

Thanamalwila Pradeshiya Sabha – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thanamalwila Pradeshiya Sabha including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, Statement of changes in net assets, Cash Flow Statement 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 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 Thanamalwila Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with 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 principle, 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
(a) In previous year, furniture and machinery were purchased at a cost of Rs.1,083,100 and the relevant expenditure was not capitalized and stated in the financial statements.	It has been informed that action will be taken to correct In preparing the final accounts for the year 2021.	Accounts should be prepared correctly.
(b) Rs.43,250 worth of stock in hand was included under the Property Plant and Equipment in the Statement of Financial Position prepared for 31 December of the year under review.	It has been informed that action will be taken to record in the correct accounts in preparing the final accounts for the year 2021.	Accounts should be prepared correctly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of 10,000,017 due to the value according to the financial statements related to an account subject was Rs.73,510,036 and according to the schedule, the value was Rs. 63,510,019.	It has been informed that action will be taken to rectify the error in the preparation of the final accounts for 2021.	Documents and schedules should be updated regularly and the reasons for mismatch should be found and corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
The information required for the audit in relation to two accounts which were valued at Rs.1,699,530,398 had not been submitted.	It has been informed that the relevant acquisitions will be made immediately and reports and documents will be submitted and action will be taken to record in the fixed assets register.	Evidence confirming the account balance shown in the financial statements should be submitted.

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 2020 amounted to Rs.36,177,594 as compared with the excess of revenue over recurrent expenditure amounted to Rs.25,423,503 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
<p><u>Telephone transmission tower revenue</u></p> <p>An amount of Rs.42,000 due from 10 telephone transmission towers belonging to 03 institutions installed in the Council area as Rs.30,000 for the year under review and for the Rs.12,000 for last year had not been collected.</p>	It has been informed that action will be taken to recover the arrears in future.	Telephone transmission tower revenue in arrears should be recovered.
<p><u>Environmental protection licenses</u></p> <p>Because no action had been taken to renew the license of 10 businesses that need to obtain environmental protection licenses operating in the Pradeshiya Sabha area and 51</p>	It has been informed that 10 relevant businesses have been identified and the necessary steps have been taken to issue environmental	These businesses should be inspected and action should be taken to issue environmental

businesses that have expired total revenue of Rs.244,000 as Rs.4,000 each had been lost to the Pradeshiya Sabha fund.

permits. The relevant business owners have been informed in writing to renew the licenses and action will be taken to issue licenses only to active businesses in the year 2021.

protection licenses and renew non-renewed environmental protection licenses at a reasonable fee.

Court fines and stamp duty

The Court fines of Rs.2,072,918 and Stamp duty of Rs.1,548,250 due from the Chief Secretary of the Provincial Council and other authorities by 31 December of the year under review had not been recovered.

Schedules have been referred to the Provincial Council.

Court fines and Stamp duties in arrears 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 Council under Section 03 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation

In contrary to the Rule No.02 relating to the Allowances for the Chairman, Deputy Chairman and Members of the Pradeshiya Sabha published in the Extraordinary Gazette No.2122/29 dated 08th May 2019, Rs.54,000 had been overpaid in 04 cases as subsistent allowance.

Comments of the Sabha

It has been informed that action will be taken to recover the overpaid subsistent allowance.

Recommendation

Overpaid subsistent allowances should be charged.

3.2 Defects in Contract Administration

Audit Observation

Although the construction work of the Sandagalagama Community Hall, which was completed in the year under review, was delayed by 406 days, a demurrage for it had been undercharged by Rs.154,299.

Comments of the Sabha

The society has been informed and action will be taken to collect the due demurrage in future.

Recommendation

The loss to the Sabha fund should be recovered.