

**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 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 National Audit Act No.19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Thanamalwila 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**

I expressed qualified opinion 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 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 policies

Audit Observation	Comments of the Sabha	Recommendation
In preparing the financial statements for the year under review, the Sabha had not disclosed the accounting policy related to inventory valuation, revenue recognition and accounting of work in progress.	The relevant accounting policy will be disclosed during the preparation of the financial statements of the year 2023.	The accounting policies followed in preparing the financial statements should be disclosed.

### 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) In the year under review and in the previous years, the amount incurred for the construction and improvement of 20 new buildings belonging to the Pradeshiya Sabha amounting to Rs.32,837,050 was not shown under land and buildings in the statement of financial position.	The relevant values will be included under land and buildings in the preparation of financial statements for the year 2023.	The values of all property-Plant and equipment used by the Pradeshiya Sabha should be accounted for.
(b) Advance payments made for the year 2023 for insuring vehicles of Sabha and obtaining revenue permits was Rs. 98,724 but it had been shown as Rs.197,447 in the statement of financial position..	The double recording of advanced payments will be corrected in the year 2023 .	Accounts should be prepared correctly.
(c) As on December 31 of the year under review, the balance of the property, plant and equipment account was Rs.1,780,982,520, but the balance of the contribution from income to capital application account was Rs.1,780,561,514.	It will be corrected in the year 2023 .	The correct value should be included in the financial statements.
(d) The assets of Rs. 1,346,795 which acquired by the Sabha under the Regional Development assistant Project, as of December 31 of the reviewed year, had not been included in the statement of financial position.	The correct value will be capitalized in the year 2023.	Correct balances should be shown in the accounts.
(e) In the statement of financial position prepared as on 31st December, 2022, Rs.18,656,693 was shown as	Deposit registry will be checked further and this error will be corrected.	Correct balances should be shown in the accounts.

miscellaneous deposits in the current liabilities, but as per miscellaneous deposit register the outstanding balance as on 31st December of the year under review was Rs.11,592,732.

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| (f) | The property amounting to Rs.16,000,000 included in the fixed assets register had not been included in the statement of financial position. | These asset values will be included in the preparation of the financial statements of the year 2023. | The values of all property-Plant and equipment used by the Pradeshiya Sabha should be accounted for. |
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### 1.6.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
(a) A total difference of Rs.14,909,777 was observed between the balances shown in the financial statements and the balances shown in the schedules and documents provided in respect of 10 accounting subjects.	The relevant schedules and documents will be checked further and this mistake will be corrected immediately.	Documents and schedules should be updated and the causes of non-conformities should be corrected.
(b) According to the sample test, there was a difference of Rs.43,502,452 when comparing the values according to the documents in respect of 06 accounting subjects with the statement of financial position or the statement of financial operations.	It will be corrected in the year 2023.	Accounts should be prepared correctly.

### 1.6.4 Documentary Evidences not made available for Audit

<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
The total value of Rs. 1,771,061,030 in respect of 05 subjects of assets and 03 subjects of liabilities could not be satisfactorily verified during the audit, due to non-submission of fixed assets register, Professional valutors' reports, schedules with all assets, updated tax arrears documents.	in the future, a survey will be carried out on the financial position of the Sabha and a professional assessment will be carried out and the fixed assets register and other related documents will be updated.	Evidence should be submitted to verify the account balances shown in the financial statements.

## 1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows.

Reference to Laws, Rules Regulations etc.-	Non-compliance	Comments of the Sabha	Recommendation
(a) Section 571 of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Deposit balances of Rs.3,000,595 that had elapsed 02 years were not regulated.	Necessary arrangements are being made to redeem the deposit balances that have elapsed 02 years.	Financial Regulations of the Democratic Socialist Republic of Sri Lanka should be followed.
(b) Public Finance Circular No. 3/2014(1) dated 10 March 2015 of the Secretary to the Treasury, Ministry of Finance.	An Acting Secretary who worked in Thanamalwila Pradeshiya Sabha was paid a telephone allowance of Rs.94,000 at the rate of Rs.4,000 per month from December 2015 to October 2019, in contrary to the circular.	This officer has retired and has requested the Director of Pensions to recover the overpaid telephone allowance.	Over payments should be recovered.
(c) Circular dated 17th August 2010 of the Secretary, Ministry of Power and Energy.	A census of street lights was not conducted to identify the number of street lights maintained by the Sabha, their location, etc. and there was no contract with the Ceylon Electricity Board regarding the lighting of the street lights.	The census of street lamps has been started at the Grama Niladhari division level and discussions have been held with the relevant institutions to enter into an agreement with the Electricity Board.	The register of street lights shall be maintained up to date and contract should be entered upon as per the circular.

## 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 2022 amounted to Rs. 3,360,922 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 24,094,688 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 relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	50,000	162,500	162,500	-	50,000	-	-	-
(ii) Rent	13,190,170	8,102,426	6,586,576	1,515,850	15,795,500	12,039,132	5,649,939	6,389,193
(iii) License Fees	1,235,465	1,390,595	1,390,595	-	2,048,530	1,460,602	1,460,602	-
(iv) Other revenue	58,270,788	2,274,129	2,231,479	42,650	58,854,279	9,952,425	8,425,875	1,526,550
<b>Total</b>	<b>72,746,423</b>	<b>11,929,650</b>	<b>10,371,150</b>	<b>1,558,500</b>	<b>76,748,309</b>	<b>23,452,159</b>	<b>15,536,416</b>	<b>7,915,743</b>

### 2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Sabha are given below.

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of the total billed revenue of Rs.11,929,650 in the year under review, Rs.1,558,500 was uncollected at the end of the year, which was 13 percent of the total billed revenue.	Action will be taken to recover the revenue in arrears in the future.	Revenue in arrears should be recovered.
(b) Out of the tender property tax income of Rs.4,561,500 due for the lease of 03 weekly fair owned by the Sabha, Rs. 813,760 remained to be recovered as of December 31, 2022.	Action will be taken to recover this revenue in arrears as soon as possible.	Tax in arrears should be recovered promptly.
(c) Out of the shop rent income of Rs.1,735,900 to be collected from 107 stalls leased in the year under review, Rs.366,295 remained to be collected on 31 December 2022. It was 21 percent of total billed revenue.	Action will be taken to recover this revenue in arrears as soon as possible.	Arrears of shop rent should be recovered.
(d) Arrears of Rs.1,385,503 due from 519 water consumers of 02 water projects belonging to the Pradeshiya Sabha from the year 2015 to 31st December of the year under review had not been recovered.	Action will be taken to recover the arrears in the future.	Arrears water charges should be recovered.

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| (e) | Court fines amounting to Rs. 5,232,127 and stamp duty of Rs. 1,963,765 which should have been received from the Chief Secretary of the Provincial Council and other authorities on December 31 of the year under review had not been collected. | So far, Rs.3,403,877 court fines have been collected and although the request for recovery of stamp duty arrears has been made to the relevant authorities, the arrears have not been given so far. | Arrears court fines and stamp duty should be collected.                           |
| (f) | The arrears of machine rental income of Rs.2,751,968 due for the period from 2014 to 2022 for machine rental by the Sabha had not been recovered as on March 17, 2023,  | Necessary legal steps will be taken to recover this arrears.  | Arrangements should be made to collect arrears of machine rental income promptly. |
| (g) | Arrears of Rs.13,115,888 due as on 31st October 2022 from 9 tax properties belonging to the Sabha had not been collected.   | At present, the outstanding amount due to the Sabha is Rs. 303,625.   | Arrears in revenue should be recovered.   |

## 2.3 Surcharges

Audit Observation	Comments of the Sabha	Recommendation
As on 31st December of the year under review, an amount of Rs.76,608 was to be recovered in respect of surcharges imposed by me against those who in charged in previous years as per the provisions of the Pradeshiya Sabha Act.	A further amount of Rs.70,608.20 has to be paid by April, 28 2023. The amount will be charged monthly.	Arrears surcharges should be collected.

## 3. Operational Review

### 3.1 Fulfillment 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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Sabha	Recommendation
(a) 06 licenses that had expired in the environmental protection licenses given by the Pradeshiya Sabha had not been renewed.	Necessary actions for issuing environmental protection licenses are being carried out.	Action should be made to renew the licences.

- (b) Although 12 years have passed since the establishment of Thanamalwila Solid Waste Management Centre, which was established in 2010, the environmental permit has not been obtained. Also the collected non-biodegradable waste was being disposed of in pits and no recycling or other appropriate action was taken.
- The license fee required to obtain the environmental permit has been paid and a storage area for bottles has been constructed in the solid waste centre to reduce the accumulation of non-biodegradable waste.
- Solid waste management should be done properly.

### 3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
The value of 15 lands and 102 cemeteries belonging to the Pradeshiya Sabha had not been assessed and accounted for.	In the future, depending on the financial position of the Sabha , the remaining cemeteries and lands will be surveyed, assessed and accounted for.	The value of land and buildings should be assessed and accounted for by professional valuers.

### 3.3 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
According to Section 134 of the Pradeshiya Sabha Act No. 15 of 1987, assessment tax was not declared and charges were levied in respect of developed areas considering the level of development of the Sabha area of authority.	It has been declared as a developed area by the Gazette dated February 17, 2023, and a formal survey has been started for assessment purposes.	In respect of developed areas, assessment tax should be declared and charges should be levied.

### 3.4 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) For 09 vehicles belonging to the Sabha, Rs.55,045 as fines and Rs.155,600 as fees had to be paid due to the fact that revenue licenses have not been obtained for several years,	the necessary arrangements for obtaining revenue licenses for the vehicles will be carried out promptly.	Arrangements should be made to obtain revenue permits without delay.



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| (b) | 05 vehicles owned by the Sabha were unusable condition even on March 17, 2023 and No action had been taken to repair the said vehicles and put them to use or dispose of the unrepairable vehicles | Due to the huge cost to be incurred for repair and lack of effectiveness, it has not been repaired and if possible, these vehicles will be repaired in the future.. | Idle vehicles should be repaired and put to use or disposed of under formal approval. |
| (c) | The ownership of 02 vehicles used by the Tanamalwila Pradeshiya Sabha had not been taken over to the Sabha even on March 17, 2023.   | The necessary activities to take over the ownership will be done immediately.   | Legal ownership of vehicles used by the Sabha should be taken over.                   |

### 3.5 Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
(a) The Sabha had entered into an agreement with a Grama development society on July 08, 2022 for the construction of the Dimuthu Pre-school building at a cost of Rs.1,971,438 under the provincial specific development grant fund. Although the construction was supposed to be completed by October 08, 2022, during the physical inspection conducted on November 18, 2022, it was revealed that the work was stopped and the contractor was paid Rs.465,712 as part payments.	Action will be taken immediately to fully complete the industry.	Action should be taken in accordance with agreement In case of non-completion of the construction within the relevant period,
(b) In contrary to the guideline 5.4.4(ii) of the Procurement Guidelines Code of the Democratic Socialist Republic of Sri Lanka, Thanamalwila Pradeshiya Sabha had paid an advance money of Rs.1,199,247 to the approved societies on 03 occasions. However, the contractor's society had not completed the relevant works and the Sabha had not recovered the money given as an advance by March 17, 2023.	Action will be taken to duly recover this advance amount.	It should act in accordance with the procurement guidelines of the Democratic Socialist Republic of Sri Lanka
(c) Although the Sabha had given an advance of Rs.140,000 to an approved society for the development of 02 roads as Rs.70,000 for each on 02 occasions in March 2022, the relevant roads had not been developed by 17 March 2023 and the amount given as advance had not been recovered from the Sabha .	Action will be taken to recover the advance money given by making billings on the works carried out on the respective roads, If there is any shortage it will be recovered by the concerned society.	The construction should be completed within the relevant period.

- (d) In contrary to Guideline 5.4.4(ii) of the Code of Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka, Thanamalwila Pradeshiya Sabha had given an amount of Rs.2,280,992 as advance to the approved societies for carrying out industries on 12 occasions. Advances have been given to industries since previous years due to ignorance, and actions will be taken to prevent such situations in the future. The procurement guidelines of the Democratic Socialist Republic of Sri Lanka should be followed.

### 3.6 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
(a) As on 31st December of the year under review, there was a shortage of 10 employees in relation to 04 positions in the Sabha as per the approved staff and even by 17th March 2023, the said vacancies had not been filled.	The relevant authorities are informed about the available vacancies every month.	Vacancies in staff should be filled.
(b) Contributions of Rs.1,103,087 due for the period from October 2015 to October 2022 for the employees who were paid daily salaries and worked in the Pradeshiya Sabha had not been paid to the Employees' Trust Fund.	The approval of the Local Government Commissioner has been received for the payment of arrears of contributions and surcharges and has been submitted for the approval of the Management Committee for payment in instalments. After having approval, this outstanding amount will be paid in instalments	Payments to the Employees' Trust Fund should be made on time.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
As there are significant variations between the estimated income and the actual income of the year from 3 percent to 100 percent, and between the estimated expenditure and the actual expenditure of the year from 2 percent to 95 percent in the budget prepared for the year by the Pradeshiya Sabha; the budget was not used as an effective control instrument in controlling the income and expenditure.	Such a situation arose due to the Covid epidemic situation in the country and the adverse political situation in the country. In the year 2023, the budget will be used to minimize the variations.	A proper budget should be prepared and the goals specified in it should be met.