

Tissamaharama Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tissamaharama 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 Tissamaharama 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

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 Practices 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 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, 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 Defficiencies

Audit observation -----	Comment of the Sabha -----	Recommendation -----
(a) The arrears amounting to Rs. 2,692,496 of Contribution to be paid to the Department of Pension as at 31 December of the year under review had not been accounted.	Will be corrected in the 2023 account.	Should be accounted after identifying the correct Liability.
(b) In the year under review and previous years, the total value of completed construction work was Rs. 9,586,062 expenditure on renovation of land and buildings was not accounted for under non-current assets.	Will be corrected in the 2023 account.	Capital Assets should be identified and accounted correctly.
(c) The new Pannegamuwa Weekly fair donated to the Council constructed by the Hambanthota District Secretariat for an expense of Rs. 62,915,634 had not been accounted under Land and Buildings.	Will be corrected in the 2023 account.	Assets must be identified and accounted correctly.
(d) Receivable Construction Work Donations amounting to Rs. 935,476 at the end of the year under review had not been accounted.	Will be corrected in the 2023 account.	Debtors should be identified and account correctly.
(e) An amount of Rs. 899,975 received for the development of Ellagala playground in the preceding year was accounted as capital income for the year under review.	Will be corrected in the 2023 account.	Reimbursed expenses should be accounted correctly.
(f) The creditor Provisions amounting to Rs.1,773,936 for the construction of the Restroom at the Debarawewa Public Stadium was accounted as a Capital Expenditure in the year under review.	Will be corrected in the 2023 account.	Payments should be identified and accounted correctly.

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| (g) | The key money of Rs. 1,570,000 Charged for Shop rent in 2020 had been accounted as Shop Rent Deposits without accounting as income. | Action will be taken to rectify in the future. | Income should be accounted correctly. |
| (h) | The Income amounting to Rs. 67,000 received from selling a book known as “Magampattu Puranaya” had been accounted under Miscellaneous Deposits. | Action will be taken to rectify in the future. | Income should be accounted correctly. |
| (i) | Non Refundable Deposits amounting to Rs. 168,420 collected from the Readers of the Library of the Sabha had been accounted as Library Deposits. | Action will be taken to rectify in the future. | Income should be accounted correctly. |
| (j) | In the previous year under review, non-reimbursed street light maintenance charges amounting to Rs.469,777 had been accounted as income receivable due to non-contract with the Electricity Board. | Agree with the Audit Observations. | Income should be accounted correctly. |
| (k) | When billing the one percent (1%) tax revenue, a receivable amount of Rs. 258,006 due from 02 hotels have not been billed as such the Tax income had been understated. | Agree with the Audit Observations. | Income should be billed correctly. |
| (l) | Receivable Stamp Duties for the year under review had been understated by an amount of Rs. 3,995,500. | Agree with the Audit Observations. | Income should be accounted correctly. |
| (m) | Two dishonored Cheques of 2015 & 2017 totaling to Rs.337,994 was debited to the dishonored Cheque account without identifying the related parties and accounting under debtors. | Agree with the Audit Observations. | Income should be accounted correctly. |
| (n) | The expenditure amounted to Rs. 310,561 incurred in the year under review for the year 2023 had been accounted as an expenditure of the year. | Will be rectified in the year 2023 accounts. | Only the expenditure relevant to the year should be accounted in the year. |
| (o) | The amount of Rs. 79,200 paid to the Registrar General's Department for preparation of stamp duty schedules for 2018 and 2019 had been accounted as an expenditure in the year under review | Will be rectified in the year 2023 account. | Only the expenditure relevant to the year should be accounted in the year. |

1.6.2 Non reconciled control Accounts

Audit observation -----	Comment of the Sabha -----	Recommendation -----
There was a difference of Rs 436,323 between the aggregating balances related to 05 accounting items in the financial statements amounting to Rs. 84,737,038 and the balances shown in the relevant documents/schedules.	The difference was due to indicating the receivables relevant to the next year as receivables in the year under review and the action will be taken to rectify in the future.	The accounts should be rectified after reconciling the differences of the relevant balances.

1.6.3 Lack of Documentary Evidence for Audit

Audit observation -----	Comment of the Sabha -----	Recommendation -----
The schedule and age analysis related to the arrears of capital income as at 31 December of the year under review amounting to Rs. 1,894,757 had not been submitted .	Action will be taken to rectify after presenting written evidence.	The evidence supporting the account balances in the Financial Statements should be presented.

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) Pradeshiya Sabha Act No. 15 of 1987 ----- Section 134 (2)	10 Grama Niladhari Division had been identified as developed areas in the year 2013 and 2018 to expand the Assessment boundary under the Sabha, however the further action had not been taken to announce those areas.	Action will be taken to designate Assessed Developed areas will be implemented from 2023.	Action will be taken according to the Act.
(b) Section 20 of The tax and Assessment Ordinance No. 30 of 1946	The Assessment property was to be assessed in every 05 years; however, such action was not taken and tax was collected based on the 2007 Assessment even as at the year under review.	The Valuation Department had been requested to appraise the Assessment Property.	Action should be taken according to the Ordinance.

- (c) Rules 33, 34 and 35 of the Pradeshiya Sabha (Finance and administration) code of Rules, 1988. Action was not taken against the relevant to persons who evade Assessment tax. Necessary action will be taken in the future regarding parties that evade tax. Action should be taken according to the Rules
- (d) Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka. Advances of Rs. 97,667 given to the officers of the Sabha in 2012 and 2013 were not settled, and an unidentified balance of Rs. 57,771 was in that amount. Agree with the Audit Observations. Action should be taken according to Financial Regulations
- (e) Paragraph IV of the Public Administration Circular No. 09/2009 dated 16 April 2009. Action had not been taken according to the provisions of the Circular when paying an amount of Rs. 157,380 as holiday pay, till 06 October 2022. It had been confirmed the arrival and departure of the said days of service on holidays by running charts. Action should be taken according to Circulars.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, income over recurrent expenditure of the Sabha for the year ended 31 December amounted to Rs. 2,342,531 as against that income over recurrent expenditure amounted to Rs. 1,194,804 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)
Rates and Taxes	3,132,086	3,144,139	3,458,490	4,644,329	3,500,690	3,653,246	2,160,998	4,958,680
Rent	15,139,002	14,083,204	14,810,927	8,123,748	16,050,100	15,106,015	5,838,550	8,851,471
License Fees	5,207,392	8,819,563	9,384,628	914,986	8,187,000	6,974,153	5,676,453	1,480,050
Other revenue	12,249,876	11,661,818	11,360,192	1,307,427	9,606,876	11,761,599	11,439,877	1,005,801
Total	35,728,356	37,708,724	39,014,237	14,990,490	37,344,666	37,495,013	25,115,878	16,296,002

2.2.2 Performance of Revenue collection

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

Audit observation -----	Comment of the Sabha -----	Recommendation -----
(a) Action had not been taken according to Section 158 (1) (a) of the Pradeshiya Sabha Act when collecting the Assessment tax amounting to Rs. 3,814,028 from 3704 Collectable assessment units as at 31 December of the year under review.	Red notices will be issued to those who do not pay, and Arrears will be collected.	Arrears of income should be recovered as soon as possible.
(b) Action had not been taken to recover a Receivable Business and industry tax due from 229 Businesses and industries units amounting to Rs. 534,360 as at 31 December of the year under review.	Action will be taken to recover arrears	Arrears should be collected as soon as possible
(c) Action had not taken to recover Entertainment tax amounting to Rs. 295,940 due for the previous year due on 31 December of the year under review.	Legal action will be taken to collect arrears.	Arrears of income should be collected as soon as possible.
(d) Action had not been taken to collect Receivable stall rent due from 330 shop rooms owned by the Sabha amounting to Rs. 6,326,815 as at 31 December of the year under review.	Legal action will be taken against stalls owners who do not pay arrears.	Arrears of income should be collected as soon as possible.
(e) Action had not been taken to collect a receivable weekly Fair Tax of Rs. 1,657,590 due from 03 fair stalls as at 31 December of the year under review.	Approval to write off of Rs. 775,455 was refer to the Governor and action will be taken to recover the remaining balance from the security deposit.	Arrears should be recovered as soon as possible.
(f) Although lessees have sub-leased 07 shops owned by the Sabha in contrary of the agreement signed with the Sabha, action had not been taken by the management of the Sabha regarding the lessees who violated the agreement.	Action will be taken to rectify in the future.	Action should be taken according to the Circular.

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| (g) | Although each contract should be updated every three years, the same was not done in the case of 140 shops rooms owned by the Sabha and the time period in which the contracts were not updated was between 02 and 31 years. | Mobile programs will be held and agreements will be signed in the future. | Action should be taken according to the Circular. |
| (h) | Action had not been taken to recover the vehicle rental income receivable as at 31 December of the year under review amounted to Rs. 337,400 and out of the deficit Rs. 311,400 was relevant to 2014. | The legal action will be taken to collect arrears. | Arrears of income should be collected as soon as possible. |
| (i) | Action had not been taken to collect the receivable Garbage disposal charges amounting to Rs. 364,750 receivables as at 31 December of the year under review and out of the deficit Rs. 334,750 was relevant to the previous year. | Action will be taken to collect arrears of income as soon as possible. | Arrears of income should be collected as soon as possible. |
| (j) | Court fines and stamp fees due from the Chief Secretary of the Provincial Council as at 31 December of the year under review amounted to Rs.1,133,287 and Rs. 7,970,592 respectively. | Action will be taken to collect Arrears of court fines and stamp duty. | Arrears of income should be collected as soon as possible. |

3. Operating review

3.1 Management inefficiencies

Audit observation

The validity period of 59 environmental protection licenses given to various industries had been exceeded and the Sabha had lost an income amounting to Rs. 177,000 in the year 2022 due to not taking action to renew those licenses.

Comment of the Sabha

Necessary action is being taken to direct the industrial owners to obtain licenses as soon as possible.

Recommendation

Action should be taken according to the Gazette.

3.2 Asset Management

Audit observation

- (a) The legal ownership of 06 vehicles used by the Sabha and the legal ownership of 72 lands and buildings had not been transferred to the Sabha even by the end of the year under review.

Comment of the Sabha

Requests have been sent to the Divisional Secretary to acquire 28 lands and buildings, and action will be taken to acquire the rest of the property as soon as possible.

Recommendation

Legal ownership of assets should be taken over.

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| (b) | Action had not been taken to repair and utilize or dispose of 11 Decommissioned vehicles taken out of service from 2012 to the year under review even as at the end of the year under review. | Agree with the Audit Observations. | Decommissioned vehicles should be repaired or disposed. |
| (c) | Action had not been taken to repair and utilize or dispose of The block making machine, stone crusher machine and 02 ball wheel machines of 50 kg capacity which have been lying idle for a long time. | Action will be taken in the future to auction the block making machine and stone crusher machine and given 02 ball wheel machines with 50 kg capacity to the clay industry. | Action should be taken to repair and utilized or dispose idle assets. |

3.3 Deficiencies in Contract Administration

Audit observation -----	Comment of the Sabha -----	Recommendation -----
(a) An amount of Rs. 691,537 was lost by the Sabha fund since 20 percent of the finished work value is not saved in the Sabha while performing on direct labor basis.	Work had been approved to be carried out on a direct labor basis by the Sabha.	20 percent of the value of the finished work should be saved in the Sabha while carrying out the work on direct labor basis.
(b) Although an amount of Rs. 907,650 was spent for the purchase of materials for the work of installing 08 light poles around the Pannegamuwa Govisewana stadium by the Sabha, however the 08 electric poles had not been installed even as at 31 December of the year under review. The goods purchased for this purpose at the cost of Rs. 32,200 from the Sabha fund were not used for the relevant purpose and were used for private work.	Work was delayed as 04 electric poles 57 feet also had to be prepared after preparing the estimates to install 04 electric poles 27 feet and getting the materials, and it was used for another industry instead of for private use.	Construction should be completed within the relevant period and the relevant matters should be duly fulfilled.
(c) An amount of Rs. 306,025 was paid extra than the amount reimbursed to the Sabha by the Sabha Fund for the project of developing the Ellagala playground which was implemented using the provisions of the Tissamaharama Divisional Secretariat for an amount of Rs. 1,415,975. An extra amount of Rs. 128,000 had been paid for soil transportation and excavator hire. An amount of Rs. 1,276,000 was paid to the Technical Officer of the Sabha as vehicle rental without making arrangements to pay the	Reminder letters were sent to recover the remaining amount and that there was an omission in the preparation of the finished work report and action will be taken to avoid such shortcomings in the future.	Overpayments should be recovered from the responsible parties and action should be taken according to the Financial Regulations.

private company that provided the service contrary to the Financial Regulation 260 (1).

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| (d) | The construction of the netting of the Pannegamuwa Govisewana Stadium was carried out by the Sabha under the provisions of the Divisional Secretary's Office on a direct labor basis and a report amounting to Rs. 1,549,500 was prepared and an amount of Rs. 1,353,907 had been reimbursed. By performing this work on direct labor basis, an amount of Rs. 343,800 had been lost to the Sabha fund. Materials purchased for an amount of Rs. 58,100 under this work were not used by the technical officer for the construction of the net fence. | A higher expense has been incurred as the length of the finished fence is higher than the estimated fence, and the purchased materials have now been delivered to the stores. | 20 percent of the finished work value should be saved in the Sabha when carrying out construction works on direct labor basis and only the goods needed for the work should be purchased. |
| (e) | The technical officer had paid an extra amount of Rs.1,285,200 without preparing estimates and finished work reports and an extra amount of Rs. 84,340 for the transportation of the machines in order to clear the forest using machines in 20 sports grounds and cemeteries in the Pradeshiya Sabha area. | Accepted and action will be taken in the future to avoid such shortcomings. | Payments should be made based on estimates and finished work reports prepared for the work. |
| (f) | A total expense amounting to Rs. 747,309 had been incurred for the preparation of a 180meter Mesh Fencing prepared for an amount of Rs. 727,709 and the purchase of items as Rs. 19,600 for the construction work of building a Mesh Fence around Akurugodagoda quarters on direct labor basis from the Sabha fund. An overpayment of Rs 323,833 had been done due to the construction of only 102 meters of PVC netting. | The work was initiated using two files and items were purchased and used in other work. | Overpayments should be recovered from the responsible persons. |
| (g) | The council had spent an amount of Rs.1,125,216 for the development of the Pannegamuwa Weekly Fair Land and within that expenditure an amount of Rs.102,000 had been paid for extra labor for 51 days. | Payments had not been made exceeding the payable rent. | Overpayments should be recovered from the responsible persons. |
| (h) | The construction of a restroom at Debarawewa Public Stadium was implemented under the Development of Public Stadiums 2021 program and an amount of Rs. 3,716,971 was paid to the contractor after deducting the retention money. | Action will be taken to settle the amount after receiving the retention money. | Overpayments should be recovered from the responsible persons. |

An excess amount of Rs. 60,614 had been paid for providing water Supply to the building and an amount of Rs.169,599 had been paid for price variations against the 5.4.2 of the Code of Government Procurement Guidelines 2006.

- (i) The Sabha Management has not taken action regarding the unfruitful expenditure incurred an amount of Rs. 1,731,840 for the interlocking blocks made without proper strength for laying interlocking blocks from the start of Pannegamuwa Aloka Mawatha to Mr. Jayawardena's house even in the year under review.
- Inquiries were made about the reports given were contradictory in both the cases although the quality inspection was carried out by the Road Development Authority.
- Construction work should be done in accordance with a proper standard. Otherwise, damages should be recovered from the responsible parties.

3.6 Human Resources Management

Audit observation

The approved and actual cadre of the Sabha (including P.A.C. 25/2014 employees) was 104 and 86 respectively and action had not been taken to formalize 20 excesses even as at the end of the year under review.

Comment of the Sabha

Action will be taken to formalize the remaining positions in the future.

Recommendation

Action should be taken to formalize excesses.