

## **Puttalama Urban Council – 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 Puttalama Urban Council for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial operations, statement of changes in net assets and cash flow statement including a summary of 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 read in conjunction with Sub-section 181 (1) of the Urban Council Ordinance (Cap.255) 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 Puttalama Urban Council 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**

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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**

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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 the Urban Council's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Urban council 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)

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

- (a) The financial statements of the Urban Council are in consistence with that of the previous year as required by 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 required by Section 6(i)(d)(iv) of the National Audit Act, No. 19 of 2018.

## 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	Comment of the Council	Recommendation
(a) The value of the hauler, which had been received as a donation from the United Nations Office for Project Services (UNOPS) in 2021 for solid waste management, had not been assessed and brought to account.	Action will be taken to assess the value and account for as the fixed assets.	Action should be taken to account for fixed assets without omission.
(b) Without calculating the value of work done of 2 industries with the total estimated value of Rs.1,000,000 started in the year under review, the estimated value as at the end of the year under review had been accounted for as industrial creditors.	Since there industries have been started relating to the year 2021, the estimated value thereof has been shown as creditors and action will be taken to correct the error.	Only the value of unpaid bills in hand for completed work should be accounted for as industrial creditors.

### 1.6.2 Non-reconciled Control Accounts or Reports

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Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.16,843,612 between the value as per the financial statements and the value as per the schedules in relation to 04 items of account.	Action will be taken to examine information and make corrections in due course.	Difference should be identified and brought to account accurately.

### 1.6.3 Lack of Documentary Evidence for Audit

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#### Audit Observation

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Since schedules related to stock, tender revenue and court fines had not been submitted with the financial statements, 03 items of account totaling Rs.21,607,994 could not be satisfactorily verified in the audit.

#### Comment of the Council

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Action will be taken to obtain relevant registers and records from the officers and submit the same.

#### Recommendation

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Documentary evidence that confirm the account balances shown in the financial statements should be furnished to the audit.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the expenditure of the Sabha in excess of the recurrent revenue amounted to Rs. 5,098,968 as at 31 December 2021 as against the revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.12,322,453.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Collecting Revenue

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#### Audit Observation

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##### (a) Rates and Taxes

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There was an outstanding balance of Rs.98,559,135 related to 321 public sector assessment units and 22322 private sector assessment units by the end of the year under review. Out of that, a sum of Rs.7,344,866 had been recovered and Rs.91,214,269 further remained outstanding as at 31 August 2022.

#### Comment of the Council

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It is kindly informed that action will be taken to recover the revenue in arrears immediately.

#### Recommendation

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Action should be taken to recover the revenue in arrears immediately.

(b) **Rent**

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Out of the outstanding rent balance of Rs.12,364,899 due from 01 public sector rental units and 577 private sector rental units by the end of the year under review, a sum of Rs.2,253,106 had been recovered and Rs.10,111,793 further remained outstanding as at 31 August 2022.

It is kindly informed that action will be taken to recover the arrears immediately.

Action should be taken to recover the arrears immediately.