

## **Hikkaduwa Urban Council - 2020**

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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 Hikkaduwa Urban Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, 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 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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

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My 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**

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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 Principles , 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)**

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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 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 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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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

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### 1.6.1 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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The value of a tractor amounting to Rs. 824,700 which was disposed on 18 December 2019 had not been deducted from the accounts. Therefore, the value of cars and carts had been overstated.	Actions will be taken to correct that in the future.	Should be accounted correctly.

### 1.6.2 Non reconciled Account or Records

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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There was a difference sum of Rs. 13,579,829 in between the balance value of 03 accounting items in the financial statements and balance value in relevant utility registers and sub registers as at 31 December of the year under review.	The actions will be taken to find the difference and correct.	Action should be taken to correct the accounts by comparing the changes in the relevant balances.

### 1.6.3 Lack of documentary evidences for audit

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
The Information required for the audit had not been submitted regarding 06 accounting items amounting to Rs. 388,948,625.	The fixed asset register will be updated	Properly updated fixed asset registers should be submitted.

### 1.7 Non compliances

#### Non compliances with laws rules and regulations

<b>Reference to laws rules regulations</b>	<b>Non compliance</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
255 direction of the Municipal Council Ordinance			
Section 164	There were 48 hotels approved by the Tourist Board in the council area however, only 31 hotels had paid the 1 per cent license fee in the year 2019 and 13 hotels in the year 2020.	Since 2019, the tourism industry has collapsed and legal actions have been taken against three hotels.	Action should be taken to recover the license fees.

## 2. Financial review

### 2.1 Financial result

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 6,981,015 as compared with against the revenue over recurrent expenditure amounted to Rs. 5,064,630 in the preceding year.

## 2.2 Revenue Administration

### 2.2.1 Performance of revenue collections

## 3. Accountability and Good Governors

Audit Observation	Comment of the Sabha	Recommendation
<b>(a) Rates and Tax</b>		
The action had not been taken to recover the Rs. 40,322,541 arrears of tax.	Actions will be taken to maintain mobile services and collect arrears of taxes through the distribution of red notices.	
<b>(b) Shop Rent</b>		
The action had not been taken to recover Shop rent arrears of Rs. 4,575,665 .	Actions had been taken to get legal action against defaulters	Action should be taken to recover the arrears of income.
<b>(c) License Fees</b>		
Action had not been taken to recover the arrears license fee of Rs. 252,330.	Action should be taken to recover.	
<b>(d) Other Revenue</b>		
The actions had not been taken by the Chief Secretary to pay the Court fines and Stamp Fees amounting to Rs. 58,504,508 receivables to the Sabha.	Inform you that the relevant authorities have been informed to recover this amount.	Action should be taken to recover the arrears of income.

## **Environmental issues**

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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<b>Solid waste management</b>		
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Since August 2012, about 1700 tons of garbage collected in the Sabha area has been dumped into the Monrovia Estate Garbage Project annually and Rs. 2,035,500 had been paid as garbage disposal fee during the year under review. However, the council was unable to implement a long-term waste management plan.

Due to the lack of a lands solid waste collected daily, Rajgama Monrovia Estate will be handed over to the Solid Waste Management Project.

The Sabha should have a long-term plan for waste management.