

Hikkaduwa Urban Council – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hikkaduwa Urban Council 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, Cash Flow Statement for the year and 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 Sub-Section 181 (1) of the Urban Council Ordinance (Chapter 255) and the Provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to 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 Hikkaduwa Urban Council 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 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 **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 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 Requirements

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

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(i) The provision for creditors had not been made for expenses amounting to Rs.1,026,218 as at 31 December of the year under review.	Action will be taken to correct in the year 2022.	Should be accounted correctly.
(ii) The value of the waste shredder purchased for the waste recycling program valued at Rs.1,200,000 was not accounted as an asset.		
(iii) An amount of Rs.1,974,160 payable to industrial creditors had been written off from the accounts as at 31 December of the year under review.		

1.6.2 Non reconciled Account or Records

Audit Observation	Comment of the Council	Recommendation
A difference of Rs.15,395,682 was observed between the balances related to 06 accounting items shown in the financial statements and the balances shown in their related utility documents as at 31 December of the year under review .	Action will be taken to rectify in future.	The differences in the respective balances should be compared and corrected the accounts.

1.7 Non compliances

1.7.1 Non compliances with laws rules and regulations

Reference to laws rules regulations	Non compliance	Comment of the Council	Recommendation
Financial Regulations 570, 571 and 572 of the Democratic Socialist Republic of Sri Lanka	The actions had not been taken in accordance with the Financial Regulations for Tender deposits and mixed deposits valued at Rs. 698,890, which exceeded 02 years from the date of deposit.	Inform that the action will be taken to get it into income in the future.	Action should be taken in accordance with the Financial Regulation.

1.7.2 accounts receivable

Audit Observation	Comment of the Council	Recommendation
Only the notification had been made by letters to collect the capital assistance of Rs.1,596,985 due from the Provincial Council and the State Ministry of Rural Roads and Other Infrastructure as at 31 December of the year under review.	The action will take to recover.	Arrears should be recovered.

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 2021 amounted to Rs.20,102,835 as compared with excess of revenue over recurrent expenditure amounted to Rs. 6,981,015 in the preceding year.

2.2 Revenue Administration

Audit Observation -----	Comment of the Council -----	Recommendation -----
<p>(a) Rates and Tax -----</p> <p>The outstanding assessment tax balance which was Rs.11,133,937 at the end of the previous year, had grown to Rs.43,517,676 at the end of the year under review. In this outstanding balance, Rs.5,988,431 was due from 33 properties whose value exceeded Rs.100,000. The council had only informed through letters to recover these outstanding balances.</p>	<p>Action should be taken to recover the arrears of income.</p>	<p>Action should be taken to recover the arrears of income.</p>
<p>(b) Rent -----</p> <p>The legal action had not been taken to recover the arrears of rent of Rs.1,413,804 at the end of the year.</p>		
<p>(c) License Fees -----</p> <p>The action had not been taken to recover the outstanding license fees of Rs.248,330 as at the end of the year.</p>		

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 Council under Section 4 of the Urban Councils Ordinance are shown below.

3.1 Solid waste management

Audit Observation -----	Comment of the Council -----	Recommendation -----
<p>A waste sorting machine was brought and installed at a cost of Rs.1,200,000 in the year 2021, however due to the fact that the machine is not sufficient for waste management, the waste collected in the area is disposed at the Monrovia Estate landfill and an amount of Rs.1,928,250 had been paid for waste disposal in the year under review.</p>	<p>Although intended to produce biogas, it could not implement due to the country's closure.</p>	<p>The council should have a long-term plan for waste management.</p>