

Haton-Dickoya Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Haton-Dickoya Urban Council for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Section 181 (1) of 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 Haton-Dickoya Urban Council as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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

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)

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 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

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

- The financial statements of the Municipal Council are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- Except for the observation in paragraph 1.6.1 (a) of this report, the recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preperation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
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(a) No action had been taken to correct accounting deficiencies relating to the value of Rs. 10,928,153 pointed out by my report regarding the financial statements pertaining to the preceding year.	It has been informed that adjustments will be made in the account for the year 2021.	Necessary adjustments should be made in the accounts.
(b) Balance of Rs. 2,202,806 in the suspense account as at 31 December 2019 had not been stated as opening balance of the balance sheets.	It has been informed that all balances at the beginning of the year will be adjusted as opening balances of the relevant ledgers.	Opening balances should be stated accurately.
(c) Four balances worth Rs. 2,628,650 brought to account as the creditors relating to the goods which were expected to be purchased but not purchased in the year 2017 had not been adjusted in the accounts even up to the year under review.	Action will be taken to eliminate it form the list of creditors in the year 2021.	Necessary adjustments should be made in the accounts.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Council	Recommendation
Value of two items of accounts was Rs. 5,095,189 as per the financial statements and that value as per the schedules/reports was Rs. 4,962,777. Accordingly, a difference of Rs. 132,412 was observed.	It has been informed that this situation has cropped up due to omission of several entries in the schedules and it will be rectified in future.	Financial statements and corresponding reports should be compared and accordingly, necessary adjustments should be made.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
The information needed for the audit in relation to two items of accounts totalled Rs. 7,337,302 included in the financial statements had not been furnished.	It has been informed that the relevant schedules will be submitted once the register of fixed assets and the general inventory are updated.	All evidence should be furnished to audit.

1.7 Non-compliance

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comment of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Although advances should be settled immediately after completion of the relevant purpose, advances totalling Rs. 507,868 continued to exist over a period from 1987 to 2020 had not been settled even up to 31 October 2021.	It has been informed that action will be taken to settle the advance without delay.	Action should be taken in accordance with Financial Regulations

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs. 38,190,887 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 40,374,088.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Taxes		
Although arrears of Rates as at 01 January 2020 was Rs. 9,154,702, a sum of Rs. 1,195,948 only had been recovered during the year. Accordingly, the duty of the Revenue Inspectors had not been properly fulfilled	It has been informed that steps will be taken to recover the arrears.	Action should be taken to collect the arrears of revenue as per the Council rules.
(b) Lease Rent		
Any amount out of the rent of Rs. 1,581,710 of the rest house had not been recovered even as at 31 October 2021.	It has been informed to settle the dues by sending a letter.	Action should be taken to collect the arrears of revenue as per the Urban Council Ordinance.
(c) Stamp Duty		
Out of the Rs. 15,000,000 stamp duty due from the Chief Secretary of the Provincial Council and other officers up to 31 December of the year under review, only Rs. 5,694,900 had been received up to 31 October 2021. Accordingly, a sum of Rs. 9,305,100 further remained recoverable.	It has been informed that action will be taken to recover the dues.	Action should be taken to recover the stamp fees.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

3.1 Management Inefficiencies

	Audit Observation	Comment of the Council	Recommendation
I.	The treatment of the Dickoya Ayurvedic Dispensary, which was built and maintained by the Council from the year 2005, had been stopped and a Grama Niladhari office was maintained there without any approval of the Council. As a result, the patient treatment service in the area had become standstill.	It has been informed that the Ayurvedic Dispensary has been taken over and it is being repaired by 31 October 2021 and it is expected to be used for the treatment of patients in the future.	Action should be taken to resume the services.
II.	Fifteen unauthorized constructions within the limits of Council had been identified in the year 2020. Only two of them had been approved and cases had been filed. No action whatsoever had been taken in respect of remaining constructions even as at the date of audit.	It has been informed that arrangements are being made to take legal action against the constructions which cannot be approved.	Suitable steps should be taken regarding the unauthorized constructions without delay.
III.	No action had been taken to settle 33 creditors balances totalling Rs. 3,747,430 that continued to exist from the years 2017,2018 and 2019	It has been informed that steps will be taken to pay the payable fees and to confirm and eliminate the items to be eliminated from the books.	Action should be taken to settle creditors balances.
IV.	No action had been taken to recover 03 account balances totaling Rs. 9,985,139 due from 03 Government Institutions which had elapsed from 08 years to 12 years as at 31 December of the year under review.	It has been informed that action will be taken to recover the dues in the future.	Action should be taken to recover the dues.
V.	Two payable account balances totalling Rs. 4,416,477 that had elapsed a period from 02 to 09 years as at 31 December of the year under review had not been settled.	It has been informed that the payments will be settled for the completed industries as soon as the expenses are reimbursed.	Action should be taken to settle the payments.

3.2 **Operting Inefficiencies**

Audit Observation	Comment of the Council	Recommendation
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The approval of the Minister had not been obtained in terms of Section 36 (e) (II) of the Municipal Council Ordinance with regard to 84 instances of long term lease of Municipal Council lands.	It has been informed that these activites are currently being carried out in a formal manner.	Action should be taken in accordance with the Urban Council Ordinance.

3.3 **Idle or Underutilized Property, Plant and Equipment**

Audit Observation	Comment of the Council	Recommendation
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I. The biogas production project which had been constructed in the year 2015 at a cost of Rs. 1,964,375 of the Provisions of the Ministry of Road Development, Transport, Power and Energy and Housing and Construction in the Central Province had been completed without a proper study and therefore, it remained idle since the date of its inception.	It has been informed that replies will be given in due course.	Assets should be used effectively.
II. The bodybuilding center near Dunbar Stadium, which could have been leased out on an annual tender, remained idle as it had not been leased out during the year under review.	It has been informed that bids were not submitted although bidds were called for.	Assets should be utilised effectively.
III. Twenty eight items worth over Rs. 1,000,000 in Hatton Dickoya Municipal Council warehouse and in E-Net piyasa remained idle over a period from 05 to 14 years without being used.	The chain link roll will be provided for use when required. It has been informed that the computers have been provided for office use and the remaining items will be provided upon request.	Assets should be sued in their maximum capacity.

3.4 Deficiencies in the Contract Administration

Audit Observation	Comment of the Council	Recommendation
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An agreement had been entered into with a farmers' organization on 24 February 2020 for the development of stairs near the Irfam houses in Hijrapura at a cost of Rs. 250,661 and the value of the completed work was Rs. 154,741. Although payment had been made considering the thickness of the concrete of the stairs as 200 mm or 150 mm, the thickness revealed at the audit test check was very low between 31 mm and 60 mm. Accordingly, the sum of Rs. 88,606 had become fruitless as the existence of the stairs was problematic.	It has been informed that amidst the heavy workload in the officer, the relevant work could not be done under the full supervision of the Industrial Technical Officer and action will be taken to make the payment by reducing the amount.	Work should be completed as per the estimates without delay

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation	Comment of the Council	Recommendation
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(a) Environmental management		

The validity of the licenses of 22 businesses that needed to renew their licenses had expired, ranging from 8 months to 10 years.	It has been informed that necessary action is being taken in this respect.	Action should be taken in accordance with the Act.
(b) Waste Management		

i. The Urban Council had not prepared a formal plan and a long-term / short-term plan on waste management.	It has been informed that relevant steps have been taken to formalize this process in future.	A formal arrangement should be made.
ii. The Hatton city is an area where starting points of water sources are located, and field inspections detected that there were places of waste disposal at the beginning of the water source, thus contaminating the water in the area. Accordingly, contaminated water had been supplied to the public.	It has been informed that steps have been taken to take legal action against the people who dispose of the waste informally.	Municipal officers should perform their duties responsibly