

## **Tangalle Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Adverse Opinion**

The audit of the financial statements of the Tangalle Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial operations statement of changes in net assets, cash flow statement for the year then ended and notes to the financial statements including material accounting policy information was carried out 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 provisions of the National Audit Act No. 19 of 2018, 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 Adverse Opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Tangalle Pradeshiya Sabha as at 31 December 2023 and its financial performance and Cash Flow for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2. Basis for Adverse Opinion**

I expressed adverse 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 adverse 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 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 include 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

	<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	For the year of under review, the stamp duty revenue was Rs.70,483,141 and the stamp duty revenue receivable was over accounted as Rs.2,736,410.	That will be corrected in the year 2024.	Action should be taken to accurately identify and account for income of the year.
(b)	Contrary to the policy of accounting to the non-current assets by cost and mention in purchase cost of total value of 32 unmentioned cars and carts had been estimated and accounted as Rs.84,249,372 hence the value of cars and carts at the end of the year was over-stated by Rs.17,330,6283.	That will be corrected in the year 2024.	Action should be taken to accurately identify and account for Non-current asset.
(c)	Rs.1,615,062 which had been paid for the construction of the boundary wall on the land had not been accounted under land and buildings and 10% retention amounting to Rs.1,560,222 for 10 industries had not been accounted for under industrial creditors.	That will be corrected in the year 2024.	Assets should be accounted for at capital Expenditure and creditors.
(d)	Recurrent expenses totalling Rs.1,068,585 which could not be capitalized under land and buildings incurred in previous years were accounted under land and buildings.	That will be corrected in the year 2024.	Recurrent expenses should not be capitalized.
(e)	In the year 2019, the cost of buying curtains for the council office was Rs.512,225 accounted under wood and fixtures and also 37 items of inventory with a total value of Rs.330,361 were also accounted under machinery and equipment and lumber and fixtures.	That will be corrected in the year 2024.	Action should not be taken to capitalize recurrent expenditure and inventory items.
(f)	As Rs.273,000 due from 39 unbilled billboards and Rs.33,800 missed in the billboard register, totalling Rs.306,800 had been under accounted.	That 05 billboards have been removed, remaining billboard fees are being recovered and these billboards were not	Surveys should be done correctly and revenue billing should be done.

present in the billboard survey for the year 2023.

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| (g) | The capital expenditure of Rs.209,173 spent in the year 2019 was not accounted under land and buildings but was capitalized under timber and fixtures.  | That has been corrected in the year 2024. | Capital expenditure should be properly capitalized.   |
| (h) | In the year 2020, the value of two donated computers was over-accounted as Rs.204,570 under machinery and equipment.  | That has been corrected in the year 2024. | Action should be taken to accurately identify and account for fixed assets.                 |
| (i) | The 01 percent fee received from the income of Sri Lanka Tourism Board registered hotels, restaurants and lodgings located within the jurisdiction of the Council to be billed had been under -accounted by Rs.119,356. | That has been corrected in the year 2024  | Action should be taken to accurately identify and account for income and receivable income. |

#### 1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the council	Recommendation
Due to non-submission of required information, 04 accounting items totalling to Rs.117,531,023 could not be checked satisfactorily during the audit	That the documents related to the values adjusted to the accounts from before the year 2016 cannot be found and that there is no fixed deposit guarantee.	Evidence must be submitted to confirm the account balances shown in the financial statements.

#### 1.7 Non- Compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 134 (1) of Pradeshiya Sabha Act No. 15 of 1987	In the year 2018, the Council had not taken steps to charged assessment tax from the identified developed areas.	That the valuation survey was carried out and submitted to the Valuation Department for property valuation.	Action should be done according to the provisions of Act.

- (b) Financial Regulation 571(3) of the Democratic Socialist Republic Of Sri Lanka
- The 392 refundable deposit balances worth Rs.2,956,440 that were more than 02 years old had not been settled.
- That depositor awareness letters are being prepared for add income of deposit balances.
- Action should be done according to the Financial Regulation.
- (c) Paragraph 02 (c) (viii) No. 01/2023 dated January 27, 2023 of the Budget Circular.
- Although credit facilities should not be provided to executive staff officers, distress loans and festival advance of Rs.182,000 were given Community Development Officer of the Council in the year of under review.
- That festival advances are recover and distress loans are charged in instalments.
- Action should be done 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 2023 amounted to Rs.144,176,712 as compared with revenue over recurrent expenditure amounted to Rs.25,507,935 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Source of Revenue	2023				2022			
	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)
Assessments and taxes	1,478,000	8,343,339	7,783,087	1,389,327	775,000	1,139,984	1,343,406	829,075
rent	19,710,700	11,593,000	11,212,555	2,121,187	9,318,730	10,158,765	11,691,071	1,740,742
License fees	1,776,100	8,685,034	7,454,016	1,761,543	6,735,000	3,871,426	3,925,401	530,525
Other income	23,583,000	26,108,412	23,139,379	3,334,533	2,172,180	4,789,508	5,112,378	365,500
<b>Total</b>	<b>46,547,800</b>	<b>54,729,785</b>	<b>49,589,037</b>	<b>8,606,590</b>	<b>19,000,910</b>	<b>19,959,683</b>	<b>22,072,256</b>	<b>3,465,842</b>

## 2.2.2 Performance in Revenue Collection

Audit Observations	Comments of the council	Recommendation
(a) In accordance with section 159(1) of The Pradeshiya Sabha Act , action had not been taken to recover the receivable business tax was Rs.1,166,900 and Rs.859,147 of rent due from 584 shops.	That business tax and industry tax Rs.34,400 and shop rent Rs.214,988 were collected and legal action will be taken to recover business tax and shop rent in arrears Rs.548,300.	Arrears should be recovered promptly.
(b) Acre tax receivable of Rs.222,427 and rent receivable of 06 properties leased annually for Rs.1,261,206 had not been collected.	That Rs.652,332 of shop rent has been recovered and that the previous year's deficit will be recovered.	Arrears should be recovered promptly.
(c) Trade license fees of Rs.1,414,726 due from 28 business units and fees of Rs.342,900 due from 14 billboards had not been recovered.	That Rs.1,392,726 have been recovered from 06 businesses, cases have been filed against 18 businesses and Rs.71,600 have been recovered as billboards fees.	Arrears should be recovered promptly.
(d) Court fines and stamp fees due from the Chief Secretary of the Provincial Council were Rs.1,503,188 and Rs.108,511,761 respectively.	Court fines amounting to Rs.1,433,724 and stamp duty amounting to Rs.36,066,276 have been recovered and the rest be will recovered.	Arrears should be recovered promptly.

## 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 Identified Losses

Audit Observation	Comments of the Council	Recommendation
According to the daily running charts up to 17th September and October 2023 for 03 vehicles owned by the council, although the amount of fuel obtained was 490 liters, but according to the fuel receipt and issue document, the amount of fuel issued from the warehouse was 700 liters. Therefore there was a difference of 210 liters and the value of the fuel stock was Rs.72,710.	That the amount of Rs.72,210 will be recovered from three responsible employees.	To recover the difference in fuel stock and take action as per the provisions of the Establishment Code.

### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The legal rights of 05 vehicles, 55 land and cemeteries were not taken over by the council.	Lands and cemeteries are taken over, and the necessary arrangements are made to obtain the registration of vehicles.	Action should be taken to take legal ownership of the assets.
(b) Since the income inspector of the council and members of the fixed assets survey board, who have no professional knowledge about the valuation of 05 buildings whose cost was not mentioned, made a temporary assessment and accounted the total value as Rs.45,600,000. Therefore the value of land and buildings was overstated by the same values.	In the future, the assessment department will carry out a formal assessment and adjust the values.	Costs must be accurately estimated and accounted for.

### 3.3 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) According to the general meeting report in October 2022, Rs.920,646 had been spent for the purchase of an additional 5,683 books to provide books to children in 66 domains with 10 CR books per low-income child.	In the future, books will be purchased only as per the requirement and as decided.	Purchases must be made on an as-needed basis.
(b) Apart from the provisions of section 3.8 of the procurement guidelines, 120 page 830 CR books were purchased from the council fund as an emergency procurement for awarding the student skill program at a cost of Rs.140,270.	That the Local Government Commissioner's letter of instruction was followed.	Action should be taken in accordance with Government procurement guideline.

### 3.6 Defects in Contract Administration

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) While paying for 15 roads developed by laying concrete Chips, 1-2 tonne rolls were not used for road development. However Rs.226,298 had been paid extra for that.	That a 1-2 tonne roll was used for road development.	Action should be recovered of The overpaid value.

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| (b) | As per Finance Regulation 156 (7) for 15 rural roads which had been developed with concrete pavements, a loss of Rs.377,560 had been incurred to the council fund due to the estimation and payment for the laying of grade 30 Chips with a higher price without making arrangements for the laying of grade 25 Chips with a lower price favourable to the government. | Grade 30 stone laying was done for higher durability.  | Government officials should act in favour of the government and action should be taken against the responsible parties for not doing so. |
| (c) | For 15 road development projects that had been laid with concrete Chips, for the application of wire to the curbs that were built on both sides of the roads. During the payment, Rs.88,656 was overpaid due to preparing estimates and making payments using the prices under ST-055 instead of using the prices under BO-411 in the road price register.             | That the ST-055 rate was used as the work of wire bonding and cutting is done during the application of wire for the construction of concrete embankments. | The overpaid value should be recovered.  |
| (d) | For the construction of drainage systems in two industries, during the use of shape work, Rs. 228,703 were paid more than by using the prices under ST-057 instead of using the prices under ST-112 mentioned in the road price document to be used.   | ST-057 grade was used to achieve a smooth finish and maintain the strength of the concrete gutter.   | The overpaid value should be recovered.  |

**3.7 Human Resources Management**  
**Audit Observations**

- |     | <b>Audit Observations</b>   | <b>Comments of the Council</b>   | <b>Recommendation</b>                         |
|-----|---|--|---|
| (a) | By the end of the year of under review, 42 excess had not been formalized, since the approved carder and actual working staff of the council were 87 and 123 respectively.                    | Action will be taken to formalize the 42 redundancies.   | Action should be taken to formalize Excesses. |
| (b) | The 06 employees of the council were assigned other duties apart from the approved duties of the position, For that, salaries and allowances of Rs.3,059,250 were paid from the council fund. | other duties are assigned as per the requirement of the service and that the employees are paid salary related to the regular post | Employees must be engaged in approved duties. |



- (c) While there is an excess of 08 field workers in the council staff and 03 workers have been assigned other duties without proper assignment of duties related to the post, Moreover Three employees were hired on a daily basis in December 2022 without approval and Rs.1,100,849 were paid from the council fund as wages and allowances from December 2022 to December of the year of under review.
- That recruitment has been done subject to the approval of the Local Government Commissioner.
- Recruiting should not be done without approval.
- (d) Even by the end of the year of under review, arrangements had not been made to recover Rs.1,250 festival advance and Rs.89,746 distress loan from an employee who had left the service in the year 2005.
- That files have been submitted to take legal action for recovery.
- Action should be done to recover the employee loan.