

## **Hatton Dickoya Urban Council - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Hatton Dickoya for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account including a summary of 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 read in conjunction with Sub-section 181 (1) of the 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 Hatton Dickoya Urban Council as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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

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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**

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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)**

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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

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

- (a) The financial statements of the Urban Council are in consistence with that of the previous year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(1)(d)(iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Council	Recommendation
(a) Adjustments of Rs. 144,123 related to the preceding year had been adjusted to the accounts of the year under review without being adjusted to the Surplus and Deficit Account (Accumulated Fund).	It has been informed that since these journal entries have been adjusted in relation to this year such entries will be adjusted in the Accumulated Fund henceforth.	Expenditure related to the preceding year should be adjusted to the Accumulated Fund.
(b) The loan instalments of Rs. 3,542,935 payable by the Urban Council to the Local Loan and Development Fund for the ensuing year had been stated as a long term liability without being stated as a current liability in the balance sheet.	It has been informed that the content of the total loan payable to the Local Loan and Development Fund gradually decreases from the relevant total amount in paying two loan instalments monthly and an instalment of another loan quarterly.	Loan capital should be identified as long term and short term loans and brought to account.
(c) Understatements totalling Rs. 1,317,728 were shown on three occasions in the financial statements including Rs. 258,777 as income, Rs. 896,559 as liabilities and Rs. 162,392 as expenditure.	It has been informed that this error will be corrected in the preparation of financial statements for the year 2022.	Financial statements should be prepared accurately.

## 1.6.2 Non-reconciled Control Accounts or Reports

### Audit Observation

### Comment of the Council

### Recommendation

In the financial statements prepared as at 31 December of the year under review, the balance of 03 items of accounts named sundry creditors, house rent and stamp duty totalled Rs. 10,060,348 and those balances as per the relevant subsidiary documents totalled Rs. 9,933,812. Accordingly, a difference of Rs. 126,536 was observed.

It has been informed that this difference will be corrected in the preparation of financial statements for the year 2022.

The differences of the account balances should be looked into and relevant schedules or financial statements should be corrected.

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs. 37,292,731 for the year ended 31 December 2021 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 38,190,887.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Collecting Revenue

### Audit Observation

### Comment of the Council

### Recommendation

#### (a) Rates and Taxes

Since Rs. 8,553,698 from the arrears as at the beginning of the year and Rs. 4,654,938 from the billed Rates for the year under review had not been recovered from 252 persons out of 2520 units as at 31 December of the year under review, the progress of the recovery of Rates was not at an adequate level.

It has been informed that the Red Notices have been sent to the persons those who had not paid the dues.

Arrears of revenue should be recovered.

#### (b) Other Income

(i) According to the record on the three-wheeler income maintained by the Urban Council, the arrears of three-wheeler charges from the year 2014 to 2020 was Rs. 4,498,231 and three-wheeler charges

Three-wheeler owners expressed their consent to pay the increased fees and they have requested the Council to reduce these fees fairly, whereas since the council

Arrears of Revenue should be recovered..

income relating to the year under review had not been calculated or brought to account.

has not decided to reduce the fees so far, these fees have not been recovered.

(ii) The arrears of the guesthouse rent of Rs. 1,581,710 relating to the years 2018 and 2019 had not been recovered even by 02 February 2022.

Despite being informed several times to pay the rent, it was said that the arrears of rent will be paid after the guesthouse is re-opened, but it had not been so done. Accordingly, it has been informed that the Council will obtain a loan from the Local Loan and Development Fund to modernize the guesthouse and that the guesthouse keeper was informed again on 30 May 2022 to pay the outstanding amount.

Arrears of revenue should be recovered.

### 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 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Council	Recommendation
<p>Since the biogas production project, which was constructed in the year 2015 using the allocation of Rs.1,964,375 from the Ministry of Road Development, Transport, Power and Energy and Housing and Construction in the Central Province, was built without conducting any study, it was idle for a period of 06 years from the date of construction to the date of audit on 25 November of the year under review.</p>	<p>It has been informed that the biogas unit is located in a highly populated area of the city near the bus stand and the place where the system is built is not suitable for biogas production, and therefore this project has failed.</p>	<p>Action should be taken to utilize the bio gas unit.</p>

**4. Accountability and Good Governance**  
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**4.1 Environmental Issues**  
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Audit Observation  
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During the year under review, 50 employees had been paid wages of Rs.123,154,983 for waste management, and 01 lorries and 03 tractors had been deployed and payments of Rs.1,909,367 were made for fuel and maintenance. During the year under review, 2375 metric tons of degradable garbage and 04 metric tons of non-degradable garbage were removed and due to not identifying a place for waste management within the jurisdiction of the council, an amount of Rs.2,054,150 was paid to Maskeliya, Thalawakele and Akurana Pradeshiya Sabhas during the year under review.

Comment of the Council  
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It has been stated that expenses have to be incurred due to the lack of space for waste management in the area of two square kilometres belonging to the Council.

Recommendation  
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Waste management should be carried out so as to minimize cost.