

Thangalla Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thangalla Pradeshiya Sabha for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 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 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 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 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.

- (a) 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.
- (b) 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
-----	-----	-----
(a) The Industrial Creditors had been understated by Rs.1,131,987 because the estimated values had not been accurately stated of 65 tasks implemented by the Sabha during the year under review therefore the current assets at the end of the year under review had been understated by that amount.	Actions would be taken to make this correct by the final accounts for the year 2022.	The creditors should be stated accurately.
(b) The value of the non-current assets had been understated because the accumulated value of Rs.675,021 of the fixed assets of purchased and constructed had not been capitalized for the year under review.	Actions would be taken to make this correct by the final accounts for the year 2022.	The Fixed assets should be accurately stated.
(c) The sum value had been overstated by as Rs.1,023,341 even though the arrears weekly fair income and the arrears rent income respectively of Rs.847,499 and Rs.175,842 at the end of the year under review.	Actions would be taken to make this correct by the final accounts for the year 2022.	Revenue should be stated accurately.

- (d) The arrears employee loans at the end of the year under review had been overstated by Rs.391,767 therefore the value of the current assets had been overstated by that amount. The employee loans recovered by the permanent salary by the December 2021 had been erroneously incurred in the accounts actions would be taken to make it correct in the future. The employee loans should be accurately stated.

1.6.2 Suspense Accounts

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
Actions had not been taken as at the end of the year under review to correct the unrecognized balance in the suspense account descending from the previous years of rs.17,252 to resolve.	Inform that the evidence on a balance of Rs.11,004 had been revealed and it would be corrected by the accounts of the year 2022 and actions would be taken to resolve the rest of the balance.	The balance of the suspense account should be recognized and resolved as soon as possible.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.64,617,857 for the year ended on 31 December of the year under review as compared with the corresponding the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.1,014,619.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

----- Audit Observation -----	----- Comment of the Sabha -----	----- Recommendation -----
<u>Other Tax</u>		
Actions would be taken to recover business and Industrial Tax of Rs.740,280 from 613 business units.	Actions would be taken to recover the arrears.	Arrears income should be recovered as soon as possible.
<u>Rent</u>		
Actions would be taken to recover rent from 71 stalls owned by the sabha of Rs.1,143,117.	Actions would be taken to recover the rest of the rent amounts and law suit had been imposed to recover a balance of Rs.370,370.	Arrears income should be recovered as soon as possible.