

## **Haputhale Urban Council - 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 Haputhale Urban Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and significant accounting policies and other explanatory information 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 which should be read in conjunction with Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255) and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared 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 Haputhale Urban Council as at 31 December 2020, 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**

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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**

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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 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 Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Urban Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing 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 urban council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the urban council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council.
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the urban council 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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Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- (a) In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Haputhale Urban Council are consistent with the preceding year.
- (b) In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

## 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	Comments of the Council	Recommendation
<p>(a) Although the stamp fee revenue of the year under review had been Rs.252,000, it had been understated by Rs.240,865 as Rs.11,135 in the Financial Operations Statement of</p> <p>(b) Although the court fines revenue of the year under review had been Rs.18,083, it had been overstated by Rs.141,328 as Rs.159,411 in the Statement of Financial Operations</p>	<p>It has been mentioned that It would be rectified in the preparation of financial statements of the year 2021.</p>	<p>Accounts should be correctly prepared.</p>

### 1.6.2 Unreconciled Control Accounts or Records

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Audit Observation	Comments of the Council	Recommendation
<p>There has been a difference amounting to Rs.543,194 as the value an account item had been Rs. 7,269,449 according to the financial statements and Rs.6,726,255 according to the corresponding reports.</p>	<p>It has been mentioned that balances are not reconciled.</p>	<p>Corresponding reports should be correctly updated, and the reasons for the differences should be identified and corrected.</p>

## 2 Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the council for the year ended 31 December of the year under review amounting to Rs.11,585,721 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.12,254,246 and a decline of Rs.668,525 in the financial result has been observed.

## 2.2 Revenue Administration

### 2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates in arrears amounting to Rs.996,112 that had elapsed more than 02 years had not been in the year under even recovered .review.	It has been mentioned that balance of rates in arrears was correct.	Rates in arrears should be collected.
(b) Arrears of shop rents amounting to Rs. 4,759,which should ,637 be collected from 223 shops and elapsed more than 02 years, had been recovered even in the not .year under review.	It has been mentioned that balance of arrears of shop rents was correct.	Arrears of shop rents should be collected.