

Annual budget estimates should be prepared more realistically and action should be taken for achieving those targets.

4.3 Environmental Issues

Audit Observation	Comments of the Management	Recommendation
----- The Pradeshiya Sabha had not obtained an environmental protection license for the solid waste management unit runs in Sevanagala, and although 13 years had passed since the establishment of this unit, no efforts had been made to produce organic fertilizers.	----- It is expected to solve the main problems related to solid waste management and produce organic fertilizers.	----- Waste management activities should be formalized.