

Hikkaduwa Urban Council - 2022

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 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations, Statement of changes in net assets, 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 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

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 Practices 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 skepticism 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 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
(a) The expenditure of Rs.3,895,125 incurred for the purchase of a computer software system for the Hikkaduwa Urban Council was not accounted as intangible assets.	Will be rectified in the future.	Should be accounted correctly.
(b) The total value of the building construction incurred in the previous year and the year under review amounting to Rs. 2,443,972 had not been capitalized.	- do -	- do -
(c) Due to crediting the key money amounting to Rs.2,106,060 to a deposit account related to 07 public market shop rooms during the year under review, the income of the year under review was understated by that amount.	- do -	- do -
(d) The Stamp fees over provision of Rs.36,727,100 belonging to the years 2015, 2016 and 2019, which exceeded the period of 02 years, had not been accounted.	Will be rectified in the future.	Should be accounted correctly.
(e) The amount of Rs.465,879 which had been paid to construction work creditors during the year under review was re-accounted as construction work creditors.	- do -	- do -

1.6.2 Non reconciled control account or Records

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs. 17,383,830 between the balances related to 09 accounting items shown in the financial statements as of 31 December of the year under review and the balances shown in the relevant utility registers and schedules.	Will be rectified in the future.	Action should be taken to reconcile differences and rectify.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Council	Recommendation
Public Finance Circulars No. 02/2015 dated 10 July 2015	The action had not been taken to remove from use as per the circular regarding 07 vehicles owned by the council.	03 vehicles will be repaired and used and the action will be taken in relation to the remaining vehicles in the future.	Action should be taken according to the Circular.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 9,964,982 as compared with revenue over recurrent expenditure amounting to Rs. 20,102,835 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Council, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
Rates and Taxes	21,176,683	21,729,523	26,538,285	42,317,680	26,546,450	21,259,116	14,657,190	47,126,442
Rents	6,033,080	6,870,525	6,823,862	4,307,826	8,792,920	7,150,160	7,464,662	4,261,163
License Fees	935,000	565,375	565,375	48,355	815,000	344,160	346,155	48,355
Other Income	6,776,000	4,002,879	4,002,879	-	6,048,000	238,321	238,321	-
	<u>34,920,763</u>	<u>33,168,302</u>	<u>37,930,401</u>	<u>46,673,861</u>	<u>42,202,370</u>	<u>28,991,757</u>	<u>22,706,328</u>	<u>51,435,960</u>

2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the council are given below.

Audit Observation	Comment of the Council	Recommendation
(a) The total outstanding income was Rs.51,435,960 as at 01 January of the year under review, and it was Rs.46,673,861 at the end of the year under review.	The arrears will be recovered in the future.	Arrears of income should be collected as soon as possible.
(b) The outstanding assessment and tax income was Rs.47,126,442 as at 01 January of the year under review and it was Rs.42,317,680 at the end of the year under review. The value of outstanding balances over Rs.100,000 from 25 assesse tax holders was Rs.5,367,116.	The action will be taken to recover outstanding balances in the future.	Arrears of income should be collected as soon as possible.
(c) The council had not taken steps to tender and lease 09 shop rooms owned by the council since 2017.	The action will be done in the future.	The action should be made to tender.
(d) The agreements of 84 shop rooms belonging to the Hikkaduwa Urban Council had expired, and although each contract should be updated once in 03 years, the council had not done so.	The agreements are being updated.	Action should be taken according to the Circular.
(e) The stamp fees amounting to Rs.75,806,212 should have been received from the Chief Secretary of the Provincial Council.	The letters were directed to the Galle Land Registrar's office.	Arrears of income should be collected as soon as possible.

3. Operational Review

3.1 Solid Waste Management

Audit Observation	Comment of the Council	Recommendation
A garbage shredding machine was brought and installed to the council at a cost of Rs.1,200,000 during the year 2021. The machine was not used for the council's waste management, and the council had no long-term waste management plan.	The Urban Council has requested that the mechanical engineer inspect the machine and give a report.	Assets should be utilized and a program should be developed for waste management.

3.2 Un-economic Transactions

Audit Observation	Comment of the Council	Recommendation
The upper floor of the Hikkaduwa Public Market building, which was built at a cost of Rs.300 lakhs in 2005 and Rs.7,570,456 in 2017, remained idle since 2006.	Necessary action is being done to set it up as a canteen.	Assets should be used for productive purposes.

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) While returning to the council from Colombo, the council's van value Rs.6,400,000 was completely destroyed by rioters on 09 May 2022, however the action had not been taken regarding the damage according to F.R.104.	Instructions have been submitted to the Secretary regarding the appointment of a committee for the inquiry. Accordingly, a report can be obtained regarding the damages.	An investigation should be conducted and relevant action should be taken.
(b) The council had not acquire 04 vehicles valued at Rs.6,040,000 and 02 trailers of unspecified value which had been given to the council from other institutions.	Action will be acquired.	The action should be made to take over.

3.4 Delay in projects, activities or capital works

Audit Observation	Comment of the Council	Recommendation
(a) 02 software systems of Rs.1,945,000 which were established to efficient the	The necessary measures will be taken to implement from the year 2023.	Software systems should be used to carry out office work efficiently.

services of Hikkaduwa Urban Council were not operated for 01 years and 09 months.

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| <p>(b) Although an amount of Rs.833,007 had been paid for the development of the Kohu Abe ground owned by the Hikkaduwa Urban Council, the construction work had not been completed by 31 December 2022, and a part of the field was littered with garbage brought from outside.</p> | <p>The action will be in the future and that the garbage left in a part of the field has been removed.</p> | <p>The action will be done as agreed with the contractor.</p> |
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3.5 Humans Resource Management

Audit Observation

A staff loan balance of Rs.949,601 was due from 16 employees who retired, transferred and suspended after serving in the council.

Comment of the Council

The actions are being taken to recover the relevant loans.

Recommendation

Staff loans receivable should be collected as soon as possible.