

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 2024 comprising with the Balance Sheet as at 31 December 2024 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 sub-section 10 (1) of 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 Hatton Dickoya Urban Council as at 31 December 2024, 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 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 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.

- (a) 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.
- (b) The financial statements presented includes all the recommendations made by me in the previous year 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 total value of 05 vehicles used by the council, amounting to Rs.446,012, had not been accounted for.	The correction will be made when preparing the final account for 2025.	Accounts should be prepared correctly.
(b) The total amount of Rs. 640,577 paid in the year 2025 relating to the year under review, had not been accounted for under creditors.	-Do-	-Do-
(c) Fixed deposit interest income of Rs.520,535 receivable as on the end of the year under review had not been accounted for.	-Do-	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
When comparing the balances related to 02 account subjects shown in the financial statements with the corresponding record balances, difference of Rs.17,716,118 were observed.	There are errors in the schedule and action will be taken to correct the schedule.	Account balances should be reconciled with the relevant schedules.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Recommendation Council
The total amount of Rs. 8,447,271 related to 08 subjects shown in the financial statements could not be satisfactorily examined during the audit due to non-submission of schedules and files.	Action will be taken to look for the files and correct. Documents, schedules and files related to account balances should be prepared.

1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows

Reference to Laws, Rules Regulations	Non-compliance	Comments of the Recommendation Council
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) F.R. 104 (3)	As of December 31 of the year under review, four years had passed since the inn was damaged by a sudden fire on January 28, 2020, but no investigation had been initiated.	Investigations have not yet been carried out due to a lack of sufficient information. Inspections regarding fire should be conducted and appropriate action should be taken, as per financial regulations.
(ii) F.R. 571(3)	Action had not been taken to settle 92 lapsed deposits amounting to Rs. 7,751,739 for the period from 2001 to 2023.	Action will be taken to settle the deposits Lapsed deposits should be settled.

(b) **Circulars of the
Central Local
Government
Commissioner**

Circular No. 1988/22 dated 17 th May 1988	No assessment had been carried out in the council area of authority after 2017.	The valuation department had been informed to assess.	Property valuation should be conducted once every 5 years and assessments should be levied accordingly.
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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. 95,143,951 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 43,466,570 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 presented by the Secretary of the Council relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

		2024				2023			
	Source of Revenue	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.
(i)	Rates and Taxes	17,644,000	18,161,794	15,757,659	14,945,000	17,944,000	18,230,346	20,894,910	12,540,865
(ii)	Rent	55,972,889	60,218,183	26,314,009	94,278,709	29,820,000	17,865,947	17,762,904	60,374,535
(iii)	License Fees	3,800,000	1,908,123	1,908,123	-	3,700,000	875,091	875,091	-
(iv)	Other revenue	45,428,000	52,975,790	45,545,119	24,182,346	27,578,000	20,259,081	16,371,755	16,751,675
		122,844,889	133,263,890	89,524,910	133,406,055	79,042,00	57,230,465	55,904,660	89,667,075

2.2.2 Performance in Revenue Collection

- (a) The total revenue deficit as at the end of the previous year was Rs.89,667,075 and as at the end of the year under review deficit had been increased by 48 percent as Rs. 133,406,055,. Accordingly, the revenue collection performance of the council remained at a poor level.

(b) Rates and Tax

Audit Observation	Comments of the Council	Recommendation
The assessment deficit as at the end of the year under review was Rs.14,945,000. Out of this, Rs.6,980,103 from 344 units with a unit value exceeding Rs.10,000 had not been collected in accordance with Section 170 (2) of the Urban Council Ordinance.	Further work is being carried out to recover the arrears.	The arrears of revenue should be recovered.

(c) Rent

Audit Observation	Comments of the Council	Recommendation
i. A total of Rs. 1,581,710 relating to the lease of the Hatton Rest house for the years 2018 and 2019 had not been collected by the end of the year under review.	Further work is being carried out to recover the arrears.	The arrears of revenue should be recovered.
ii. As of the last day of the year under review, there was a total outstanding balance of Rs.88,375,598 in stall rent, Therein, Rs.87,391,677 had not been collected from 332 shop owners whose arrears were between 01 and 05 years, and Rs.412,974 from 08 stall owners whose arrears were more than 05 years.	-Do-	-Do-

(d) Other Income

Audit Observation	Comments of the Council	Recommendation
As at the end of the year under review, there was an arrears of land tax of Rs. 4,067,262, out of which Rs. 4,061,494 from 139 units with an arrears of more than Rs. 1,000 per	Further work is being carried out to recover the arrears.	The arrears of revenue should be recovered.

unit had not been collected in accordance with Sections 170 (1), (2) and 170 A (2) of the Urban Council Ordinance (Chapter 255).

(e) Court fines and Stamp duty

Audit Observation	Comments of the Recommendation Council
The court fines and stamp duty due from the Chief Secretary of the Provincial Council and other authorities as on 31 st December of the year under review were Rs.1,053,166 and Rs.23,129,180 respectively	Schedules will be submitted and fees will be collected. The arrears of revenue should be recovered.

3. Operational Review

3.1 Fulfilment of functions assigned 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.

(a) Solid Waste Management

Audit Observation	Comments of the Recommendation Council
Due to the non-establishment of a unit for the management of daily waste collection in the Urban Council, Rs. 12,408,785 was spent from 2020 to 2024 to transport approximately 54.5 tons of biodegradable and non-biodegradable waste collected monthly to waste management centres.	Necessary steps are being taken to obtain a suitable land for the council to establish a waste management centre. Solid waste should be managed properly.

(b) Environmental issues

Audit Observation	Comments of the Recommendation Council
Although the gully/ cess pit of the public	An estimate for repairs is Services should be

toilet at the Hatton Bus Station had been overflowing for a long time, the Urban Council had not taken steps to repair it.

being prepared.

maintained in a manner that does not cause public distress.

3.2 Transactions of Contentious Nature

Audit Observation	Comments of the Recommendation Council
(a) Although the Revenue Inspector had conducted a provisional assessment on the commercial building bearing BA/23/2019 measuring 34192 square feet in 2019 and levied an annual assessment tax of Rs.718,936, a provisional assessment had not been conducted and assessment tax had not been levied on the commercial building bearing BA/72/2019 measuring 39589 square feet for which the certificate of conformity was issued on 31 December 2019. If the annual assessment value of Rs.718,936 of the above commercial building, with at least 34192 square feet, was considered as annual assessment value for this building with the area of 39589 square feet, the council fund had lost an assessment tax revenue of Rs.3,594,680 that should have been collected for the last 05 years.	Letters have been sent to the Valuation Department for a new assessment of rates. Revenue should be levied on assessment reports or Temporary assessments.
(b) Although the collection of parking fees in the previous year was outsourced to external parties through tenders and an income of Rs.4,467,865 was generated during the year, in accordance with a decision of the Management Committee, only a parking fee of Rs.3,373,921 was collected by using council employees in the year under review. When this income was compared with the parking fee income generated through tenders in the previous year, a loss of Rs.1,093,944 had been incurred by the council fund.	The council took steps to collect the relevant fees due to complaints from the public. Decisions should be made so as not to cause a loss to the council fund.

3.3 Management inefficiencies

Audit Observation	Comments of the Recommendation Council
(a) The total balance of 03 accounts receivable as at the end of the year under review was Rs.3,483,279. Out of which the balance over 1 year and under 5 years was Rs.3,386,245 and the balance over 5 years was Rs.50,921.	Steps are being taken to recover the arrears of revenue. Receivables should be recovered.
(b) The Council had incurred a loss due to non-billing and collection of three-wheeler fees amounting to Rs. 1,986,000 for the year under review from 338 three-wheelers registered in the area of authority as per Schedule 04 of the Parking Fees published in the Gazette of the Democratic Socialist Republic of Sri Lanka No. 2363 dated 15 th December 2023.	Legal action will be taken against those who default on payment of arrears in the future. Action should be taken to recover billed revenue.
(c) In accordance with Financial Regulation 371 (5), action had not been taken to settle 61 advances amounting to Rs.4,327,007 from the period 1987 to 2023.	Action will be taken to settle in the future. Arrangements should be made to settle the advance.
(d) Although the lease agreements with the lessees of 46 stalls that had been leased for a period of 6 to 26 years had expired, no steps had been taken to renew the agreements.	Action will be taken to sign new agreements. New agreements should be entered upon.
(e) 28 stalls belonging to the council had been subleased without following the provisions of paragraph 10 of the Local Government Commissioner's Circular No. 2016/3 dated 17 th March 2016.	The necessary steps are to be taken to enter upon new agreements. Legal action should be taken regarding sublease.
(f) Although, The city had become irregular due to the long-standing practice of allowing 25 businessmen to set up and operate temporary stalls on the pavement and in the bus stand premises within the city limits, charging Rs. 500 per month, and even two such stalls were operating blocking the steps leading to the bus stand for passengers, the council had taken no action in this regard.	Further work will be carried out in accordance with the Urban Council Ordinance. Action should be taken regarding unauthorized construction.

(g)	The Council had invested surplus funds of Rs.32,093,847 in fixed deposits, without using them for revenue generating projects, development projects of Council properties or projects providing public amenities to the majority of the people, in terms of paragraph 2.2 of the Central Local Government Commissioner's Circular No. 2020/06 dated 28th September 2020,	Only approved projects were carried out.	Surplus funds should be used to provide public amenities or for regional development.
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3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
04 vehicles with an aggregate value of Rs. 2,831,200 had been idle or underutilized for a period of between 1 to 10 years without being used.	Action will be taken to refer it for repair.	Action should be taken to utilize or dispose of assets.

3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) In The Hatton Rest house land, which had been purchased by the Urban Council on 26 th February 1970 through a freehold deed, a fence had not been constructed and security ensured.	Action will be taken regarding the security of the Inn land.	The security of the assets owned by the council should be ensured.
(b) Non acquired vehicles The ownership of a cab worth Rs. 6,390,000 used by the council had not been taken over.	Takeover process is being carried on.	Steps should be taken to take over the ownership of the assets owned by the council.

3.6 Human Resource Management

Audit Observation	Comments of the Recommendation Council
(a) The performance of the council and its ability to provide public services remained poor level due to the existence of 103 vacancies in 28 posts including Secretary, Public Health Inspector, Family Health Service Officer, Development Officer, Librarian, Technical Officer, Technical Assistant, Revenue Inspector, Health Administrator, Driver, Heavy Vehicle Operator, Ayurvedic Medicine Compounder, Watchman, Traffic Controller, Office Assistant, Library Assistant, Field Worker, and Health Worker posts	It had been informed about vacancies. Vacancies should be filled and public services should be maintained efficiently.
(b) Due to the vacancies of the officers involved in firefighting activities such as the Basic Firefighter, First Class Firefighter, Mechanical Firefighter, and Firefighter, who are essential in the event of an emergency fire in the Urban council area, delays could have occurred in extinguishing the fires in the event of an emergency fire.	-Do- -Do-
(c) A total of Rs. 2,123,265 had not been collected from fifteen officers who had transferred, retired, died, been suspended and left the service.	Action is being taken to recover the loan. Action should be taken to settle the loan balance.