

Thambalagamuwa Pradeshiya Sabha - 2021

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 2021 comprising the Balance sheet as at 31 December 2021, 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 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 Thambalagamuwa Pradeshiya Sabha as at 31 December 2021, 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

Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 Standards, 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

Following accounting deficiencies were observed

Audit Observation	Comments of the Council	Recommendation
(a) A total of 14 fixed assets purchased during the year under review amounting to Rs.829,240 were not included in the accounts.	Out of the 14 items, assets with a lifetime of more than one year are disclosed as fixed assets.	Assets should be accounted for.
(b) Although the accounts indicated that Rs.1 million was spent on the production of organic fertilizers during the year, the works worth Rs.498,443 had not been done.	Goods worth Rs.286,406 have been purchased for the production of organic fertilizers and kept in the office, and safety fences worth Rs.498,443 are currently being constructed, so the relevant objectives will be achieved as soon as this work is completed.	Appropriate action should be taken at the time of expenditure.

1.6.2 Unreconciled Control Accounts

Following observation is made.

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.1,094,752 between the butcher shop rent and license fee income value disclosed in the financial statements and the relevant documents.	The bid guarantee of those who had received the butcher shops in the year 2021 but did not offer to maintain it, and transferred it as income of the Sabha without returning it to them, it is stated as butcher shop rent. Some cattle slaughterhouse charges have also been mistakenly stated as butcher shop rent income. For these reasons, differences between documents and financial statements were indicated.	Ledger and accounts should be corrected and balances should reconcile.

1.7 Non-compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are shown below.

Reference to Laws, Rules and Regulations etc.	Value	Non-compliance	Comments of the Council	Recommendation
	Rs.			
Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
Financial Regulations 571	998,340	Deposits that have been exceeded more than two years have not been dealt with as per the financial regulations.	Steps will be taken to settle all deposits that are over two years old or transfer them to government revenue.	Appropriate action should be taken as per financial regulations.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 8,461,631 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 6,165,297 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation

Comments of the Council

Recommendation

(a) Rates and Taxes

In terms of 134 (1) of the Local Council Act No. 15 of 1987, steps were not taken to identify the immovable property in the area of the Pradeshiya Sabha, to assess its annual value and to collect rates and tax.

Primary level measures have been taken to levy rates and taxes on immovable properties located in the jurisdiction.

Relevant steps should be taken as per the provisions of the Act.

(b) **Rent**

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| i) | According to 129 (e) of the Pradeshiya Sabha Act No. 15 of 1987, the sabha had not taken steps to collect the weekly market rent of Rs. 121,200 to be charged for the year 2020. | The weekly market rent of Rs.184,300 was recovered, but the arrears of Rs.121,200 relating to the year 2020 could not be recovered. Further action will be taken in this regard. | Appropriate action should be taken as per the Act. |
| ii) | No steps have been taken for a period of 01 to 04 years to recover Rs.3,552,966 due as butcher shop rent as at 31 December 2021. | Legal action will be taken to recover the above arrears. | Appropriate action should be taken to recover arrears. |

(c) **License Fee**

According to 159 of the Local Council Act 1988, the sabha had not recover the trade license fees of Rs.150,600 due for the year 2020.	Trade license fees could not be collected due to the closure of some business premises. Further action will be taken in this regard.	Appropriate action should be taken to recover arrears.
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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 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) The Sabha had not yet settled the loan of Rs.11,800,224 taken from the Local Loan Development Fund for the construction of office buildings in the year 2012 and the interest of Rs.2,483,385 due on 31 December 2021.	A situation has arisen where it is impossible to pay the loan taken from the Local Loan Development Fund and the interest.	Appropriate action should be taken in consultation with the Local Loan Development Fund
(b) According to the financial statements, the total value of land and buildings belonging to the council was Rs. 93,571,416 as of the last day of the year under review, but no fixed asset register was maintained for it and no steps were taken to obtain title deeds for the land.	Prompt action is taken to enter the details of fixed assets in the Fixed Asset Register.	Appropriate action should be taken.

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| (c) | A sum of Rs.1 million rupees had been provided for the organic fertilizer production project and 03 acres of land in Kalmatia - 95 North area had not been taken over to the Sabha. | Materials worth Rs. 286,406 have been purchased and kept in the office for the production of organic fertilizers and the safety fence is currently being constructed at the cost of Rs. 498,443, so the relevant objectives will be achieved immediately after this work is completed. | Steps should be taken to taken over ownership. |
| (d) | Due to the Covid-19 epidemic in the year under review, the sum of Rs.3,506,456 discounts given to the lessees had been deducted from the financial statements without the prior approval of the relevant authorities. | Steps have been taken to obtain approval for discounts. | Appropriate action should be taken. |
| (e) | The cost of concreting 37 roads under the Rural Road Development Project in the year under review was not accounted for. | The errors you have disclosed will be accepted and included in the 2022 financial statements. | Appropriate action should be taken. |
| (f) | A total of Rs.64,800 survey fees were paid in the year under review, but the survey plans of the lands related to the library, Kalmatiyawa public well and compost plant were not obtained. | Measurements of the respective lands have been carried out. The related land plans were not submitted by the Department of Survey. | Steps should be taken to get land plans. |
| (g) | According to the letter No. PL/15/2021 dated 18 June 2021 of the Ministry of Provincial Councils and Local Government Affairs, Rs. 1 million was given for the production project of making organic waste organic fertilizers were not produced and sold until now. | There is a shortage of funds. Also, COMPOSE MAKING machine has been purchased under organic waste LDSP programme. | Appropriate action should be taken. |

3.2 Operational Inefficiencies

Audit Observation

Comments of the Council

Recommendation

Under Section 126 of the Pradeshiya Sabha Act No. 15 of 1987, by-laws were to be enacted to fulfill 30 main matters, but by-laws were only enacted for 05 matters until 31 December 2021. As a result of this, the remaining 25 by-laws were not approved, so the income received therefrom remained uncollectible.

In the first phase, by-laws were enacted to fulfill 5 matters, but for other matters, by-laws are prepared and their processes are followed and published in the gazette.

By-laws should be enacted and related regulatory activities should be carried out.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Failure to perform Maintenance and Repairs		
A motorcycle, 02 two-wheel tractors owned by the sabha remained idle for a period of 04 to 13 years without taking steps to repair and use them.	Steps will be taken to repair.	Appropriate steps should be taken regarding vehicle repairs.
(b) Non-receipt of Income from Assets		
The public market building of Tambalagamuwa Pradeshiya Sabha was built at a cost of Rs. 5,978,814, but no steps were taken to earn income by renting the building.	Arrangements have been made to provide the public market building belonging to our Sabha on rent or lease basis.	Appropriate measures should be taken for the use of the building.
(c) Annual Board of Survey		
Although the Annual Board of Survey for the year 2020 was completed in the year 2021, but the Board of Survey had not yet implemented the recommendations of the Survey Board by 31 May 2022	Based on the reports of the Board of Survey in the year 2021, the future work is being done at present.	Appropriate action should be taken on the basis of the reports of the Board of Survey.

3.4 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) Playground Renovation - Rs.1,500,000		
Provisions of Rs.1,500,000 were made for the renovation of Kalmatiyawa South, United Sports Club Ground under the Rural Playground Development Project. Out of this, it could not be confirmed in the audit that the total works of Rs.479,908 had been completed. However, the above work had been completed at a cost of Rs.1,218,730 and it had not been fully utilized for the respective purposes up to the date of the audit.	Kalmettiyawa South, United Sports Club ground has been renovated and handed back to the respective sports club.	Appropriate measures should be taken to use the playground.

- (b) According to paragraph 2.1 of the Public Finance Circular No. 01/2021 dated 29 September 2021, it was observed that contracts totaling Rs.82,991,952 were awarded to community centers on the recommendations of the CDO, without being awarded by three-member committee representatives nominated by the Chairman of the Pradeshiya Sabha and the Divisional Secretary.
- According to the Public Finance Circular No. 01/2021 dated 29 September 2021, before awarding contract works to the community centers, applications were issued to learn about the functioning and existence of the organizations and recommendations of the CDO were issued, and then the contracts were awarded to the community centers.
- Should be done in circular manner.

3.5 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
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(a) Employee Vacancies and Excesses

There were 2 vacancies and 07 excesses at the primary level and 03 vacancies and 04 excesses at the secondary level.	Steps have been taken to fill one post each of Management Service Officer, Revenue Inspector and Supervisor at secondary level and one vacancy of Driver at tertiary level.	Appropriate action should be taken to fill up the vacancies.
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4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
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An annual action plan was not prepared for the tasks that should have been performed by the Sabha according to the annual budget.	According to the budget for the year 2022, the annual action plan is prepared for the tasks that should have been performed by the Sabha.	Appropriate action should be taken to prepare the action plan.
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4.2 Internal Audit

Audit Observation	Comments of the Council	Recommendation
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According to the Circular No. 03 dated 08 November 2005 of Ministry of Provincial Councils and Local Government on the restructuring of local government institutions, the internal auditor of the Sabha had not prepared an internal audit plan.	At present, an internal auditor has been appointed and these tasks are carried out successfully.	Should be done as per circular.
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4.3 Audit and Management Committee

Audit Observation

As per Section 5.3 of Management Audit Department Circular No. DMA/01-2019, Audit and Management Committee meetings should be held at least once in a quarter, but the Sabha had held only two committee meetings in the year under review.

Comments of the Council

Arrangements will be made to hold management committee meetings as per the circular in the coming years.

Recommendation

Appropriate action should be taken as per circular.

4.4 Environmental Issues

Audit Observation

Garbage collected by the council within its jurisdiction is dumped unsorted in the forest area and the Sabha has not taken steps to implement proper solid waste management.

Comments of the Council

According to the request from the Tambalagamuwa Divisional Secretary to release this land to the Sabha, solid waste management will be done properly after handing over the land in the area.

Recommendation

Appropriate action should be taken as per the provisions of the Act.

4.5 Sustainable Development Goals

Audit Observation

According to the Sustainable Development Goals Act No. 19 of 2017, the Sabha has not prepared the agenda of the sustainable development program to be achieved in the year 2030 and has not taken any further actions related to it.

Comments of the Council

According to the relevant circular, the sustainable development agenda will be prepared by the Sabha and further action will be taken.

Recommendation

Appropriate action should be taken as per the circular.