

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Tissamaharama 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 Tissamaharama 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 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 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

	Audit observations	Comments of the Council	Recommendation
(a)	While reimbursement of both key money of Rs.15,892,994 due from 18 shop rooms and salaries of permanent staff and allowances of members , in here the under-reimbursed amount of Rs.86,126 was not accounted as receivable and the over-reimbursed amount of Rs.36,784 was not accounted for as payable.	That will be corrected in the year 2024 .	Accounts receivable and reimbursements must be accurately accounted .
(b)	The value of the contribution account from the fund to the capital application is Rs.8,978,081 and Fixed deposit interest income had been under-accounted by Rs.1,068,026.	That will be corrected in the year 2024.	Values of account balances should be accounted for correctly.
(c)	The total value of capital receipts related to previous years was Rs.816,446 accounted as capital income of the year without crediting to the accumulated fund.	That will be corrected in the year 2024.	Action should be taken to accounted as income of the year .
(d)	Due to non-contract agreement with the Electricity Board In the previous year and year of under review, , unreimbursed street light maintenance fees of Rs.704,653 were over-accounted as income receivable.	That will be corrected in the year 2024.	Unreimbursed income should not be accounted for.
(e)	Creditors' provision of Rs.500,000 was made for the purchase of automatic electrical switches without any contract or order for the year of under review, so the creditor value at the end of the year was overstated by that amount.	That will be corrected in the year 2024.	Provision should be made only for contracted expenses.
(f)	The entertainment tax income of Rs.424,228 for the previous year and the year of under review it had been accounted as a liability under various deposits.	That will be corrected in the year 2024.	Income should be properly accounted for.

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| (g) | Due to the fact that the cheques given to the entertainment tax debtors of Rs.295,940 in respect of the year 2017 was dishonoured, without making adjustments to the debtor account, that debtor was created again in the year of under review, so the debtor balance at the end of the year was over-stated by this value. | That will be corrected in the year 2024. | Accounts receivable must be accurately identified and accounted for. |
| (h) | Recurring expenses totalling Rs.186,771 had been accounted for as capital expenditure. | That will be corrected in the year 2024. | Expenses must be accurately identified and accounted for. |
| (i) | Rs.400,584 related to the previous year had been accounted in the one present of tax income due from registered hotels billed for the year of under review , therefore the income for the year was shown to be higher by the same value. | That will be corrected in the year 2024. | Only the income relating to the year should be accounted as income for the year. |

1.6.2 Lack of Documentary Evidences for Audit

1.7	Audit observations	Comments of the Council	Recommendation
	Due to non-submission of required information, 07 accounting items totaling to Rs.10,716,661 could not be checked satisfactorily during the audit	That certain balances are from before, details cannot be found, and that work is being done to correct the balances that can be identified.	Evidence should be submitted to confirm the account balances shown in the financial statements..

Non- Compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	The Section 52 of the Pradeshiya Sabha Act No. 15 of 1987	Regarding the construction of an unauthorized shop of 150 square feet next to stalls No. 40 and 41, Tissamaharama Public Market, had not been action for.	That the shops will be removed.. It should be done according to the provisions of the Act.

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| (b) | The section 134(2) of the Pradeshiya Sabha Act No. 15 of 1987 | In 2013 and 2018, in order to expand the assessment limit belonging to the council, 10 village official domains were identified as developed areas, but further necessary action had not been taken to declare those areas. | That development areas will be designated for collection of assessment tax from the year 2023. | Arrangements should be made to collect taxes from developed areas. |
| (c) | The section 20 of the Taxation and Valuation Act No. 30 of 1946 | An assessment tax was levied in the year under review based on the assessment of the year 2007, hence the period during which the assessment was not implemented was 12 years | That no assessment was done even though the valuation department had been requested to issue a fresh assessment. | Assessments should be levied on a new assessment. |
| (d) | Paragraph02(c) (viii) of Budget Circular No. 01/2023 dated 27 January 2023 | Although the credit facilities provided to the executive staff officers should be suspended, but without doing so, During the year of under review, Rs. 264,000 had been given as credit facilities to the Secretary of the council, as distress loans, festive and special advances. | That the loan amount is charged in installments. | Action should be proceed as per the provisions of the circular. |
| (e) | Paragraph 06 of the Local Government Commissioner's (South) Circular No. Dapapa/Papako/20 10/01 dated 27th December 2010 | Although the assessed tax rent should be revised by a new assessment according to the effective time limits of the assessment reports received from the government valuation department for the shops, and the same was not done in the case of 418 shops owned by the council. Therefore period during which a new assessment had not been Implement as on the date of audit was between 92 months and 19 months. | That 23 shops have been reassessed and the remaining shops have been notified in writing for assessment. | Shops should be assessed and new rent charged. |

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.22,105,097 as compared with revenue over recurrent expenditure amounted to Rs.2,342,531 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	3,072,086	3,397,609	4,135,145	3,906,792	3,132,086	3,144,139	3,458,490	4,644,327
rental	16,694,830	13,701,423	18,337,271	3,931,896	15,139,002	14,083,204	14,810,927	8,567,744
License fees	5,597,192	9,764,727	10,135,007	545,870	5,207,392	8,819,563	9,384,628	914,986
Other income	15,633,000	24,751,809	24,298,145	18,889,968	12,249,876	11,661,818	11,360,192	1,435,304
Total	40,997,108	51,615,568	56,905,568	27,274,526	35,728,356	37,708,724	39,014,237	15,562,361

2.2.2 Performance in Revenue Collection

	Audit observations	Comments of the Council	Recommendation
(a)	In accordance with sections 158(1) and 159(1) of the Pradeshiya Sabha Act, action had not been taken to recover both assessment tax receivable from 2120 units was Rs.3,181,852 and Rs.3,363,325 of rent receivable from 233 shops.	Rs.119,890 of assessment tax due has been recovered and red notices have been sent for arrears of more than 5,000 rupees and shop rents of Rs.334,257 have been recovered and the rest of the arrears will be recovered.	Arrears should be recovered promptly.
(b)	Business tax due from 171 business units was Rs.429,000 and also Entertainment tax revenue of Rs. 295,940 had not been charged.	Arrears business tax of Rs.60,000 has been charged and a lawsuit has been filed for Rs.85,800 and the rest of the arrears will be recovered.	Arrears should be recovered promptly.
(c)	Due Rs.443,996 from stone crusher tax revenue, Rs .40,250 from toilet leasing and House rents of Rs. 84,325 had not been charged.	That work will be done to cut-off from the toilet tax deficit and the rest of the arrears will be charged.	Arrears should be recovered promptly.
(d)	The lessee, who leased shop No. 03 in front of Tissa Old Bus Station, as each month rent of Rs.1,500 and total of Rs.55,125 had not arranged to pay the rent. And written agreement also had not been entered into with the lessee.	That the arrears be recovered from the responsible parties.	Arrears should be recovered promptly.

- (e) There were no arrangements to charge the receivable billboard fees of Rs.139,800 and the parking fees of Rs.406,070. That Rs.122,200 have been collected from billboard fees and that the parking fees will be directed to cut the deficit in the year 2022 and the remaining arrears will be collected . Arrears should be recovered promptly.
- (f) Due to the fact that the annual billboard survey was not done correctly by the council's revenue inspector, the balance due for 14 billboards which were not included in the billboard survey report of the reviewed year was Rs.119,500. That such defects will not occur in the future. Unbilled revenue should be recovered from responsible parties.
- (g) Galibauser service charges due to the council, vehicle rental and garbage removal charges Rs.68,225 ,Rs.460,395 and Rs.304,450 respectively had not been charged. That Rs.56,100 has been charged from the Galibauser deficit and Rs.48,750 has been charged from the garbage removal and the rest of the arrears are being recovered. Arrears should be recovered promptly.
- (h) Court fines and stamp duty due from the Chief Secretary of the Provincial Council were Rs.1,777,667 and Rs.22,601,844 respectively. Rs.5,000,000 from stamp duty arrears and court fines arrears had been 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 Uneconomic Transactions

Audit observations	Comments of the Council	Recommendation
(a) The new mall in Pannegamuwa Public Market with 28 shops and an open building was built by the District Secretariat at a cost of Rs. 62,915,634 and handed over to the council in 2021. By the date of audit of 11th December 2023, the premises had become was heavily contaminated, overgrown with weeds due to disuse. This was a waste of public money and it was abundant revenue that could have been received by the council.	Arrangements are being made to obtain an assessment and once it is received the shops will be opened.	Maximum results should be obtained from the assets owned by the council.

- (b) This building, which was built by the Urban Development Authority near Tissamaharama bus station, was handed over to the Pradeshiya Sabha on 2 nd December 2019, with the ground floor of 48 shops, the first floor for Pradeshiya Sabha office and the second floor for the conference hall. The work on the ground floor where the 48 shops had been completed and a significant amount of construction work had been completed on the other two floors. Although 04 years have passed since the building was handed over to the council, the shops have not been rented out to earn income and the other two floors have not been completed and arrange to use.
- That the construction works will be completed by taking loans from the Local Credit Development Fund.
- The building should be put to use after the construction work is completed.

3.2 Identified Losses

Audit observations	Comments of the Council	Recommendation
According to the Public Administration Circular No. 22/99 (XXXIII) dated 07 th November 2017, the maximum distance that can be travelled between the office and the home by the officers who provide transportation facilities should not exceed 50 kilometres, Without doing so, the Secretary of the council had arranged transport facilities of more than 100 kilometres to per day. And During the period from 02 nd November 2020 to 02 nd October 2023, an additional fuel cost of Rs.323,403 was spent from the council fund for 19272 kilometres that were driven over 100 kilometres per day.	That the provisions mentioned in the circular will be dealt with in the future.	Acting contrary to the provisions mentioned in the circular, loss caused to the council fund should be recovered from the responsible party.

3.3 Management Inefficiencies

Audit observations	Comments of the Council	Recommendation
According to the amendments made to the Urban Development Authority Act No. 41 of 1978 of the National Rajya Sabha by the Extraordinary Gazette No. 2235/54 dated 08 th July 2021, In relation to 09 building construction plans that exceeded the approved amount and in relation to 06 building plans that were not constructed within the stipulated time, the cover approval fees of Rs.1,311,699 and Rs.30,000 respectively had not been collected.	That revised plans will be provided after charging the relevant process fees and that the validity period extension fees will be charged.	The provisions of the Act and the revised Gazette should be followed.

3.4 Operational Inefficiencies

Audit observations	Comments of the Council	Recommendation
(a) Value Added Tax (VAT) was charged Rs.24,224 during the issuance of Environmental Permits for the year 2023 by the Council without valid registration for charging Value Added Tax (VAT) .	That the charges have been revised and collected.	When not registered for value added tax, the tax should not be levied.
(b) The council management did not focus on collecting the environmental license fees of Rs. 227,700 due due to the non-provision of providing environmental protection licenses for 46 industries..	That the relevant parties were informed to obtain environmental protection license.	Environmental protection license should be issued and fees collected.

3.5 Asset Management

Audit observations	Comments of the Council	Recommendation
(a) Due to various reasons, there were 07 shop rooms that were not tendered in February 2023 and the period of underutilization was 10 months at the end of the year under review.	That these shops will be tendered after providing electricity connection.	Arrangements should be made to lease the shops without delay.
(b) The legal ownership of 03 Vehicle and Machinery and 39 Lands and buildings owned by the Council had not been taken over in the name of the council.	That we will work to get legal rights in the future.	The legal ownership of the assets owned by the council should be confirmed.

3.6 Delays in Project Activities or Capital work

Audit Observation	Comments of the Council	Recommendation
04 development proposals with a total value of Rs.37,500,000, which had been allocated in the annual budget to be implemented in the year 2023, had not been implemented during the year.	That such defects will not occur in the future.	The development proposals for which allocations have been made in the budget should be implemented.

3.7 Procurement Management

Audit observations	Comments of the Council	Recommendation
(a) Contrary from the provisions of Section 3.8 of the Government Procurement Guidelines Code of 2006, CR books worth Rs.140,250 were purchased from the council fund, considering the awarding of prizes for the student skill program as an emergency procurement.	174 of the Pradeshiya Sabha Act has been dealt with and will be dealt with according to the Procurement Guidelines Code in future.	Action should be taken in accordance with Government procurement guideline.
(b) As per Section 5.6.1 (a) of the Government Procurement Guidelines 2006, the specifications for goods or works to be procured shall not be narrower than necessary to achieve the procurement objectives, but in respect of the purchase of tires with an aggregate value of Rs.413,195 it had not been done that way.	That in the future, the provisions of the procurement guidelines will be followed.	Action should be taken in accordance with Government procurement guideline.

3.8 Defects in Contract Administration

Audit observations	Comments of the Council	Recommendation
(a) Due to not using correct prices for developing 05 rural roads using gravel from council fund, it had been overestimated by Rs.1,276,037	That the price includes loading the gravel twice.	Estimating should be done correctly.
(b) In making payments for gravel soil transport tippers for 05 road projects that had been developed using gravel, Rs.400,413 was overpaid from the council fund due to the payment based on the prices obtained through the call for prices quotations without using the prices mentioned in the road price list..	That the supplier who offered the lowest price was selected after calling for quotations from the tippers.	Excess transportation charges should be recovered.

3.9 Human Resources Management

Audit observations	Comments of the Council	Recommendation
(a) In the year under review, 18 excess related to 08 posts were not completed even in the year under review, out of which the approved	That the positions will be formalized in the future.	Action should be made to formalized staff redundancies.

carder and actual staff of the council were 104 and 90 respectively.

- (b) Apart from the provisions mentioned in paragraph 03 (vii) of the National Budget Circular No. 03/2022 dated 26th April 2022 regarding control of public expenditure, 05 temporary health workers were hired without approval and Rs.999,701 were paid from March to December 2023, but there was an excess of 22 health workers in the council.
- That the recruitments were made on the basis of service requirement and salary payment were made
- Action should be taken as per the provision of circular.

3.10 Solid Waste Management

Audit observations	Comments of the Council	Recommendation
In the year 2022, the chairman of the council had requested the divisional secretary of Tissamaharama to provide a 20-acre piece of land in the domain of the Uddhakandara village officer for garbage disposal, but this land had not been handed over to the council by the end of the year under review. Garbage and street waste brought by the council when it was not assigned was illegally dumped on this land and gravel was cut from this land for road development works of the council.	That the Divisional Secretary has agreed to transfer 4.6122 hectares of the requested land.	There should be no illegal dumping and cutting of soil.