

Tumpane Pradeshiya Sabha – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tumpane Pradeshiya Sabha including the financial statements for the year ended 31st December 2021 comprising the Statement of financial position as at 31st December 2021, Income and Expenditure Account 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 and 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 Tumpane Pradeshiya Sabha as at 31st 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

I expressed qualified opinion 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 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 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 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

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

- (a) The financial statements of the Pradeshiya Sabha 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 the Sabha	Recommendation
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(a) At the end of the year under review, stamp duty receivables had been overstated by Rs.15,166,453.	That will be corrected from the account of the year 2022 and the land registrar's office be inquired about stamp duty due.	Stamp duty revenue should be correctly identified and properly accounted for
(b) In the year under review, Rs.10,010,588, which had been incurred on 06 occasions for the renovation of the assets of the council, was not capitalized.	That it will be corrected in the preparation of accounts in the year 2022	Capital expenditure should be correctly accounted for
(c) Rs.6,500,000 which had been paid for a water project built with the council's funds had been re-accounted as creditors.	That it will be corrected in the preparation of accounts in the year 2022	Creditors should be correctly accounted for.
(d) At the end of the year under review, The estimated value of 18 projects valued at Rs.3,375,000 that were to be implemented from the Council's funds, but were not completed, were accounted as creditors.	As the prices of raw materials fluctuated, industries could not be completed	Creditors must be correctly identified and accounted for
(e) A difference of Rs.920,588 was observed; as the balance of fixed assets was Rs.202,832,157 and the account balance of contribution from income to capital application was Rs.201,911,569 at the end of the year under review.	That, it will be corrected by the financial statements of the year 2022	Differences should be identified and corrected.

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| (f) | The payables of Rs.933,267 in relation to 02 Projects which were completed using council funds in the year under review were not accounted as creditors. | That will be corrected from the account of the year 2022 | Creditors balances must be correctly accounted for |
| (g) | Shop rent of Rs.1,165,025 related to the year under review was not accounted as rental income in the Income and Expenditure Account. | That will be corrected from the account of the year 2022 | The income of the year should be correctly accounted for |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation

There was a difference of Rs.1,395,802 between the balances of the accounts shown in the financial statements related to 05 account subjects as on December 31st of the year under review and the balances of the source documents.

Comments of the Sabha

As the deficit has persisted for more than several years, corrected and forwarded to audit

Recommendation

Differences should be identified and the correct value should be adjusted in the accounts

1.6.3 Documentary Evidences not made available for Audit

Audit Observation

Due to non-submission of necessary information, an asset subject of Rs.69,946,581 and a liability subject of Rs.17,872,315 could not be satisfactorily verified in the audit.

Comments of the Sabha

That, the recording of the information in the documents has been started and it will be forwarded to the audit immediately

Recommendation

Records should be maintained to verify the balance of assets and liabilities

1.7 Non- Compliances

----- Non-compliance with Laws, Rules and Regulations etc... -----

Followings are the instances where laws, rules and regulations were not complied with.

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Comments of the Sabha -----	Recommendation -----
(a) Pradeshiya Sabha Act No. 15 of 1987 ----- 126 Section	Without publishing the fees to be charged in the Gazette by enacting by-laws for Sand ferry operated under a license Fees; Rs.205,000 had been charged.	That permission has been obtained till August of the year under review	Necessary by-laws should be formulated
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- Financial regulation 571	No relevant actions had been taken in relating to the lapsed deposit balance of Rs.1,287,626 included in the deposit registry which was deposited in the period of 2015 to 2018 and elapsed 03 years.	That, adjustments will be made through the account in the year 2022	Financial regulations should be followed.

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 31st December 2021 amounted to Rs.16,820,904 as compared with the excess of revenue over recurrent expenditure amounted to Rs.23,524,622 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Rates</p> <p>At the end of the year under review, the assessment tax of Rs.1,757,218 had not been charged and in that balance, Rs.1,493,962 due from 433 properties of which the arrears of a unit was more than Rs.1,000 while existed from 01 to 06 years and Rs.90,903 due in respect of 123 units whose owner was not correctly identified in the assessed property were included.</p>	<p>That revenue progress will be submitted to audit</p>	<p>Assessment tax in arrears should be recovered</p>
<p>(b) Garbage tax</p> <p>Garbage tax revenue of Rs.739,970 due at the end of the year under review had not been collected, and in that balance, Rs.276,750 due from 21 institutions whose arrears per unit exceeded Rs.10,000 and Rs.571,550 due in relation to 95 institutions whose billing had been stopped were included.</p>	<p>That part of the arrears of garbage tax has been collected and that the remaining money is being collected.</p>	<p>Garbage tax in arrears should be recovered.</p>
<p>(c) Rent</p> <p>Shop rent</p> <p>Due to non-payment of rent according to the assessment given by the Valuation department in the year 2017 for the Stalls in Hatharaliyadda area, the council had lost a rental income of Rs.547,250 at the end of the reviewed year.</p>	<p>Agreements cannot be renewed in case of ownership is not transferred.</p>	<p>New assessments should be implemented and shop rents should be charged</p>
<p>(d) Water charges</p> <p>Water charges of Rs.696, 931 due at the end of the year under review had not been charged, and the balance included Rs.249,515 due from 2017 from 80 customers of 07 water schemes.</p>	<p>That, action will be taken to collect the arrears of water charges.</p>	<p>Water charges in arrears should be recovered.</p>

(e)	Three wheelers licence fees ----- At the end of the year under review, three-wheeler license fees of Rs.1,974,490 had not been collected, and the balance included Rs.1,671,165 due in respect of 18 three-wheeler parking stations with arrears of more than Rs.50,000.	Action will be taken to Negotiate with the three-wheeler owners and the police to collect the arrears.	Outstanding three-wheeler license fees shall be charged
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3. **Operational Review**

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 03 of the Pradeshiya Sabha Act are shown below.

3.1 **Management Inefficiencies**

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
Non-recovery of damages and losses ----- In the board of survey conducted in the previous and reviewed years, a deficit of 08 sets of bodybuilding equipment worth Rs.74,250 was identified, but the relevant value was not charged from the responsible parties as per the monetary regulations.	That a police complaint has been filed and investigations are being conducted to identify the responsible parties	Financial regulation inspection should be conducted and further action should be taken.

3.2 **Operational Inefficiencies**

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
04 stalls in the Hatharaliyedda trade complex had not been leased for a period of 1½ years to 04 years, and As a result, the council had lost revenue.	That new agreements cannot be entered into in case of the ownership of the shops is not transferred by the Urban Development Authority	Revenue should be generated by renting out the stalls.

3.3 **Idle or underutilized Property, Plant and Equipment**

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
Out of 06 vehicles worth Rs.28,888,879 owned by the council, 02 vehicles were underutilized since 2014 and 04 vehicles since last year due to lack of drivers.	Vehicles remain underutilized due to unavailability of drivers.	Assets should be utilized effectively

3.4 Management of Vehicle fleet

Audit Observation	Comments of the Sabha	Recommendation
Accident of Cab ----- (a) An investigation to identify losses and damages in terms of Financial Regulation 104(1) regarding a Motor vehicle that caught fire while it was being driven by the Pradeshiya Sabha in the year 2014, was not conducted till the end of the year under review until 07 years had passed and the vehicle remained idle for more than 07 years without being sent for repairs.	That a preliminary inspection and a 104(03) inspection have been carried out and the repair work has stopped due to the import ban.	Relevant monetary regulation investigations into the accident should be carried out immediately.