

Thumpane Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thumpane Pradeshiya Sabha including the financial statements for the year ended 31st December 2020 comprising the balance sheet as at 31st December 2020, Income and Expenditure Account, Significant accounting policies and other explanatory information for the year then ended 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.

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 Thumpane Pradeshiya Sabha as at 31st December 2020, and of its financial performance for the year then ended in accordance Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the facts set out 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 Principles, 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 further:

- 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 whenever 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) The financial statements of Pradeshiya Sabha are consistent with the preceding year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No.19 of 2018.
- (b) The recommendations made by me during the preceding year as per the requirement mentioned in Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 are included in the financial statements submitted.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
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(a) No action had been taken to rectify the accounting deficiencies of 1.3.1 (b) pointed out in my report on financial statements for the previous year.	Action will be taken to correct that in the future.	This should be corrected in the preparation of financial statements.
(b) Stamp duty revenue of Rs.17,830,558 and Shop rent receivables and received in advance of Rs.541,000 had been overstated.	It will be corrected in the financial statements for the year 2021.	Income in arrears should be correctly identified.
(c) A land valued at Rs.100,000 had not been accounted for as an asset.		
(d) The building development cost of Rs.5,653,364 had not been capitalized .	It will be corrected in the financial statements for the year 2021.	Capital expenses should be correctly accounted for.
(e) The value of library books had been understated by Rs.1,174,748.		

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
It was observed a difference of Rs.6,052,258 in between the balances of 03 Account subjects as per the financial statement and as per the Source documents.	It is informed that action will be taken to correct.	Source documents should be correctly prepared.

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 31st December 2020 amounted to Rs.23,524,622 as compared with the excess of revenue over recurrent expenditure amounted to Rs.5,998,936 in the preceding year. This was mainly due to the increase in revenue from services, fines and warrant fees.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates		
Although, actions had been taken to collect revenue through mobile service programs and other initiatives, Rs.2,310,385 due at the end of the year under review had not been collected.	Although It was planned to collect revenue through property bans and mobile programs, Collections were weakened in the face of Corona epidemic.	Taxes in arrears should be recovered.
(b) Garbage tax, water charges and Rent		
Garbage tax, water charges and rent due at the end of the year under review of Rs.832,320, Rs.425,787 and Rs.545,967 respectively had not been collected and No action had been taken to renew the contracts of the 51 leased shops.	It is informed that action will be taken to recover the money and write off the false bills.	Taxes in arrears should be recovered.

(c) Court fines and stamp duty

The stamp duty due at the end of the year under review of Rs.769,524 had not been recovered.

Action will be taken to recover in the future.

Receivables should be recovered.

(d) Other income

Three wheelers' charges

Charges receivables for 447 registered Three wheelers of Rs.1,576,090 had not been collected.

It is informed that arrears will be recovered in the future.

Three wheelers' charges should be recovered.

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 Sabha Section 03 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation

Income debtor, industrial debtor and miscellaneous debtor balances of more than 5 years of Rs. 1,515,573 had not been recovered and Industrial Creditor Balance of Rs.733,912 which had been elapsed for more than 05 years had not been settled.

Comments of the Sabha

It is informed that the shortfall was due to the shortage of revenue inspectors and the corona epidemic.

Recommendation

Revenue receivables to Sabha should be collected.