

## **Thanamalwila Pradeshiya Sabha - 2021**

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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 ThanamalwilaPradeshiyaSabha including the financial statements for the year ended 31<sup>st</sup> December 2021 comprising the Statement of financial position as at 31<sup>st</sup>December 2021, Statement of Financial Operations, Statement of changes in net assets, 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 PradeshiyaSabha Act No.15 of 1987and provisions of the National Audit Act No.19 of 2018. 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 financial statements give a true and fair view of the financial position of the ThanamalwilaPradeshiyaSabha 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 Practices.

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

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I expressed qualifiedopinion 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 FinancialStatements 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 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 PradeshiyaSabha'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)**

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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 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 PradeshiyaSabhahas complied with applicable written law, or other general or special directions issued by the governing body of the PradeshiyaSabha;
- Whether ithas performed according to its powers, functions and duties; and
- Whether the resources of the PradeshiyaSabhahad 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) The financial statements of the PradeshiyaSabha 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 Observation -----	Comments of thesabha -----	Recommendation -----
(a) In preparing the financial statements for the year under review the accounting policies for measurement of inventory, revenue recognition and measurement of work in progress were not disclosed.	It has been informed that in the preparation of financial statements for the year 2022, the accounting policies for measurement of inventory, revenue recognition and measurement of work in progress will be disclosed.	The accounting policies followed in preparing the financial statements should be disclosed.
(b) During the year under review, the expenditure on renovation of buildings belonging to the PradeshiyaSabhaand construction of new buildings of Rs.2,603,676was not shown in the Land and Buildings Account and Contribution from Income to Capital Application Accounts.	It has been informed that the relevant values will be recorded in the preparation of the financial statements of the year 2022.	Expenditure on building renovation should be added to the accounts of Land and Buildings and Contribution from Income to Capital Application.

- (c) Due to non-capitalization of the value of 15 equipment worth of Rs.2,154,642 is being currently used by the PradeshiyaSabhawhich was purchased in previous years, the accounts of property, plant and equipment and income contribution to capital application were understated by that amount. It has been informed that the difference resulted in capital expenditure will be corrected and accounted for in the preparation of the financial statements for the year 2022. Property plant and equipment used by the Sabha should account for
- (d) Since Stock of consumables as on 31<sup>st</sup>December of the year under review had been under-accounted by Rs. 253,572, the stock and surplus had been understated by that amount. It has been informed that the will be corrected by journal entries in the preparation of the financial statements for the year 2022. The correct stock should be accounted for.
- (e) Rs.4,612,863worth of library books had been destroyed by the end of the year under review but by including them in the statement of financial position, it was observed that the value under property, plant and equipment included a fictitious asset. Value of books will be written off by Rs.4,612,863 the accounting error will be corrected in the preparation of financial statements for the 2022. The value of destroyed library books should be formally written off from the accounts.
- (f) Since the sum of Rs.1,083,100 worth Constructionhad not been accounted for as Fixed assets, the property, plant and equipment and the contribution from income to capital application had been understated by that amount. In preparing the financial statements for the year 2022, Rs.1,083,100fixed assets are being capitalized and it has been informed that such mistakes will not occur again. All buildings belonging to the Sabha should be accounted for under property, plant and equipment.

- (g) As the debtor balance of Rs.503,915 which was written off by mistake in the previous year had not been corrected during the year under review, the debtor and accumulated fund had been understated by that amount. It has been informed that the relevant error will be rectified, in preparing the financial statements for the year 2022 and it will be ensured that such mistakes do not occur again. Due balances should not be written off without formal approval.
- (h) Since Income in arrears had been over-accounted by Rs.3,217,154 Surplus and Income receivables had been overstated. It has been informed that the financial statements of the years 2020 and 2021 will be checked and the actual deficit will be taken into account while preparing the financial statements of the year 2022. Accounts should be prepared correctly.
- (i) In the statement of financial position of the year under review, the miscellaneous deposit balance had been overstated by Rs.7,107,781. It has been informed that the relevant correction will be made in the financial statements of the year 2022 after comparing with the deposit register. Correct deposit balances should be presented in the accounts
- (j) Due to accounting of arrears of court fines and stamp duty of the previous year as income of the year under review instead of adjustment to the accumulated fund, court fine income by Rs.1,722,101 and stamp duty revenue by Rs.50,149 had been overstated Hence the surplus and deficit revenues were overstated by those amounts. It has been informed that the deficit of Rs.1,692,686.05 recorded as a current receipt will be corrected during the preparation of the financial statements for the year 2022. The correct court fines and stamp duty to be charged should be shown in the accounts.

- (k) According to the ledger, physical services and regional development assistance project expenses shown under capital expenditure were Rs.40,066,460 and Rs.10,766,156 respectively, Due to inclusion of it in the statement of financial position as Rs.36,018,299 and Rs.9,860,032 respectively, the capital expenditure had been understated by Rs.5,154,285.
- It has been informed that it will be corrected and accounted for in the preparation of the financial statements for the year 2022.
- Accounts should be prepared correctly.

## 2. Financial Review

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### 2.1 Financial Result

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31<sup>st</sup>December 2021 amounted to Rs.24,094,688 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 36,177,394 in the preceding year.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Revenue Collection

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	<b>Audit Observation</b>	<b>Comments of the Sabha</b>	<b>Recommendation</b>
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(a)	Outstanding tender money for stall No.07 to 12 nearby Dandumaweekly fair Rs.4,766,900 had not been recovered.	It has been informed that the shop construction work will be completed as soon as possible and the contract will be entered into.	Tender money in arrears should be recovered.
(b)	Rs.655,420 due for 111 billboards identified in surveys in 2020 and 2021 had not been recovered.	Reminder letters have been sent to the concerned agencies for recovery of billboard charges	Billboard charges in arrears should be recovered.

### 3. Operational Review

#### 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 Sabha under Section 03 of the Pradeshiya Sabha Act are shown below.

#### Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
(a) During the payment for the subject of transport, in relation to 12 road development projects built by the Sabha using more than 200 cubic meters of gravel, due to making payments using the rates related to industries with less than 200 cubic meters of gravel, Rs.1,404,751 were overpaid.	It has been informed that a charge sheet has been issued against the former technical officer of this Sabha in connection with industries that were overpaid during the development and a formal disciplinary investigation is currently underway.	The loss to the Sabha fund should be recovered
(b) Although the height of the road should be 06 inches according to the quantity sheet and the finished work report of the 03 road concreting projects completed by the Sabha, the height of the road was 5 inches during the physical inspection by the auditors, so the sum of Rs.407,494 were overpaid and it was also observed that the road was not built in the expected condition.	It has been informed that they will check this and recover the overpaid amount from the concerned officials.	The loss to the Sabha fund should be recovered.

- (c) Although there was a delay of 406 days in completing the construction work of the Sandagalagama Community Hall, which had been completed last year, while charging late charges for that Rs.154,299 had been undercharged. It has been informed that they will check this and recover the overpaid amount from the concerned officials. The loss to the Sabha fund should be recovered.