

Chavakachcheri Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chavakachcheri Urban Council including the financial statements for the year ended 31 December comprising the statement of financial position as at 31 December 2020, Income and Expenditure Account, Cash Flow Statement for the year, 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 section 181 (1) of Urban Council Ordinance (Cap.255) and provision 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 paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Chavakachcheri 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

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

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 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.

1.4 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 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 and Regulatory Requirements

 The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Urban Council presented is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) Although included in the financial statements, the necessary adjustments for 5869 units of non-current assets of Rs.5,830,839 and electrical equipment of Rs.241,156 which have not been existed physically had not been made in the accounts.	It will be written off from the books in the future.	Transactions should be accurately recorded.
(b) Expenditure and current liabilities in the financial statements had been overstated by Rs.16,845,884 each due to the adjustment of purchasing 05 goods that have not been purchased and finishing 20 projects that have not been finished, to the sundry creditor account.	Such provisions will not be made in future.	Accounts should be prepared in accordance with the principles and policies of accounting.
(c) The balance of non-current assets account had been understated by Rs.3,924,854 due to the non-proper accounting of 08 capital projects completed during the year under review.	Such errors will be rectified in the future.	Accounts should be prepared in accordance with the principles and policies of accounting.

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| (d) Current assets had been overstated by Rs.69,592,307 in the financial statements due to presentation of fixed deposits under current assets. | No answers were provided regarding observation. | Accounts should be prepared in accordance with the principles and policies of accounting. |
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1.6.2 Unreconciled Control Accounts or Records

Audit Observation -----	Comment of the Council -----	Recommendation -----
According to the financial statements, there was a difference of Rs.591,373 in the opening balance of outstanding property tax compared to the related schedule.	Will be rectified in the future.	Transactions should be recorded by avoiding mismatches.

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 31 December 2020 amounted to Rs.47,711,960 as compared with the excess of revenue over recurrent expenditure amounted to Rs.41,902,170 in the preceding year.

2.2 Revenue Collection Performance

Audit Observation -----	Comment of the Council -----	Recommendation -----
Necessary actions had not been taken to recover Rs.346,114 arrears of shop rent, Rs.300,000 in communication tower license fees and Rs.14,302,040 in assessment and property taxes, which were more than 05 years old and even though more than 03 years had passed, the stamp duty collected by the Provincial Council of Rs.7,622,553 had not been received as at 31 December 2020.	Communication tower license fees cannot be charged since the by-laws have not been prepared and revenues could not be collected properly due to the epidemic situation.	Revenue collection should be well managed.