

## Tangalle Pradeshiya Sabha - 2022

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Tangalle Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations, Statement of changes in net assets, 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 the 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 Tangalle 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 Practices.

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

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 Practices and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, 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

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) The value of Rs. 1,864,914 spent in the year under review for the development of the buildings of the Sabha from the council fund had not been capitalized.	It will be corrected by the financial statements of the year 2023.	Capital expenditure should be properly capitalized.
(b) The total value of 13 inventory items of machinery and equipment aggregating to Rs. 130,450 had been accounted under Furniture and Fitting during the year under review.	It will be corrected by the financial statements of the year 2023.	Stock items should be correctly identified and accounted.
(c) The receivable interest income on fixed deposits of Rs. 4,117,603 had not accounted as at 31 December of the year under review.	It will be corrected by the financial statements of the year 2023.	Income receivable should be correctly identified and accounted.
(d) The value of construction work debtors receivable amounting to Rs. 2,198,931 had been overstated at the end of the year under review.	It will be corrected by the financial statements of the year 2023	Debtors should be properly accounted.
(e) The value of Construction work creditors payable amounting to Rs. 1,198,931 had been overstated at the end of the year under review.	It will be corrected by the financial statements of the year 2023	Creditors should be properly accounted.
(f) The unreimbursed salary expenses of Rs. 3,623,741 had not been accounted as a receivable balance as at the end of the year under review.	It will be corrected by the financial statements of the year 2023	Unreimbursed expenses should be accounted as a receivable balance.
(g) The non-reimbursed street light maintenance charges due to not enter in to an agreement with the Electricity Board in the last year amounting to Rs. 146,880 had been accounted as income receivable.	It will be corrected by the financial statements of the year 2023	The income not entered in an agreement should not be accounted as a receivable balance.
(h) The payable expenses aggregating to Rs. 151,500 relevant the end of the year under review were not accounted.	It will be corrected by the financial statements of the year 2023	Expense Creditors should be properly accounted.

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| (i) | The Key money amounting to of Rs.666,667 from the year 2020 to the end of the year under review had been accounted as deposit without taking in to income.       | It will be corrected by the financial statements of the year 2023 | Income should be recognized and accounted correctly. |
| (j) | The library membership fees of Rs.392,480 from the previous years till the end of the year under review had not been taken into income and accounted as deposit. | It will be corrected by the financial statements of the year 2023 | Income should be recognized and accounted correctly. |
| (k) | Staff loan receivable at the end of the year under review amounting to Rs. 64,927 had been understated in the financial statements. .                            | The action will be taken to refund the overcharged amount         | Receivable balance should be accounted correctly.    |

### 1.6.2 Non reconciled control account

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
There was a difference of Rs. 1,816,013 in between the balance in the financial statements and the values shown in the Registers/Sub-registers related to 04 accounting items.	The action will be taken to identify the difference and correct.	The account should be corrected by reconcile the differences in the respective balances.

### 1.6.3 Lack of Documentary evidence for audit

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
Due to non-submission of required information, relating to 05 accounting items amounting to Rs.123,347,143 could not be checked satisfactorily during the audit.	A sub register had been prepared only for the identified assets since 2018 and no fixed deposit certificate.	Evidence should be submitted to confirm the account balances shown in the financial statements.

## 1.7 Non-compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

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

Reference to Laws, Rules, Regulation and Management Decisions -----	Non – Compliance -----	Comment of the Sabha -----	Recommendation -----
(a) The Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987	Action had not been taken to collect assessment tax from the developed areas identified by the Sabha even as at the end of the year under review.	1000 assessable units have been identified and the remaining assessable properties will also be identified and assessed.	Action should be taken in accordance with the Act.

- (b) Pradeshiya Sabha (Finance and Administration) Rules, 1988 Rule 218 The land and buildings of the Sabha should be surveyed by a board of survey at once in every year, however it was not done in the year under review. The survey will be completed and the report will be prepared and submitted. The action should be taken in accordance with the Rules
- (c) Paragraph 06 of the letter No. PE/01/01 dated 17 August 2010 of the Secretary of the Ministry of Power and Energy While the approval of the Electricity Board should be obtained for the installation of new street lamps, approval was not taken for 3221 unapproved street lamps. The action will be taken to get the approval for unapproved street lights. The action should be taken in accordance with the letter.

## 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 amounted to Rs. 25,507,935 as compared with excess of revenue over recurrent expenditure amounted to Rs. 64,617,857 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)	Other Tax	775,000	1,139,984	1,343,406	829,075	6,020,000	1,433,484	877,946	1,032,497
(ii)	Rent	9,318,730	10,158,765	11,691,071	1,740,742	7,780,700	7,603,305	5,914,359	3,273,048
(iii)	License Fees	6,735,000	3,871,426	3,925,401	530,525	2,561,000	1,945,691	2,393,629	584,500
(iv)	Other Income	2,172,180	4,789,508	5,112,378	365,500	-	2,894,791	2,713,290	688,370
	<b>Total</b>	<b><u>19,000,910</u></b>	<b><u>19,959,683</u></b>	<b><u>22,072,256</u></b>	<b><u>3,465,842</u></b>	<b><u>16,361,700</u></b>	<b><u>13,877,271</u></b>	<b><u>11,899,224</u></b>	<b><u>5,578,415</u></b>

#### 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 business tax and industrial tax due from 453 business units amounting to Rs. 632,280 had not been recovered as at 31 December of the year under review.	The legal action will be taken to recover outstanding business taxes.	The arrears of income should be collected as soon as possible.

(b)	Acreage tax receivable as at 31 December of the year under review amounting to Rs. 196,795 had not been recovered.	The acreage tax holders had been informed by letters.	The arrears of income should be collected as soon as possible.
(c)	The shop rent due from 53 shops rooms owned by the council amounting to Rs. 1,131,868 had not been recovered as at 31 December of the year under review.	The action will be taken to recover the arrears	The arrears of income should be collected as soon as possible.
(d)	The amount of Rs.608,874 rents due from 04 properties leased annually had not been recovered and the period of arrears was between from 09 to 11 years as at 31 December of the year under review.	The arrears cannot be recovered as the lessors and guarantors are dead.	The arrears should be recovered from the responsible officers.
(e)	The advertising fees due from 07 Advertising boards were Rs. 192,600 had not been recovered as on December 31 of the year under review.	The action will be taken to recover the arrears	The arrears of income should be collected as soon as possible.
(f)	The court fine and stamp Fees due from the Chief Secretary of the Provincial Council were Rs. 1,363,499 and Rs. 34,976,813 as at 31 December of the year under review.	The arrears will be collected.	Action should be taken to bring the arrears.

### 3. Management Inefficiencies

#### 3.1 Deficiencies in contract administration

##### Audit Observation

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Out of the 164 public complaints reviewed and received in the previous year due to the lack of a formal system for providing solutions for the maintenance of street lights, the number of complaints examined was 30 and the established internal control regarding the investigation of complaints was at a weak level.

##### Comment of the Sabha

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The register of public complaints will be rectified.

##### Recommendation

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Public complaints should be investigated without delay.

#### 3.2 Assets Management

##### Audit Observation

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- (a) Two fitness centers were established with equipment at a cost of Rs.1,850,000, however they were not utilized in the year under review.

##### Comment of the Sabha

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Sport Clubs are instructed to ensure that members of the clubs use these devices and maintain an attendance register.

##### Recommendation

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The action should be taken to utilizes asset fretfully.

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| (b) | The details of the money spent in the 01 and 02 phases of the Ranna West meeting hall building, which was handed over to the Sabha in September 2019, had not been submitted to the audit and the amount spent in 03 phase alone was Rs. 28,913,959, however the assembly hall was not being used effectively by the Sabha at the end of the year under review. | It is problematic to use Pradeshiya Sabha funds for a specific purpose as they cannot be used for maintenance until a specific assignment is made.             | Takeovers should be made and assets should be used effectively. |
| (c) | The action was not taken to transfer the legal ownership of 47 lands and cemeteries and 05 vehicles used by the Sabha to the Sabha even in the year under review.   | Requests were made to the Divisional Secretary to hand over the land and cemeteries and the ownership and revenue licenses of the vehicles will be taken over. | Legal ownership of the assets should be taken over.             |

### 3.3 Deficiencies in contract administration

**Audit Observation**  
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**Comment of the Sabha**  
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**Recommendation**  
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Rs. 162,676 had been paid for the construction of PVC netting under Kudawella market building and cover netting construction work, however the full amount was paid when the 20 x 6 mm flat iron plate to be fixed on the netting was not installed during the construction of the netting.

The contract society was informed to use flat iron sheets of size 20 x 6 to prepare the net so that it does not collapse.

Work should be completed as per estimate.

### 3.4 Human Resource management

**Audit Observation**  
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**Comment of the Sabha**  
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**Recommendation**  
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(a) 09 employees of the council were engaged in other duties apart from the approved duties as on December 31 of the year under review.

Agree with the Audit Observations.

Staff should be engaged in approved duties.

(b) The festival advance and distress loan receivable from an employee who had vacated post in the year 2005 was Rs. 90,996 had not been recovered by the end of the year under review.

The legal action will be taken to recovery.

Arrears of staff loan should be recovered.