

## **Thalawa Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Thalawa Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, 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 Thalawa Pradeshiya Sabha as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **1.2 Basis for Qualified Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities, 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)**

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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

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National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(d)(iv) of the National Audit Act No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Sabha	Recommendation
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(a) Even though the outstanding balance in Rates as at 31st December of the year under review was Rs. 17,249,886 according to the Register of Assessment, it had been stated as Rs.17,220,735 in the financial statements, thus understating by Rs.29,151.	Action will be taken to correct this in the financial statements for the year 2021.	Correct value of the Rates in arrears should be brought to account in the financial statements.
(b) According to the ledger, the cumulative surplus as at 31st December of the year under review was Rs. 469,081,516, whereas it had been stated as Rs.540,548,759 in the statement of assets and liabilities. As a result, equity balance had increased by Rs.71,467,243.	Accepted.	Correct equity value should be stated in the financial statements.
(c) As a sum of Rs.71,467,244 less than the identified revalued amount of 08 categories of assets had been brought to account, the value of accumulated fund had been understated by that amount.	Accepted.	Correct amount of the revalued assets should be brought to account.
(d) According to the cash flow statement prepared as at 31st December of the year under review, when adding the cash balance at the beginning	Accepted.	The correct value of cash and cash equivalent should be stated in the

<p>of the year to the net increase in the cash and cash equivalent the cash balance was Rs.27,830,827. Nevertheless, the balance of cash and cash equivalent had been stated as Rs..13,150,48, thus understating by Rs..14,680,344 in the balance sheet.</p>		financial statements.
<p>(e) Although the Sabha had not carried out any construction of roads, bridges and culverts or made any assignments for the construction from other institutions during the year under review, a sum of Rs.112,003,925 had been brought to account as the construction of roads, bridges and culverts during the year under review and as such, non-current assets of the Sabha had been overstated by that amount.</p>	<p>Action will be taken to correct this in the financial statements for the year 2021.</p>	<p>Only the constructions identified as non-current assets should be brought to account.</p>
<p>(f) The pension balance of Rs. 2,016,957 payable as at 31st December of the year under review according to the balance confirmation letters had not been identified and brought to account as a balance payable. As a result, current liabilities of the Sabha had been understated by that amount.</p>	<p>Action will be taken to correct this in the financial statements for the year 2021.</p>	<p>Expenditure payable should be identified as current liabilities.</p>
<p>(g) As a sum of Rs.1,863,030 paid as the mobilization advance to the relevant contractor during the year under review for a project carried out by the Local Development Supporting Project (LDSP) had been accounted for as repair cost, recurrent expenditure of the year under review had increased by that amount while current assets had been understated by the same amount.</p>	<p>Accepted.</p>	<p>Payment of mobilization advances should be brought to account as the current assets.</p>
<p>(h) The payable audit fee for the year under review had not been estimated and brought to account.</p>	<p>Accepted.</p>	<p>Payable charges should be brought to account at least on estimated basis.</p>
<p>(i) According to the employee loan record, the employee loan balance receivable as at 31st December of the year under review was Rs. 7,741,395, it had been brought to account as Rs.6,565,608 in the financial statements. As a result, current assets had been under stated by Rs.1,175,787.</p>	<p>Accepted.</p>	<p>The correct loan balance value should be brought to account.</p>

### 1.6.2 Non-reconciled Control Account or Reports

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Audit Observation	Comment of the Sabha	Recommendation
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A difference of Rs.1,243,565 was observed between the balances of 06 items of account shown in the financial statements and the balances stated in the relevant schedules.	Accepted.	The values of the schedules should be in consistence with the values in the financial statements.

### 1.6.3 Lack of Documentary Evidence for Audit

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Audit Observation	Comment of the Sabha	Recommendation
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Information required for audit relating to 03 items of account totalling Rs.8,533,622 had not been submitted.	Accepted.	Confirmations should be submitted.

### 1.7 Non-compliance

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

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Instances of non-compliances with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Sabha	Recommendation
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(a) Paragraph 5 of the Gazette Notification No. 2086/15 dated 29th August 2018 of the Governor of the North Central Province.	An overpayment of Rs. 11,900 had been incurred due to the Chairman being paid a combined allowance of Rs.700 per day during the months of October, November and December 2019.	This will be checked and recoveries will be made in the future.	Action should be taken to recover the overpayment.

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| (b) | Section 4.1 of Chapter xiv of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | Two Public Health Inspectors had been paid Rs. 170,407 as combined allowance and travel expenses for a travelling distance of 750 meters for the period from January 2018 to September 2020. | This will be examined and appropriate action will be taken thereon. | Action should be taken in accordance with Establishments Code. |
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## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 57,052,501 for the year ended on 31 December 2020 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 22,570,537.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Sabha	Recommendation
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(a) <b>Rates and Taxes</b> -----		
The arrears of Rates of Rs. 17,220,735 as at 31 December 2020 had not been recovered.	Accepted.	Action should be taken to collect estimated revenue.
(b) <b>Rent</b> -----		
Rent of Rs. 917,097 as at 31 December of the year under review had not been recovered.	Action will be taken to recover the arrears.	Action should be taken to recover the Rent in arrears.
(d) <b>Licence Fees</b> -----		
Licence fees of Rs. 174,500 as at 31 December of the year under review had not been recovered.	Action will be taken to recover the arrears.	Action will be taken to recover the arrears expeditiously.

### 3. Operating Review

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The following matters were observed with respect to the execution of duties charged with the Council 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 Identified Losses

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##### Audit Observation

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Although a cab valued at Rs. 6,390,000 belonging to the Sabha had met with an accident on 15 April 2019 causing a loss of Rs.3,400,520, due to the rejection of the insurance claims based on the incorrect information about the accident and the misuse of the vehicle, it had been retained in a repair centre of the local agent.

##### Comment of the Sabha

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Attention has been paid to take action as per the report of the investigation carried out in this regard.

##### Recommendation

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Action should be taken to recover the loss.

#### 3.2 Management Inefficiencies

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##### Audit Observation

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(a) Four outlets that leased out a minimum bid of Rs. 1,040,735 without being leased on a maximum bid, it had been leased for a minimum bid of Rs. 924,078 even in the year under review.

##### Comment of the Sabha

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Accepted.

##### Recommendation

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Action should be taken to recover the maximum possible tax revenue.

(b) The Sabha had received Rs. 3,446,848 from the Central Environmental Authority for the construction of the Karagahawewa Waste Yard during the years 2012 to 2017 and out of which Rs. 1,121,026 had been spent. However, due to non-completion of the construction of the Waste Management Center, the expected objectives of the Waste Management Center could not be achieved.

The Orugalayaya Garbage Yard is permanently used for the disposal of waste collected by the Sabha.

Action should be taken to make use of the Karagahawewa Waste Yard.

- (c) A sum of Rs. 371,946 received in respect of 65 receipts issued by the Sabha in the year 2018 had not been credited to the Sabha Fund. Nevertheless, the money had not been recovered from the responsible parties.
- Investigations in this connection are underway.
- Investigations should be completed expeditiously to recover the money.