

## **Haputhale Urban Council - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Haputhale Urban Council for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operation, cash flow statement, statement of changes in net assets and other explanatory information, 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 Sub-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 Haputhale Urban Council as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 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 Urban 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**

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Pradeshiya Sabha are consistent with the preceding year as required by Section 6 (i) (d) (iii) of the National Audit Act, No. 19 of 2018.
- b) The recommendations made by me in the preceding year in accordance with Section 6 (i) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented.

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Equipment worth Rs. 700,000 purchased during the year under review for the pre-school and the children park, had not been brought to account under the furniture and fittings.	Action will be taken to make corrections in the preparation of accounts in the ensuing year.	Accounts should be prepared correctly.
(b) The fire extinguisher truck, tractor tailor and two bowser tailors worth Rs. 3,080,000 owned by the Sabha had not been brought to account under the property, plant and equipment.	-Do-	-Do-
(c) Total of 110 library books Rs.93,730 received as donations to the public library during the year under review had been understated in the property, plant and equipment and the revenue contribution to capital input account.	-Do-	-Do-
(d) A sum of Rs. 5,416,090 received from the Local Development Supporting Programme and Rs. 250,000 received under the implementation of projects of the woman members elected to the local government authorities had been brought to account under the capital expenditure in the statement of financial operations	Adjustments have been made by the deposit accounts and action will be taken to make corrections in the preparation of accounts for the ensuing year.	-Do-

### 1.6.2 Unreconciled Control Accounts or Reports

Audit Observation	Comment of the Council	Recommendation
There were differences of Rs. <b>61,235,584</b> between the balance as per the statement of financial positions and the schedules in relation to 06 items of account as at 31 December of the year under review.	Agreed with the Auditor General's Summary reports.	Accounts should be prepared including the balances correctly after reconciling accounts.

### 1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
As the purchasing cost or assessment reports, schedules, acquisition cost or assessment reports, other documents and schedules had not been furnished for the confirmation of 03 items of assets totaled Rs. 13,742,936, they could not be satisfactorily examined in audit.	Agreedith the Auditor General's Summary reports.	Evidence should be furnished for accounts balances.

## 1.7 Non-compliance

### Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations	Non-compliance	Comment of the Council	Recommendation
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka. F.R. 571	General deposit balances of Rs. 47,823 deposited in the years 2016,2017 and 2018 had not been disposed of.	Action will be taken to settle it according to the prescribed procedure in the future.	Lapsed general deposits should be disposed of.

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 17,033,166 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 7,284,701.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	<u>2022</u>				<u>2021</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,950,000	2,024,552	1,486,337	538,215	2,100,644	1,598,868	1,337,267	261,601
(ii) Rents	16,101,250	18,650,118	11,080,707	7,569,411	15,790,201	11,598,856	9,758,606	1,840,250
(iii) License Fees	492,000	525,500	465,500	60,000	540,800	474,700	409,700	65,000
(iv) Other Revenue	2,457,517	3,945,857	1,961,479	1,984,378	2,934,425	2,629,829	1,695,472	934,357
<b>Total</b>	<b>21,000,767</b>	<b>25,146,027</b>	<b>14,994,023</b>	<b>10,152,004</b>	<b>21,366,070</b>	<b>16,302,253</b>	<b>13,201,045</b>	<b>3,101,208</b>

### 2.2.2 Performance in the collection of revenue

The observations on the performance in the collection of revenue of the Sabha are as follows.

	<u>Audit Observation</u>	<u>Comment of the Council</u>	<u>Recommendation</u>
(a)	Outstanding rent of Rs. 4,834,383 continued to exist for more than a period of 02 years had not been recovered even in the year under review.	Agreed with the Auditor General's Summary reports.	Outstanding rents should be recovered promptly.
(b)	A sum of Rs. 1,541,673 that remained receivable for over a period of 02 years in relation to the leasing of properties belonging to the Urban Council had not been recovered even in the year under review.	-Do-.	Outstanding tax should be recovered promptly.
(c)	A sum of Rs. 4,049,018 payable to the Council by the Urban Development Authority when it transferred the inn belonging to the Urban Council in the year 2007 had not been recovered even by 24 March 2023, the date of audit.	-Do-.	Funds receivable to the Urban Council should be recovered.

## 3. Operating Review

### 3.1 Execution of duties entrusted by the Act

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.

Audit Observation	Comment of the Council	Recommendation
(a) About 4500 tons of waste collected monthly in the Waste Management Centre and waste strainer, tractor and two health workers had been employed. Although 396 sacks of fertilizer had been produced in 2020 and 2022, no formal reporting process had been maintained by the Council regarding the production of fertilizer. Accordingly, it was not possible to ascertain correct calculations regarding the cost incurred for the fertilizer production and the income generated from the sale of fertilizer during the year.	Agreed with the Auditor General's Summary reports.	Formal records should be maintained regarding waste management.
(b) Environmental Protection Licence issued according to Section 23(b) of Environment Act No. 47 of 1980 for discharge/dispose of waste had not been obtained. The solid waste that cannot be used to make compost should not be disposed of on open land and, as far as possible, recyclable materials should be segregated and recycled. Nevertheless, action had not been taken accordingly.	-Do-	Environmental Protection Licence should be obtained for the Solid Waste Management Centre
(d) Waste of 04 places given by the Council following the tender procedure for meat and fish selling had been discharged to a nearby drain causing hindrances to the general public.	-Do-	Waste should be discharged without causing hindrances to the general public.

### 3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Rates were being levied based on an assessment conducted in the year 2012.	On 13 December 2022, requests have been made to the Department of Valuation for a new assessment.	Action should be taken to assess the Rates in timely manner.

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| (b) | According to a survey conducted within the Urban Council limit during the year under review, although 57 business places had not obtained trade licences, the Council had not taken suitable action in this connection. | Agreed with the Auditor General's Summary reports. | Survey should be conducted annually on the business enterprises situated within the jurisdiction of the Council and thereby they should be regulated. |
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### 3.3 Assets Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) The compactor provided by the Ministry of Provincial Council and Local Government in November 2014 to the Urban Council had been parked in the vehicle park without using over a 08 years from the date on which it was handed over up to the year under review.	Requests have been made to dispose of the compactor.	Action should be taken to use the idle assets.
(b) The hand tractor which was handed over to the Urban Council by the Haldummulla Pradesiya Sabha on 05 March 2012 remained idle from the date of receipt.	-Do-	-Do-