

Thangalla Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thangalla Pradeshiya Sabha for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Sub-section 172 (1) of the Pradeshiya Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Thangalla Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Principles, 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 Sub-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 to be prepared.

1.4 **Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Pradeshiya Sabha 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.

- The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented 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 Observation	Comment of the Sabha	Recommendation
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(a) The receivable Stamp Duty for the year 2019 and for the year under review had been accounted as Rs.6,685,240 and Rs.17,865,779 respectively and accumulative understatement had been Rs.24,551,019.	Receivable Stamp Duty understated by Rs.6,685,240 in the year 2019 and the Stamp Duty receivable for the year 2021 would be corrected after receiving all the Supplementary Documents.	The revenue should be accounted accurately.
(b) The Expenditure of Rs.2,152,804 for the years 2018 and 2019 had been accounted as the expenditure for the year under review.	Actions would be taken as to prevent these kind of mistakes.	The Expenditure should be accurately accounted.
(c) Provision for the Debtors had not been made for Employee Provident Fund 12 per cent Contribution amount of Rs.407,771 receivable for three temporary employees that made permanent.	The Director General of Pension had been informed about the Employee Provident Fund Contribution of Rs.407,771 to the Sabha.	Assets should be accounted accurately.
(d) The Court Fines receivable had been overstated by Rs.321,054 as at 31 December of the year under review.	The Balance receivable from the Thangalla Divisional Court and the Angunakolapelessa Divisional Court had been Rs.9,080,070.	The revenue should be accounted accurately.

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| (e) | Capital Expenditure of Rs.261,462 had been accounted as recurrent expenditure. | Actions would be taken to correct in the future. | The Capital Expenditure should be accounted accurately. |
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1.6.2 Suspense Accounts

Audit Observation

The balance of the Suspense Account brought forward since the year 2017 of Rs.17,252 had been settled to the Accumulated Fund without making the proper Journal Entries.

Comment of the Sabha

Actions would be taken to correct this balance relevant to the year 2017.

Recommendation

Actions should be taken to recognize and settle the balance of the Suspense Account.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation

The necessary information had not been furnished regarding 05 items of accounts accumulated to Rs.47,982,908 for the audit.

Comment of the Sabha

The detailed information and the Certificates of the Balance Confirmation.

Recommendation

The Evidence should be furnished to prove the balances declared in the Financial Statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding recurrent expenditure of the Sabha amounted to Rs.1,014,619 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.53,444,656.

2.2 Financial Control

Audit Observation

The balance money in hand had been Rs.750,000 according to the Bank Reconciliation prepared for the month of December in the year 2019 but physically there had not been any balance. After settling an amount of Rs.443,562 to the Bank Balance for the year under review the Bank Reconciliation had been prepared by settling a leftover balance of Rs.306,438 as an unrecognized balance.

Comment of the Sabha

Actions would be taken to recognize the balance of Rs.306,438.

Recommendation

The Balance should be recognized and settled.

2.3 Revenue Administration

2.3.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
(a) Other Revenue		
i. Actions had not been taken to recover the receivable Business Tax and Industrial tax of Rs.128,580.	Actions would be taken to recover in the future.	The revenue in receivable should be recovered as soon as possible.
ii. Actions had not been taken to recover the receivable Acreage Tax of Rs.168,863 and a time analysis for the receivable Acreage Tax.	The Balance is being collected as soon as possible.	-do-
iii. Action had not been taken to recover the receivable Hoarding Board charges of Rs.83,800.	Actions would be taken to recover the arrears Hoarding Board Charges.	-do-
(b) Rent		
i. Action had not been taken to recover The Stall Rent receivable of Rs.783,003.	Actions would be taken to recover the arrears and actions would be taken to send an Arbitration to the Stalls in Yayawatta.	-do-
ii. Actions had not been taken to recover rent and fines receivable from 05 Leased Property of the Sabha of Rs.620,796.	Legal Action had not been taken to recover the receivables.	-do-
iii. Accumulated amount of Rs.60,000 had not been recovered from 03 stalls made agreements in the year 2018 under the paragraph 04 of the Circular No.433/33020 /2010/01 dated 27 December 2010 by the Commissioner of Local Government (South).	Actions would be taken to recover the rest of the Rs.60,000.	Actions should be taken according to the Circular.

(c) Court Fines and Stamp Duty

The Court Fines and Stamp Duty receivable from the Chief Secretary and the Other Officers of the Provincial Council had been Rs.45,413,180.

The Chief Secretary had been informed to recover the Court Fines and Stamp Duty receivable.

The revenue receivable should be recovered as soon as possible.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Sabha through Section 03 of the Pradeshiya Sabha Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Procurement Management

Audit Observation

The tender of printing 100,000 Local Tickets to the Hummana View Point had been given to a private institution before receiving the Tender Board Decision and it had been called for Quotations from 05 institutions to show the transparency of the Procurement Procedure.

Comment of the Sabha

The Subject Officer not available who had being working those days, therefore the tickets had been printed for the purpose need.

Recommendation

Actions would be taken according to the Procurement Guidelines.