

## **Haputhale Pradeshiya Sabha - 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 Pradeshiya Sabha 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 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 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 Pradeshiya Sabha 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, Pradeshiya Sabha 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 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

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Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Haputhale Pradeshiya Sabha are consistent with the preceding year.
- 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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	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
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(a)	Rs. 1,631,000, which had been received under Local Development Support Project (LDSP) in the previous year, had not been stated in the financial statements of the council.	It has been mentioned that it was an account maintaining under a separate project.	Accounts should be correctly prepared.
(b)	Construction retentions amounting to Rs. 78,825 paid in the year under review had been stated as current liabilities in the Statement of Financial Position.	It has been mentioned that it would be rectified with journal entries.	Accounts should be correctly prepared.
(c)	Although court fines of the year under review had been Rs. 2,433,882, it had been understated by Rs. 170,070 in the Statement of Financial Operations as Rs. 2,263,812.	It has been mentioned that it had been adjusted to the Retained Earnings.	Accounts should be correctly prepared.
(d)	Arrears of Stamp Fees amounting to Rs. 694,617 as at 31 December of the year under review had not been accounted for.	It has been mentioned that it would be rectified with journal entries.	Accounts should be correctly prepared.

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|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------|
| (e) | Creditor provisions which for expenses related to medical grants and construction grants amounting to Rs. 222,108 of the previous year had not been made, and relevant payments had been made and accounted for as an expenditure of the year. | It has been mentioned that actions would be taken to prevent this type of errors in the future. | Accounts should be correctly prepared. |
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## 2 Financial Review

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### 2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December of the year under review amounting to Rs. 3,802,170 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 6,651, 624 in the preceding year, and a decline of Rs. 2,849, in the 454 financial result has been observed.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Revenue Collection

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Audit Observation	Comments of the Council	Recommendation
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(a) Rates in arrears amounting to Rs. 172,231 that had elapsed more than 02 years had not been recovered in the year under review.	It has been mentioned that actions would be taken to collect.	Rates in arrears should be collected.
(b) Rents in arrears amounting to Rs. 105,275 that had elapsed more than 02 years had not been under recovered in the year review.	It has been mentioned that legal actions had been taken to collect.	Rents in arrears should be collected.

## 3. Operational Review

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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 3 of the Pradeshiya Sabha Act are shown below.

### 3.1 Operational Inefficiencies

<b>Audit Observation</b> -----	<b>Comments of the Council</b> -----	<b>Recommendation</b> -----
<p>The council had entered into an agreement with the tenant on 01 May 2016 to rent the beef stall of the council for trading activities at a rent of 102,702 per month for the period from 01 December 2016 to 30 April 2017. As actions had not been taken in accordance with the agreement, arrears of rents amounting to Rs. 102,702 and fines amounting to Rs. 41,081 as a total of Rs. 143,783 as at 31 Decemeber of the year under review had not been able to collect.</p>	<p>It has been mentioned that legal actions had been taken in order to collect the arrears, as actions had not been taken although actions should have been taken within that period in accordance with contract law.</p>	<p>Arrears of rents should be recovered in accordance with the conditions of the agreement.</p>