

Thalawa Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thalawa Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net assets/ equity, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 Thalawa Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

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 Sri Lanka Public Sector Accounting Standard for Local 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 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 Council	Recommendation
(a) The fixed deposit interest received in cash relating to the year under review was Rs.3,251,873 but it was shown as Rs.3,317,248 under investing activities in the cash flow statement.	The reason for the difference is between interest received and interest receivable.	Only cash receipts should be considered as cash inflows.
(b) Property, plant and equipment amounting to Rs.15,029,343 as on 31 December 2022 had not been accounted for as capital grants.	Accept.	Capital grants and property, plant and equipment should be identified correctly.
(c) The value of 24 box shops amounted to Rs.4,617,600 which was completed in the year under review, was not accounted for.	- Do -	- Do - .
(d) A sum of Rs.11,351,366 which had been paid for the construction of Eppawala crematorium as on 31 December of the year under review, was not accounted for.	- Do -	Capital expenditure should be identified correctly.
(e) Payments of Rs.30,872,032 made for the construction of a pre-school and Rs.1,033,775 for construction of tube well under the LDSP project had been accounted for as building repair costs instead of being accounted for as property, plant and equipment.	- Do -	- Do -
(f) The construction of a boundary wall costing Rs.1,922,679 under PT-01 provision of LDSP project, was not accounted for as property, plant and equipment.	- Do -	- Do -

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| (g) | Unrecognized capital grant balance amount of Rs.29,653,915 in the surplus/deficit as on 01 January of the year under review was not shown in the statement of change in net assets/equity. | - Do - | Capital grants should be properly accounted for. |
| (h) | A sum of Rs.2,984,588 payable to the Central Environmental Authority due to the non-performance of the work at the Karagahwewa Garbage Yard was not shown as a current liability. | - Do -. | Current liabilities should be properly accounted for. |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) According to the court fine register, the court fine income receivable as at 31 December of the year under review was Rs.19,907,494 but according to the arrears court fine account it was Rs.22,280,385 therefore a difference of Rs.2,572,891 was observed.	Accept.	Schedules should be compared with corresponding records.
(b) According to the stamp duty register, the stamp duty income receivable on 31 December of the reviewed year was Rs.6,954,231 but according to the outstanding stamp duty account it was shown as Rs.9,291,981 and a difference of Rs.2,337,750 was observed.	- Do -	- Do -
(c) Although the increase in cash and cash equivalents is amounted to Rs.20,669,357 according to changes in cash and cash equivalents at the beginning and end of the year, in the cash flow statement for the year ending 31 December 2022 it was shown as Rs.30,706,675 therefore a difference of Rs.10,037,318 was observed.	- Do -	- Do -

- (d) According to the statement of assets and liabilities as on 31 December 2022, the net asset value was Rs.539,478,570 and according to the statement of change in equity it was Rs.539,526,304 therefore a difference of Rs.47,734 was observed. - Do - - Do -

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) Although it was stated in the statement of assets and liabilities that there was a stock value of Rs.2,898,173 as on 31 December of the year under review, it is not possible to confirm the correctness of the stock balance due to the fact that the stores ledger accounts were not properly balanced, the issue dates were not given sequentially and there were no stock verification reports.	Accept.	Confirmations must be submitted.
(b) The debtor and creditor registers were not maintained in the year under review year and the details of the loan balance of Rs.21,722,252 added to the debtor's opening balance in the previous year and the amount of Rs.35,519,348 added to the creditor's balance were not submitted to the audit.	- Do -	- Do -
(c) The details of the opening balance of Rs.3,351,606 in the Industry Advance Account of the year under review were not presented and the details of the advance of Rs.5,251,834 given for the Tambuttegama pre-school built under the LDSP project in the year under review and its settlement in	- Do -	- Do -

the ledger account were not presented.

- (d) The details of culverts and roads constructed from 2020 to the year under review were not shown under property, plant and equipment in the statement of assets and liabilities of the year under review. - Do - - Do -

1.7 Non- Compliances

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

The instances related to non-compliances with Laws, Rules, Regulations and Management decisions are shown below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Financial Regulation 571	Two deposit balances of Rs.76,975 had not been settled.	Accept.	Action should be taken as per Financial Regulations.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.11,591,445 as against the excess of recurrent revenue over expenditure amounted to Rs.14,234,885 in the preceding year.

2.2 Revenue Administration

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

Information 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	Estimated Revenue	2022			2021			Arrears as at 31 December
		Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	13,100,493	14,183,776	14,662,751	22,331,932	13,206,476	14,561,565	9,636,543	22,810,907
(ii) Rent	21,132,744	13,622,075	14,677,552	5,450,457	21,734,898	18,270,589	12,681,752	6,505,934
(iii) Licence Fee	4,221,400	4,230,756	4,657,114	649,150	4,503,150	5,216,434	4,192,326	1,075,508
(iv) Other Revenue	25,743,850	28,774,180	19,138,164	17,894,350	19,082,253	19,260,705	37,938,419	8,258,334
	64,198,487	60,810,787	53,135,581	46,325,889	58,526,777	57,309,293	64,449,040	38,650,683

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) Rates and Taxes for the year 2022 had been assessed based on the year 2009 and a sum of Rs.19,919,623 had been in arrears as at 31 December 2022.	Accept.	Action should be taken to recover.
(ii) Action had not been taken to recover the outstanding business tax of Rs.606,000 and industrial tax of Rs.26,250 as at 31 December 2022.	- Do -	- Do -
(iii) Arrangements had not been made to collect the arrears of Rs.780,059 as of 31 December of the year under review, due from 04 water projects belonging to the council.	Necessary Action will be taken to recover the arrears of water charges.	- Do -

(b) **Rent**

Shop rent of Rs.3,818,030 and lease income of Rs.3,311,279 was in arrear as on 31 December 2022.

Not commented.

- Do -

(c) **Other Revenue**

Action had not been taken to recover the court fines amounting to Rs.22,280,385 and stamp duty amounting to Rs.9,291,981 due on 31 December of the year under review.

Action will be taken to recover.

Action should be taken to obtain.

3. Operational Review**3.1 Performance 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 Council under Section 3 of the Pradeshiya Sabha Act are shown below.

3.1.1 Abandoned Activities**Audit Observation**

An allocation of Rs.5,760,735 was received from the Central Environment Authority in 2012 for the construction of the Karagahawewa Compost Yard and accordingly, the contract was signed on 27 January 2012 and the work should have been completed within a period of 06 months. This project had been awarded contracts under 04 phases and the information related to the first phases was not submitted to the audit and the project was abandoned after an expenditure of Rs.1,077,389 was incurred for the other phases.

Comments of the Council

I will check the Karagahawewa compost yard and start a suitable project.

Recommendation

Necessary measures should be taken to protect and utilize the assets in this place.

3.1.2 Maintaining Slaughterhouses

Audit Observation	Comments of the Council	Recommendation
(a) Two beef shops and 03 pork shops in the areas of Tambuttegama and Eppawala had been leased annually, but the council had not provided slaughterhouse facilities for those shops.	Action will be taken in the future.	Action should be taken as per Butcher's Ordinance.
(b) According to Section 09 of By-laws 32 of By-laws Gazette Notice dated 23 August 1988, the council shall charge a fee of not more than Rs.10 for using the logo of the council for every 01 kg of meat inspected in the council's area, action had not been taken to do so and to obtain the details of the slaughtered animals in the relevant format.	Action will be taken to recover in the future.	General standard by-laws should be followed.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The PF-7345 cab used by the chairman of the council was involved in an accident on 15 April 2019 and according to the report submitted by the agency (United Motors), the loss was estimated at Rs.3,400,520. The agency (United Motors) had informed the council that by 30 November 2022, the cost of repairing this vehicle would increase to Rs.4,458,993. More than 03 years had passed since the accident, but the car had not been repaired and the insurance compensation had not been received.	After recovering 02 instalments, all money to be collected from the driver is completed. I will take legal action to recover from the chairman.	Regular arrangements should be made to recover from the Chairman.
(b) Although recommendations were given to recover 90 per cent or Rs.4,013,094 of the estimated value related to the above accident, from the chairman of the Pradeshiya Sabha and the remaining 10 per cent or Rs.445,899 from the driver. But the driver had paid only Rs.150,000 and the chairman had not paid any amount by 15 November 2022.	I will take necessary action after receiving the preliminary investigation reports.	Legal arrangements should be made to recover from the chairman.

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| (c) | Necessary action was not taken regarding non-submission of Rs.667,075 to the Pradeshiya Sabha which was collected in the field in the year 2021 by the Revenue Inspector who died after working in Eppawala sub-office. | Not commented | Necessary actions should be taken to recover. |
| (d) | The surcharge of Rs.1,826,330 due from a former secretary was not disclosed in the notes to the financial statements relating to the advances paid to the contractors for the project of carpeting the Thalawa station road which was proposed to be implemented in the year 2020 under the LDSP project, was abandoned and the bond was not cashed before its expiry. | - Do - | - Do - |

3.3 Operational Inefficiencies

Audit Observation

Action had not been taken to obtain environmental permits by 130 businesses whose environmental permits had expired.

Comments of the Council

Action will be taken to implement a system for granting environmental permits.

Recommendation

The relevant institutions should be informed to get environmental permits by carrying out a field inspection.

3.4 Idle or Under Utilized Property, Plant and Equipment

Audit Observation

Tambuttegama weekly market building, which was built at a cost of Rs.9,500,000 in the year 2017, was not utilized even in the year under review and the weekly market was being held on Wednesdays by constructing covers to block the road in centre of the Tambuttegama city.

Comments of the Council

Action will be taken to start weekly market from June 2023.

Recommendation

Necessary arrangements should be made to take the weekly market to the relevant place without delay.

3.5 Assets Management

Audit Observation

Action had not been taken to identify the persons responsible and to recover the loss by calculating the values of the 124 books that were found to be missing in the Eppawala library.

Comments of the Council

Action will be taken to conduct surveys and correct it.

Recommendation

Action should be taken to recover the loss.