

Thihagoda Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thihagoda Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 Statement of financial position, as at 31 December 2021 Statement of Financial Operations, statements of changing Equity 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. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Thihagoda Pradeshiya Sabha as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Rs.19,911,981 spent under various projects on the development of land and buildings owned by the council in the year under review and valued at Rs.337,710 machinery and equipment purchased for the food shop had not been capitalized.	Action should be taken to correct	Should be accounted correctly.
(b) The provision had not been made for creditors under various expenses of Rs.81,740 payable in respect of the year under review.		
(c) Under the Sapiri Gamak People's Participation Rural Development Program, at the Dolahena Watta road development project received Rs.434,543 in previous year, however this amount had been accounted as debtors in the year under review.		
(d) In relation to work in which a credit provision of Rs.493,842 had been made in the previous year, the bills had been settled in the year under review however the creditor's provision had been made.		
(e) Due to the fact that the retention amount of Rs.178,122 to be paid to the contractor in relation to a construction work is shown as Rs.294,740, and the credit provision of Rs.1,338,981 has been made for the finished work value of 02 works which were executed on council funds, which was Rs.1,178,586. Therefore Rs.277,013 had been over stated in the accounted.		

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 amounted to Rs. 13,617,546 as compared with excess of revenue over recurrent expenditure amounted to Rs. 16,574,911 in the preceding year.

3. Operational Performance

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 Deficiencies in contract administration

Audit Observation

Plywood were used for the preparation of formwork in 03 work and for that, the rates of Rs.841 and Rs.843 introduced by the Southern Provincial Engineering Office under CT-036 for the first half of 2019 and 2021 had not been used therefore Rs.169,500 had been over paid for setting up 322.18 square meters.

Comment of the Sabha

Since it has been advised to always use the prices presented by the Road Development Authority in the development of roads, accordingly, the rates of the Road Development Authority are used for road construction and the prices introduced by the Southern Provincial Engineering Service Office used for the construction of buildings.

Recommendation

Appropriate and favorable rates should be used