

## **Trincomalee 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 the Trincomalee 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 Trincomalee 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 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

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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 and Regulatory Requirements

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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

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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 stock of Rs.118,961 as at 31 December 2020, in the Ayurvedic Medical Center of the Municipal Council had not been recorded.	Actions are being taken to account.	Actions should be taken to accounts.
(b) The expenses incurred on behalf of the case in respect of Rs.448,307 rents which due to the Municipal Council, had not been disclosed as a contingent liability in the financial statements.	The costs related to rent arrears will be treated as a contingent liability in the future.	Contingent liabilities should be disclosed in the financial statements.

### 1.6.2 Unreconciled control accounts

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Audit Observation	Comment of the Council	Recommendation
A difference of Rs.14,882,874 had been observed between the value according to the financial statements and the value according to the schedules related to 03 subjects.	Actions are being made to prepare statements of reconciliation.	Control accounts should be reconciled.

### 1.6.3 Suspense accounts

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The balance of the suspense account of Rs.11,863,654 from the year 2014, had been shown in the financial statements, without any adjustments being made.	Actions are being taken to rectify.	Necessary adjustments should be made and rectified promptly.

## 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.28,691,749 as compared with the excess of revenue over recurrent expenditure amounted to Rs.89,963,948 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Revenue Collection Performance

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Assessments Taxes Although, the sum of arrears of assessment tax related to the year under review and previous years was Rs.96,633,007, but the amount recovered by the council was Rs.741,135. It had been taken a lower figure of 1 percent as a percentage of the value to be charged.	Arrears will be waived off based on the decisions of the Council and the remaining arrears will be collected through revenue collection officers.	The income of the council should be increased by collecting tax arrears on time.