

Haputhale Urban Council – 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Haputhale Urban Council for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement and notes to the financial statements including material accounting policy 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, sub section 181(1) of Urban Council Ordinance (Chapter 255). 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 financial statements give a true and fair view of the financial position of the Haputhale Urban Council as at 31 December 2024, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 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 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

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

- (a) The financial statements of the Urban Council presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The balance of Rs. 144,941 in the Special Bank Account for Urban Development at the end of the year under review had not been disclosed in the financial statements.	That corrections will be made when preparing next year's financial statements.	All bank account details must be included in the financial statements.
(b)	The value added tax amount of Rs. 148,072 paid for equipment purchased during the year under review under the Local Development Support Project had not been recognized as an expense.	-Do-	Accounts must be prepared correctly.
(c)	As at 31st December of the year under review, stationery stocks amounting to Rs. 45,334 had not been accounted for.	-Do-	-Do-
(d)	As at 31st December of the year under review, there were no creditors' provisions for five expenses amounting to Rs. 215,254.	-Do-	-Do-
(e)	The value of 102 units of property, plant and equipment worth Rs. 236,100 purchased during the year under review had not been capitalized.	That corrections will be made when preparing next year's financial statements.	Accounts must be prepared correctly.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
As at 31 st December of the year under review, the total of 04 account balances as per the financial statements was Rs. 6,430,269 and as per the supporting documents, the total was Rs. 6,374,759, a difference of Rs. 55,510.	That will identify and resolve the differences.	Accounts must be prepared correctly.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
The balance confirmations required to the tender rent income balance of Rs. 2,232,634 as at 31st December of the year under review were not submitted to the audit.	The council will take steps to verify the balances after examining the documents and update them with the correct balances.	Necessary evidence must be submitted to verify the balance.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Paragraph 3.5 of the Presidential Secretary's Circular No. SP/RD/02/10 dated 03 February 2010 and Sections 27 and 29 of the State Lands Ordinance	Without obtaining approval, the council had divided and distributed 3 council-owned lands for 103 family units since 1998 at a monthly rental of Rs. 250.	It is hoped to report a response after examining the circular at length.	Action should be taken in accordance with Sections 27 and 29 of the Government Lands Ordinance and circulars.

- (b) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka
Financial regulations 371
- Twelve advance balances of Rs. 157,277 given during the period from 1988 to 2015 had not been settled.
- There are long-standing uncollected balances and approval has been requested to write off the relevant balances.
- Action should be taken to settle the balance.

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 2024 amounted to Rs. 31,517,179 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 25,408,894 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 submitted by the Municipal Secretary, the following is information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year.

Source of income	Estimated Revenue	<u>2024</u>			Estimated Revenue	<u>2023</u>		
		Revenue billed	Revenue collected	Total Arrears as at 31 December		Revenue billed	Revenue collected	Total Arrears as at 31 December
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	2,100,000	2,425,496	2,335,643	1,875,286	2,100,000	2,182,919	1,252,537	930,382
Rent	27,807,251	30,925,977	21,871,883	31,879,066	16,526,324	24,427,707	12,578,598	11,849,108
License fees	648,000	1,156,550	803,400	443,050	518,000	732,800	642,900	89,900
Other Revenue	3,504,200	4,576,087	2,852,878	3,459,004	2,982,700	4,177,992	1,395,005	2,782,986
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Total	34,059,451	39,084,110	27,863,804	37,656,406	22,127,024	31,521,418	15,869,040	15,652,376
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2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

	Audit Observation	Comments of the Council	Recommendation
(a)	Total Revenue		
	Out of the total revenue billed in the year under review of Rs. 39,084,110, Rs. 17,872,733 had not been collected by the end of the year, which was 46 percent of the total billed revenue.	That Rs. 5,159,875 has been collected from the billed income in the year under review.	Arrears of revenue should be collected.
(b)	Rates and Taxes		
(i)	Out of the arrears of assessment tax revenue of Rs. 1,504,588 at the beginning of the year under review, only Rs. 297,977 had been recovered during the year under review.	That action will be taken to collect the outstanding amount.	Arrears of assessments and taxes should be collected in accordance with the provisions of the Act.
(ii)	An under-collection of Rs. 338,172 was made from 2015 to 2024 for 09 assessment tax units.	That action will be taken to collect the outstanding amount.	Arrears of assessments and taxes should be collected in accordance with the provisions of the Act.
(c)	Rent		
(i)	The house rental income due as at 31st December of the year under review was Rs. 467,392, of which Rs. 329,892 had been due for more than a year.	That steps will be taken to recover the outstanding amount.	Arrears of rental income must be recovered according to the agreement.
(ii)	The amount of Rs. 4,049,019 that should have been collected from the Urban Development Authority for the management of the Haputale Inn had not been recovered.	This will be reported upon receipt of the verdict in the case currently being heard at the Colombo Commercial High Court to recover the relevant arrears from the person who operated the inn on a lease basis at that time.	Arrears of rental income must be recovered.

(d) License Fees

The three-wheeler parking fees due as at 31st December of the year under review were Rs. 2,521,447, of which Rs. 2,084,139 had been due for more than a year.

That steps will be taken to recover the outstanding amount.

According to the by-laws, arrears of revenue should be collected.

2.2.3 Court fines and Stamp duty

Audit Observation

Comments of the Council

Recommendation

The receivable court fines from the Chief Secretary of the Provincial Council and other authorities as at 31st December of the year under review amounted to Rs. 131,238 and stamp duty amounted to Rs. 5,749,191.

That an amount of Rs. 2,393,170 has been collected as of March 31, 2025 from the arrears of stamp duty balance of Rs. 8,142,361 as of 31st December, 2024.

Steps should be taken to collect arrears of stamp duties and court fines.

3. Operational Review

3.1 Performing of Functions Enacted by the Act

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.

Audit Observation

Comments of the Council

Recommendation

A balance of Rs. 13,097,364 was retained in fixed deposits as of December 31st of the year under review without making any provision through the budget.

No comments.

The powers and functions assigned to the Council must be carried out using Council funds in accordance with the Act.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The fixed asset register relating to 03 asset balances with a total value of Rs. 139,857,325 had not been updated.	That work is being done to prepare the fixed assets register with updates.	Documents must be kept up to date.

3.3 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) When comparing the approved staff and the actual staff as at the end of the year under review, there were 07 vacancies in respect of 05 posts and 03 excess officers in respect of 02 posts.	The relevant vacancies and excesses noted by the audit are communicated monthly through the Staff Review Report implemented through the EHRM system of the Office of the Deputy Chief Secretary (Personnel and Training).	Staff must be approved.
(b) The outstanding loan balance of Rs. 61,651 from 18 retired, resigned from service and deceased officers, which has not been recovered since 1996, had not been recovered from the guarantors in accordance with Sections 1.6 and 4 of Chapter XXIV of the Establishments Code.	That steps are being taken to recover the relevant balances or remove them from the books.	Arrears of staff loan balances should be collected.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) The compactor, which was handed over to the Haputale Urban Council by the Ministry of Provincial Councils and Local Government in November 2014, remained idle for 9 years until the year under review.	Since it is difficult to operate the compactor machine handed over to the council due to the geological anomalies conditions of the Haputale Urban Council, the Deputy Chief Secretary (Financial Management) office has been informed for disposal. The office has also conducted inspections, but no decision has been made yet.	Arrangements should be made to transfer it to another council where necessary.

- (b) The hand tractor that was handed over to the Haputale Urban Council by the Haldummulla Pradeshiya Sabha on March 5, 2012, had been idle since the day it was received. The Office of the Deputy Chief Secretary (Financial Management) has been informed in this regard. Assets must be managed properly.

3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
The Haputale Urban Council had not taken over 14 lands used for its activities under transfer orders in accordance with Section 27 of the Land Ordinance.	It has been a difficult task in practice to identify the relevant assets according to the documents and further investigation will be carried out.	The relevant acquisitions should be carried out expeditiously in accordance with the provisions of the Land Ordinance.

3.6 Environmental Problems

Audit Observation	Comments of the Council	Recommendation
The recommendations contained in the report that had been examined and submitted by the Director General of the Central Environmental Authority, in its letter No. CEA/COMP/BD/C/004/2023 dated 05th of May 2023, regarding the Kahagalawatta waste disposal site and waste management activities, had not been implemented as of January 8, 2025.	The recommendation is being implemented.	The recommendations of the Director General of the Central Environmental Authority should be implemented.

4. Accountability and Good Governance

Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure according to the budget prepared by the Municipal Council for the year under review with the actual income and expenditure for the year, there was a variation of 11 percent to 78 percent in 06 income items and 13 percent to 82 percent in 06 expenditure items.	No comments.	The budget document must be prepared using accurate information.