

Haputhale Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Haputhale Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, 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 2021, 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 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)

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

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 Pradeshiya Sabha 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

Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though the revenue from stamp fees was Rs. 7,398,432 in the year under review, the revenue had been indicated as Rs.10,805,315 overstating by Rs. 3,406,883 in the statement of finance and operations, thus overstating the operating surplus and current assets by the same amount.	It has been mentioned that rectifications will be made in the preparation of financial statements of the year 2022.	
(b) Even though revenue from court fines in arrears as at 31 December was Rs. 1,710,625, it had been indicated as Rs.2,089,406 overstating by Rs.378,781 in the statement of financial position, thus overstating the current assets and the Accumulated Fund by the same amount.	It has been informed that rectifications will be made through journal entries.	Accounts should be accurately prepared.
(c) Even though the purchase of library books and donations were Rs.179,087 as per the Register of Acceptance as at 31 December of the year under review, it had been brought to account as Rs. 152,228 and as such, the balance of the Library Books Account had been understated by Rs.26,859 in the Revenue Contribution to Capital Input Account.	It has been informed that the value understated will be rectified.	

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 of the year under review amounted to Rs. 8,059,168 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 3,802,170 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
----- It has been collected rates from 735 assessment tax units including 3 government institutes and 732 private institutes, and arrears of rates amounting to Rs. 2,176,722 had not been collected since the year 2013.	----- It has been mentioned that it was unable to collect due to covid pandemic and final notices has been sent, after that legal actions would be taken.	----- Rates in arrears should be collected.

3. Operational Review

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

Audit Observation	Comments of the Council	Recommendation
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(a) Sabha has rented 54 shops to 61 leaseholders for business activities, and arrears in shop rents amounting to Rs. 463,265 which had elapsed more than 02 years had not been collected.	It has been mentioned that Letters of demand had been sent for the leaseholders who had not paid rents, as they have not been responded yet, civil cases would be filed.	Arrears in revenue should be collected.
(b) The council had entered into an agreement from 01 May 2016 to 30 April 2017 to rent the beef stall of the council for trading activities at a rent of 102,702 per month. As the sabha had not been acted in accordance with the condition No. 03 and 04 of the agreement, rents in arrears amounting to Rs. 145,283 had not been collected.	It has been mentioned that legal actions had been taken to recover the rents in arrears.	Arrears of revenue should be collected