

## **Thihagoda Pradeshiya Sabha - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Thihagoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 Statement of financial position, as at 31 December 2022 Statement of Financial Performance, statements of changing 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 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 accompanying financial statements give a true and fair view of the financial position of the Thihagoda Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified 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 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 skepticism 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**

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
(a) Industrial creditor provisions of Rs.3,833,754 had been made for 04 industries which had not been contracted and implemented in the year under review. .	The contracts have not been fulfilled due to lack of raw materials and high prices despite having been contracted.	Should be accounted correctly.
(b) Receivable income amounting to Rs. 361,691 for the sale of electricity generated by the solar panel installed in the council had not been accounted.	The action will be taken to correct in future.	Should be accounted correctly.
(c) 06 industrial creditor balance amounting to Rs. 312,337 had been settled in previous years and during the year under review however they were further accounted as creditor.	The action will be taken to correct in future .	Should be accounted correctly.
(d) 39 items of assets valued at Rs.532,945 which are not included under fixed assets were accounted under machinery and equipment and under the furniture and fittings.	The action will be taken to correct in future.	Should be accounted correctly.
(e) The crew cab owned by the council, which had been handed over to a certain agency for repairs on 15 October 2020, had not been repaired by the end of the year under review, however creditors provision of Rs.789,433 had been made for the repairs.	The provision had been made on the estimate referred by the concerned institution.	Should be accounted correctly.

### 1.6.2 Non-reconciled Account or Records

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
There was a difference of Rs. 918,509 in between 03 accounting items included in the financial statements totaling to Rs. 27,454,098 and the balances shown in the utility registers/schedules.	The action will be taken regarding this in the future.	Evidence should be submitted confirming the account balances shown in the Financial Statements.

### 1.6.3 Lack of Documentary evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
Due to non-submission of Updated fixed asset registers, survey reports and detailed schedules , 07 accounting items totaling Rs. 2,308,920 could not be satisfactorily vouched during the audit	The action will be taken regarding this in the future.	Evidence should be submitted confirming the account balances shown in the Financial Statements.

## 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 amounted to Rs. 19,271,767 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 13,617,546 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 chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	3,357,280	3,203,501	1,345,269	2,132,177	1,547,280	340,676	346,300	273,945
(ii) Rent	4,425,000	1,984,905	2,010,530	164,703	4,425,000	1,521,320	1,522,220	190,328
(iii) License Fees	1,833,000	1,791,250	1,798,650	3,800	1,658,000	725,040	714,590	11,200
(iv) Other revenue	9,424,000	2,239,041	2,310,434	185,783	9,184,000	4,718,519	4,724,981	257,176
	19,039,280	9,218,697	7,464,883	2,486,463	16,814,280	7,305,555	7,308,091	732,649

#### 2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the council.

Audit Observation	Comment of the Sabha	Recommendation
(a) The council had started levying assessment tax from the year under review and there was a balance arrears of Rs, 2,124,971 as at the end of the year under review.	The Arrears will be collected.	Arrears of income should be collected as soon as possible.

- (b) The Receivable court fines and stamp duty of Rs. 706,408 and Rs. 29,943,920 had to be collected from the Chief Secretary of the Provincial Council as at December of the year under review. The arrears are related to the year 2021 and 2022. Arrears of income should be collected as soon as possible.

### 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.

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
<p>-----</p> <p>During the year under review, a permanent and formal program to recycle the non-degradable waste collected within the authority of the local council was not implemented, and it was dumped on a private land in Nadugala area and buried under soil. Accordingly, an environment-friendly disposal method of non-biodegradable waste was not adopted.</p>	<p>-----</p> <p>Proposed to hand over the non-biodegradable waste to Matara Municipal Council for recycling</p>	<p>-----</p> <p>A permanent and formal Waste Management project should be implemented</p>

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
<p>-----</p> <p>The value of 05 land and buildings owned by the council was not assessed and accounted under fixed assets.</p>	<p>-----</p> <p>The further action will be taken.</p>	<p>-----</p> <p>Should be accounted correctly.</p>

#### 3.3 Transactions of Extraneous Nature.

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
<p>-----</p> <p>The development officer who worked in the Thihagoda Pradeshiya Sabha had informally received subsistence allowances of Rs.69,200 on 10 occasions for 88 days during the period of 09 months from December 2019 to September 2020.</p>	<p>-----</p> <p>Such errors will not be occurred in the future.</p>	<p>-----</p> <p>Action should be taken according to the Circular and Financial regulations.</p>

### 3.4 Procurement Management

#### Audit Observation

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The council had made 08 purchases amounting to Rs.1,012,000 in the year under review, without calling quotations as per the Pradeshiya Sabha (Finance and Administration) Rule No. 207 of 1988

#### Comment of the sabha

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Action will be taken to correct in the future.

#### Recommendation

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Action should be taken according to the Regulations.

### 3.5 Human Resources Management

#### Audit Observation

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Rs.4,144,251 was spent from the council fund for salaries and allowances without proper assignment of duties related to the post to five council work/field workers, two health workers and one office assistant, in the year under review.

#### Comment of the Sabha

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The mistake will be corrected after the vacancies are filled

#### Recommendation

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Employees should be engaged in the duties assigned to the position.