

Haputale Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Haputale Urban Council including the financial statements for the year ended 31 December 2023 comprising the statement of Financial Position as at 31 December 2023 and statement of financial performance, cash flow statement and including a summary of significant accounting policies and comprising notes to the financial statements 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 subsection 181(1) of the Urban Councils Ordinance (Chapter 255) and 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Haputale Urban Council as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities.

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 for Local Authorities, 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 Urban Council are consistent with the preceding year as required by Section 6 (1) (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 (1) (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	Comments of the Council	Recommendation
(a) Service contract charges and insurance charges related to the coming year had been accounted as expenses of Rs.272,100 in the year under review.	It will be done in preparing the financial statements of the next year.	Accounts should be prepared correctly.
(b) Stamp duty of Rs.472,875 received in the year under review had not been accounted for.	-do-	-do-
(c) The value of 36 GI pipes used for rent out had not been accounted for.	Assets will be surveyed and the correct values will be recorded in the books in due course.	-do-
(d) An amount of Rs.1,140,588 spent on various constructions in the year under review had not been accounted for.	Correction will be made in preparing the financial statements for the next year.	Accounts should be prepared correctly.
(e) 02 cases being heard in two courts against the urban councils had not been disclosed in the financial statements.	Relevant disclosures will be made in next years.	-do-

1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
The total value is Rs. 105,483,051 could not be verified satisfactorily in the audit due to non-submission of balances related to 03 asset objects namely lands and buildings, machines and machinery, Furniture and fittings.	This will be corrected the financial statements for the year 2024.	Evidence should be submitted to substantiate the account balances shown in the financial statements.

1.7 Non-compliances

Non-compliances with Laws, Rules, and Regulations

Instances of non-compliances with Laws, Rules, and Regulations, are as follows.

Reference to Laws, Rules, and Regulations	Non-compliance	Comments of the Council	Recommendation
(a) Establishment Code of the Democratic Socialist Republic of Sri Lanka	Sections 1.6 and 4 of Chapter XXIV	The loan balance of Rs.61,651 brought forward from year 1996 had not been recovered from 18 officers who retired, left the service and died.	. It is difficult to find information as outstanding balances are very old. Outstanding loan balances should be collected.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 571(1)	27 deposit balances amounting to Rs.85,964 and over 02 years had not been regulated.	Measures will be taken to regulate deposits.	Financial Regulations should be followed.
(C) Public Administration Circular No. 01/2002 dated 25 February 2002.	In the case of 15 vehicles, the vehicle state emblems and the name of the local government body had not been printed.	Measures are being taken to print the state emblem.	State emblem should be printed on all vehicle

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure for the year ended as at 31 December of the year under review, amounted to Rs. 25,408,894 as compared to the corresponding revenue for the preceding year in excess of the recurrent expenditure amounting to Rs. 17,033,166.

2.2 Revenue Administration

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

According to the information made available by the secretary of the Council, particulars on the estimated revenue, billed revenue, collected revenue, and outstanding revenue relating to the year under review and the preceding year, are given below.

	Source Of Revenue	<u>2023</u>				<u>2022</u>			
		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.
(i)	Rates and Taxes	2,100,000	2,182,919	1,252,537	930,382	1,950,000	2,024,551	1,486,337	538,214
(ii)	Rent	16,526,324	24,427,707	12,578,598	11,849,108	16,101,250	18,650,118	11,080,707	7,569,411
(iii)	License fee	518,000	732,800	642,900	89,900	492,000	525,500	465,500	60,000
(iv)	Other Revenue	2,982,700	4,177,992	1,395,005	2,782,986	2,547,517	3,945,857	1,961,479	1,984,378
	Rates and Taxes	22,127,024	31,521,418	15,869,040	15,652,376	21,090,767	25,146,026	14,994,023	10,152,003

2.2.2 Performance in Collecting Revenue

Observations on performance of the Council in collecting revenue are given below.

	Audit Observation	Comments of the Council	Recommendation
(a)	Arrears of rate and tax amounting to Rs.871,597 as at 31 December of the year under review, had not been collected.	Rs.120,798 out of arrears of rate and tax had been recovered as at 30.04.2024.	The revenue arrears should be recovered without delays.

(b)	The house rental income amounting to Rs.398,292 which should be collected as at 31 December of the year under review had not been collected.	An amount of Rs.38,250 had been recovered from the arrears of house rent income as at 30.04.2024.	-do-
(c)	Three wheeler fee amounting to Rs. 2,106,738 had not been recovered as at 31 December of the year under review.	Rs. 143,855 out of the due three wheeler fee had been recovered as at 30.04.2024.	Due revenue should be recovered with no delays.
(d)	Court fine amounting to Rs. 581,237 and stamp duty amounting to Rs.2,416,871 receivable as at 31 December in the year under review had not been collected.	Measures will be taken to continuously dealt with the relevant institutions to collect due balances of court fines and stamp duty.	-do-
(e)	Other revenue Outstanding revenue amounting to Rs. 4,049,018 receivable from year 2007 by Urban Development Authority for rest house belongs to the Urban Council had not been collected.	Due measures will be taken by checking the outstanding balance.	-do-

3. Operational 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 Sabha through Section 04 of the Urban Councils 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	Comments of the Council	Recommendation
Amount of 24T waste collected monthly by the Urban Council had been disposed to the surrounding environment.	A special programme is to be conducted by the Urban Council to streamline the waste management centre.	A waste management programme should be implemented properly.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
An amount of Rs. 157,277 paid as advances in 12 occasions within the period from 1998 to 2015 had not been settled.	Finding information is difficult due to these are old outstanding balances.	Advances should be settled.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
A rate tax assessment had not been done timely after year 2007 and recoveries had not been done.	New rate tax assessment had been completed and actions will be taken in due course.	Measures should be taken to assess rate taxes timely.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) The compactor handed over to the Urban Council by the Ministry of Provincial Council and Local Government in year 2014 had been remained idle until the year under review.	The relevant compactor had been handed over to the financial management office for disposal.	Assets should be utilized effectively.
(b) No examination on shortage of including Dell computer, GI pipes, grass cutter machine, aluminium Ladder and 48 other office equipment units had been conducted and the reasons for shortage had not been identified.	Further measures will be taken after re-examining on the shortage of that equipment through a committee as it had been observed that registers had not been updated and issues in showing to the board of survey.	Financial Regulations should be followed.