

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hatton Dickoya Urban Council for the year ended 31 December 2023 comprising with the Balance Sheet as at 31 December 2023 and Income and Expenditure Account, 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 Councils Ordinance (Chapter 255) and National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Hatton Dickoya Urban Council as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practice.

1.2 Basis for Qualified Opinion

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 the parties in charge of governance on 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 in charge of governance are responsible for overseeing the financial reporting process of the Urban Council.

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:

- Designed and performed the appropriate audit procedures, identified and assessed 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.
- Obtained 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 the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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

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

- 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.
- 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

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
Even if there were 08 cases filed by the Council against the external parties and filed by the external parties against the Council as at 31 December of the preceding year, no revelation on that matter had been made in the financial statements.	Actions will be taken in future by looking into the matter.	The actions should be taken to make revelations in the financial statement.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The value of 06 fixed assets had been accounted with an excess of Rs.168,850 in the year under review and 14 units of assets having a total value of Rs. 555,018 had not been accounted.	It will be rectified in future.	The accounting errors should be rectified.

(b)	15 stock units at a value of Rs. 854,769 and 21 stationery units at a value of Rs. 280,414 existed as at 31 December of the year under review had not been accounted.	It will be rectified in future.	The accounting errors should be rectified.
(c)	The fixed deposit interest income had been accounted with an excess of Rs.1,694,940 and the stamp duty income had been accounted short of Rs. 227,000 in the year under review.	- Do -	- Do -
(d)	05 vehicles worth Rs. 446,012 being used by the Council had not been accounted.	- Do -	- Do -
(e)	3962 library books had not been valued and accounted.	The arrangements are being done to appoint a committee to determine the price.	The books should be accounted identifying the value thereof.

1.6.3. Non-reconciled Control Accounts

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs. 23,681,605 in comparison of the balances of 06 accounts shown in financial statements as at the end date of the year under review with the related subsidiary documents.	Rectifications will be done in future.	The account balances should be rectified.

1.6.4 Unavailability of Written Law for the Audit

Audit Observation	Comment of the Council	Recommendation
The balances of 04 fixed assets at a total value of Rs. 27,650,412 shown in the financial statements as at the end date of the year under review and the balance of Rs. 7,043,260 shown in the account as the salary arrears to be recovered from the Department of Local Government in the years 2009 and 2010 could not be verified effectively since the related files were not presented.	The respective documents will be presented in future.	The actions should be taken to present the verified documents.

1.7 Non-compliance

1.7.1 Non-compliance with Laws, Rules and Regulations

The instances of non-compliance with Laws, Rules, Regulations and management decisions are as given below

	Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i	F.R 104 (3) and (4)	Though a period of three years has been passed, the investigation activities had not been started even by 31 December of the year under review for the rest house damaged by a sudden fire on 28 January 2020.	As there is no an inventory book to prove that the goods belonged to this urban council were in the rest house, an inquiry as per F.R 104 (4) has not been carried out.	The security of the properties should be confirmed.
ii	F.R 371 (5)	Although the advances should be settled immediately after the completion of task, 49 advances worth Rs. 617,174 existing from the year 1987 to 2023 had not been settled.	Since F.R 371 (5) is the old balance prevailing last 35 years, the steps will be taken to settle in future.	The actions should be taken to settle the advances.

2. Financial Review

2.1 Financial Results

According to the financial statements submitted, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2023 was Rs. 43,466,570 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 41,565,879.

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the Secretary, the particulars about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year are given below.

Income Source	2023				2022			
	Estimated income.	Billed income	Collected income	Total deficit as at 31 December	Income Source	Estimated income.	Billed income	Collected income
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	17,944,000	18,230,346	20,894,910	15,894,141	17,600,000	19,310,897	16,615,917	18,558,706
(ii) Rentals	29,820,000	17,865,947	17,762,904	9,680,005	29,195,000	14,247,236	16,357,087	9,576,962
(iii) License fee	3,700,000	875,091	875,091	-	3,600,000	819,207	819,207	-
(iv) Other income	27,578,000	20,259,081	16,371,755	16,751,675	127,184,000	10,648,290	8,378,563	12,864,349
	<u>79,042,000</u>	<u>57,230,465</u>	<u>55,904,660</u>	<u>42,325,821</u>	<u>177,579,000</u>	<u>45,025,630</u>	<u>42,170,774</u>	<u>41,000,017</u>

2.2.2 Performance in Collecting Revenue

The observations in respect of the Performance in Collecting Revenue of the Council are given below.

	Audit Observation	Comment of the Council	Recommendation
(a) Assessments Tax			
	There was an outstanding assessment of Rs.8,406,716 as at 31 December of the year under review. Therein, Rs.50,484 in 07 premises over 10 years, Rs.2,439,721 in 432 premises between 05 and 10 years and Rs. 5,257,669 related to the period from 01 to 05 years had not been recovered.	The actions will be taken to recover in future.	The outstanding income should be levied as per the provisions of the Act.
(b) Rentals			
i.	The rental of Rs. 1,581,710 due for the year 2018 and 2019 from the Hatton Rest House had not been collected even by the last date of the year under review.	The Urban Development Authority has been informed to pay the outstanding rentals.	The outstanding income should be levied.

ii.	The arrears of 441 stall rooms as at the last date of the year under review was Rs.9,680,005. Meanwhile, A sum of Rs. 5,299,694 had not been collected from 09 meat and fish stall owners from whom the rents are to be collected from a period of more than 03 years, and a sum of Rs. 405,964 from 06 of them remained to be collected for more than 05 years. The outstanding rent between 01 and 03 years from 41 stall owners was Rs.1,133,297, and the outstanding rent over 03 years from 12 stall owners was Rs.201,527.	The amount in arrears will be collected in future.	The outstanding income should be levied.
(c) Fines and Stamp Duty			
	The stamp duty that should have been received from the Chief Secretary and other authorities of the province was Rs 8,745,700.	The Schedule fees have been paid to obtain the remaining money.	The income should be brought.
(d) Other Income			
	A land lease balance of Rs. 2,867,975 remained to be recovered as at the end date of the year under review.	It had been informed to pay the amount outstanding.	The outstanding balances should be collected.

03. Operation Review

3.1 Fulfilling the tasks assigned by the Act

The following matters were observed with respect to the execution of duties assigned to the Council under 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.

	Audit Observation	Comment of the Council	Recommendation
(a)	A performance report for the year under review had not been prepared.	The actions will be taken in future to prepare the performance reports related to the upcoming years within the respective year.	The performance reports should be prepared.

(b) 14 organizations that had been given the environmental permits had not taken steps to renew the permits even if the validity period of those permits had expired.	These activities will be done in future.	The environmental permits should be provided or the legal actions should be taken.
(c) Although 29 Hotels inspected in the municipality had not met the criteria to be fulfilled according to the food court ratings as per the Section 103 in Part IV of the Urban Council Ordinance No. 18 of 1987, any actions had not been taken in that connection.	The Hotels are being categorized.	The proceedings should be made as per the provisions of the Act.
(d) By-laws in respect of charging Advertisement fees had not been prepared.	The actions will be taken in future.	The arrangements should be made to collect the fees subsequent to a survey.

3.2 Management Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Even if a period from 05 to 25 years had passed after the expiry of the agreement signed with lessees of 47 stalls, no actions had been taken to renew the agreements.	The lessees have been informed to take actions to renew the agreements.	The arrangements should be made to enter into agreements with stall owners.
(b) Although it had been identified that 10 stalls belonging to the Council had been leased sub-rent, no action had been taken in that regard.	The stall owned lessees who have sub-leased the stalls without permission have been notified to stop giving the place on sub-lease.	Legal actions should be taken.
(c) As the rental were not collected from 314 stalls within the municipality in the years 2020 and 2021 at 02 occasions according to the valuation reports given by the Government Valuation Department, the rentals from 314 stalls amounting to a total of Rs. 15,481,979 within a period of 19 months from June of last year to December of the year under review had not been collected as at 31 December of the year under review.	They have been informed about the arrears to be paid.	The rental arrears should be collected as per the valuation reports.

(d)	The necessary actions on 07 public complaints received by the Council related to the previous year had not been taken even by 31 December of the year under review.	Since it is unsolvable, the actions will be taken to refer this to the respective institutions.	Public Services should be fulfilled with no delay.
(e)	The actions had not been taken to recover 03 account balances of Rs. 9,985,139 existed for a period from 09 to 13 years as at 31 December of the year under review.	The actions will be taken to rectify in future.	The actions should be taken to collect the money to be received.
(f)	02 account balances of Rs. 4,393,414 which have elapsed between 04 and 12 years as at 31 December of the year under review had not been settled.	The actions will be taken to rectify in future.	The actions should be taken to rectify.
(g)	04 prepayment balances amounting to Rs.122,643 existing since before the year 2008 had not been settled as at 31 December of the year under review.	The actions will be taken to rectify in future.	The actions should be taken to rectify.

3.3 Assets Management

	Audit Observation	Comment of the Council	Recommendation
(a)	The reception hall having a large hall, a kitchen and a toilet system located in the centre of Hatton Town as well as the Reading Hall and the Library Building of Hatton Dikoya are remaining without a repair and maintenance, and the library with 3000 books had been left to be destroyed.	The actions will be taken to repair.	It should be repaired and maintained.
(b)	The CCTV camera system installed in the year 2015 and 2020 at a total cost of Rs.552,780 is not in proper working condition and as the stored data could not be downloaded, the purpose of installing CCTV cameras had not been achieved.	The respective institutions have been informed to carry out the repairing activities.	Repairing works should be done to working condition.

3.4 Informal Transactions

	Audit Observation	Comment of the Council	Recommendation
(a)	Even if 07 persons were doing business near Hatton Bus Stand without any business license or without paying any fees, the Council had not taken any legal action in respect of the unlawful trade.	This construction will be removed in future.	The unlawful businesses should be stopped.
(b)	While the tender had been called for the recruitment of three persons for the publicity works using loudspeaker during the Deepavali festival, the tender had been awarded to a private party by the Secretary for Rs.225,000 without following any tender procedure.	Rectifications will be done in future.	Tender procedure should be followed.

3.5 Contracts Administration

	Audit Observation	Comment of the Council	Recommendation
	Hatton Bus Stand Development Project with a total cost of Rs. 4,936,438 had not followed a procurement method as per 1.2.1 of the procurement guideline and the same industry had been prepared as 03 estimates and given to the approved societies as well as a sum of Rs. 4,943,393 had been spent. Also, an amount of Rs. 306,124 had been paid in excess for the first and second time of applying tar.	The further proceedings will be done under the supervision of Provincial Engineer as pointed out by the audit.	Proceedings should be made in line with procurement standards.

3.6 Human Resource Management

	Audit Observation	Comment of the Council	Recommendation
(a)	The house rent distress loans amount of Rs. 374,436 of the officers who have been transferred had not been collected since 02 years.	The respective officers have been informed in writing on this matter.	The actions should be taken to collect the rentals.

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| (b) | The loan balances worth Rs. 1,513,655 of 11 officers who retired, died and left service and were interdicted related to the period from 01 year and 08 months to 03 years had not been collected. | The actions on this matter will be taken in future. | The proceedings should be made as per the provisions of the Establishments Code. |
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**4. Accountability and Good Governance
Annual Action Plan**

Audit Observation	Comment of the Council	Recommendation
An Action Plan for the year under review had not been prepared.	The actions will be taken to prepare the Actions Plans relevant to the upcoming years within the respective years.	An Action Plan should be prepared.