

Hikkaduwa Urban Council -2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hikkaduwa Urban Council including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations, Statement of changes in net assets, Cash Flow Statement for the year then ended 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 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

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

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 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 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 economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- 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.
- 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

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Council	Recommendation
(a)	300 pairs of boots valued at Rs.600,000 received as donations and Rs.58,404 valued consumer stocks were not accounted.	The Donation Receipt had not been accounted.	Receipts of donations should be properly accounted.
(b)	The balance of the work Account Payable was overstated by Rs.158,431.	Action will be taken to correct the error.	Should be properly accounted.

1.6.2 Non reconciled control account or Records

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.9,049,803 between the balances related to 04 accounting Subjects shown in the financial statement and the balances shown in the relevant utility registers and schedules.	Will be rectified in the future.	Action should be taken to reconcile differences and rectify.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Reference to Laws, Rules, Regulation and Management Decisions	Non - Compliance	Comment of the Council	Recommendation
The Southern Provinces, Department of Local Government Circular No දළඵා/ඵඵාකො/2010/01 dated 27 December 2010			
(i) Section 01	The Weekly fair shops owned by the Council had not been tendered for 17 years.	The action will be taken to tender the weekly fair in the next year.	Action should be taken according to the Circular.
(ii) Section 05	Out of 146 shops owned by the Hikkaduwa Urban Council, 45 shops had expired their agreements, however they had not been updated.	Legal action will be taken.	Agreements should be updated as per the Circulars.
(iii) Section 06	The assessment of 63 Hikkaduwa public market stalls and 12	The new assessment will be put in to	As per the Circular, in due course,the

Hikkaduwa fish stalls action effective from assessment had not been done after the year 2024. should be put in the year 2012. to action.

1.7.2 Unauthorized transactions

Audit Observation	Comment of the Council	Recommendation
The secretary had used the council's vehicle for 04 trips between home and office a day without group transport facilities in the year 2023, and had paid Rs.352,847 as its fuel.	The privileges pertaining to the post can be enjoyed.	The vehicles should be used to minimize the costs.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2023 amounted to Rs.32,920,984 as compared with revenue over recurrent expenditure amounting to Rs.9,964,982 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	25,269,759	36,545,992	39,460,140	39,403,532	21,176,683	21,729,523	26,538,285	42,317,680
Rents	12,197,400	7,733,555	10,715,402	1,325,979	6,033,080	6,870,525	6,823,862	4,307,826
License Fees	524,300	554,810	555,610	47,555	935,000	565,375	565,375	48,355
Other Income	8,385,000	8,961,407	8,961,407	-	6,776,000	4,002,879	4,002,879	-
	=====	=====	=====	=====	=====	=====	=====	=====
	46,376,459	53,795,764	59,692,559	40,777,066	34,920,763	33,168,302	37,930,401	46,673,861
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2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Council	Recommendation
(a) The total outstanding income at the beginning of the year under review was Rs.46,673,861 and at the end of the year it was Rs.40,777,066.	The revenue collection will be increased in the future.	Arrears of income should be collected as soon as possible.
(b) There was a difference of Rs.4,129,276 between the assessment tax documents held by the Council and the outstanding assessment tax balance according to the computer software.	The actions are being taken to rectify the balance.	Differences should be identified and corrected promptly.
(c) The legal actions were not carried out under Section 165. a (4) of the Urban Council Ordinance in the case of 88, 76 and 83 in the years 2021, 2022 and 2023, approved hotels of the Tourist Board that did not obtain trade licenses.	Regarding the year 2023, 0.3% fee could be collected from 62 hotels, and the amount was Rs.11,271,644.	Action should be taken according to the Urban Council Ordinance.

3. Operational Review

3.1 Solid Waste Management

Audit Observation	Comment of the Council	Recommendation
As garbage collection should be done within the area of authority of Hikkaduwa Urban Council, according to Section 157 of the Urban Council Ordinance Act, by-laws can be prepared and a garbage tax can be charged according to Section 157(9), however the council had not done so.	The arrangements for gazetting the relevant rates for charging the garbage fee are currently being carried out.	Garbage tax should be levied as per Urban Council Ordinance.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) 03 vehicles with a value of Rs.4,880,000 had not been registered in the name of the council for a period of 17 years. Also, the Council did not have the documents confirming the ownership of the chassis of the water bowser, which had decayed and parked in the garage of the Hikkaduwa Urban Council.	Agree with the audit observation.	Arrangements should be made to acquire the ownership of vehicles owned by the council.
(b) 02 vehicles and machinery costing Rs.2,215,000 which had been removed from use between the years 02 and 08 and 04 vehicles and machinery of unspecified value were not disposed or repaired due to dilapidation.	Further action will be carried out as per the Circular.	According to the circular, the disposal actions should be done promptly.
(c) 03 vehicles and 01 machinery belonging to the Council remained idle without repair for a period between 06 months and 06 years.	Engineering reports will be obtained and repairs will be carried out.	Repairs should be done promptly.

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) Usable 03 vehicles with value at Rs.9,180,000 owned by Hikkaduwa Urban Council remained idle for a period between 02 and 16 years.	The gully bowser will be exchanged with another entity, the crew cab repaired and the water bowser will be taken appropriate action on the recommendations of the local government mechanical engineer.	Action should be taken to effectively utilize existing assets.
(b) 36 lands owned by the Urban Council and 14 lands with 03 acres 03 roods and 31.86 perches had not been transferred to the Council.	The documents related to acquire have been forwarded to the Divisional Secretariat.	Assets owned by the council should be acquired.

3.4 Humans Resource Management

Audit Observation

Receivable balances of Rs.478,541 due on 31 December 2023 had not been recovered from 18 officers who retired, transferred and suspended after serving in the Council.

Comment of the Council

The actions are being taken to collect.

Recommendation

Staff loans receivable should be collected.