

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nuwara Eliya Municipal Council for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, including a summary of significant accounting policies, 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 Section 219 of the Municipal Council Ordinance (Cap.252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in 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 Nuwara Eliya Municipal Council as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 for Local Authorities, 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 Municipal Council's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Municipal 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:

- Appropriate audit procedures were designed and performed identify and assess 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.
- An understanding of internal control relevant to the audit was obtained 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.
- 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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council
- Whether the Municipal Council has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal 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 presented are consistent with that of the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.

- (b) 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 Policies

Audit Observation	Comment of the Council	Recommendation
It had been disclosed in the financial statements that the income and expenditure would be presented on accrual basis, whereas all income and expenditure had been accounted for on cash basis.	The income received from billing only had been accounted for on cash basis and action will be taken to account for the differences of related income and expenditure taking into account as omission errors.	Accounts should be posted on accrual basis.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Investment interest of Rs. 387,887 related to the preceding year had been accounted for as the revenue for the year under review.	Action will be taken as pointed out by the Audit in the ensuing year.	Correct values should be shown in the financial statements.
(b) Plant and machinery purchased at a cost of Rs. 460,675 during the year under review had not been accounted for.	This error will be corrected in due course.	Assets should be accounted for.
(c) Audit fees of Rs. 444,000 paid during the year under review in respect of the year 2020 had been accounted for as an expenditure of the year under review, and the audit fees related to the year under review and the preceding year had not been identified and accounted for.	This error will be corrected in due course.	Accuracy should be ensured in the process of accounting.
(d) Capital creditors balance of Rs. 7,463,319 settled in the preceding years had been further stated under the expenditure creditors, and sums totalling Rs. 3,559,315 paid on 25 occasions during the year 2023 in relation to the year under review had not been accounted for under the expenditure of the year under review.	Action will be taken to prepare the account for the year 2023.	Account balances should be corrected.

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| (e) | Valuation of 03 vehicles stated in the register of fixed assets had not been done and stated in the financial statements. | This matter will be corrected in the preparation of final accounts for the year 2023. | Assets should be stated in the financial statements. |
| (f) | The receivable unsettled trade licence court charges of Rs. 705,360 existed as at 31 December of the preceding year had been omitted from accounts. | This matter will be corrected in the preparation of final accounts for the year 2023. | Financial statements should be prepared correctly. |

1.6.3 Unauthorized Transactions

Audit Observation	Comment of the Council	Recommendation
For the purpose of adjusting the difference between the balance of the book balance of the stall rents maintained by the Council and the balance of the computer software system, a sum of Rs.3,493,572 and Rs. 2,527,557 had been adjusted to the Accumulated Fund Account through the journal entry No.34 and 35, respectively. Nevertheless, formal approval had not been obtained for this adjustment.	This will be looked into, and facts will be reported in the future.	Approval should be obtained to adjust the account balances.

1.6.4. Lack of essential documentary evidence for audit

Audit Observation	Comment of the Council	Recommendation
Due to not furnishing schedules and balance confirmation documents related to 03 accounts balances of Rs. 2,085,827 as at 31 December of the year under review, those could not be satisfactorily examined in audit.	This will be looked into, and facts will be reported in the future.	Information should be furnished to confirm the balances.

1.7 Non-compliance

Non-compliance with laws, rules, and regulations.

Instances of non-compliance with laws, rules, and regulations are given below.

Reference to laws, rules, and regulations	Non-compliance	Comment of the Sabha	Recommendation
(a) Local Authorities (Standard By-laws) Act, No.6 of 1952.			
(i) Part II of the By-laws pertaining to the	Although charges of Rs. 9,996,467 had been levied	of Arrangements will be made to rectify	Action should be taken to issue

advertisements. (a) Paragraph 01	for 198 advertisement boards in the preceding years and up to 30 June of the year under review, a licence had not been issued therefor.	deficiencies and accordingly take further action in the future.	licences.
(b) Paragraph 1 (k)	Charges of Rs. 5,693,668 had not been levied during the year under review from 646 displayed advertisement boards.	This matter has been referred to the Council approval.	Action should be taken to levy charges.
(ii) Paragraph 08 of Part II of XVIII of the By-law pertaining to parking vehicles	Sixty seven vehicles had been parked in 04 vehicle parks without a ticket obtained on the payment of charges as at the date of inspection on 18 August 2022.	Employees have been instructed to levy relevant vehicle charges for the vehicles parked in a vehicle park.	Charges should be levied from the vehicles.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka			
(i) Chapter XIX Section 5.3.1	House rent of Rs. 62,509 had not been recovered from an officer residing in a scheduled quarters belonging to the Council within the period from July 2016 to August 2017.	The former Municipal Commissioner has been informed in this regard in writing.	Arrears of house rent should be recovered.
(ii) Chapter XXIV Sections 4.2.5 and 4.5	Loan balances totalling Rs. 3,523,866 due from 26 deceased and retired officers, 11 interdicted officers, 17 officers who vacated the service, and 21 transferred officers had not been recovered.	Necessary information for the recovery of loan balances has been sent to the Department of Pensions.	Outstanding loan balances should be recovered.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 137 (5)	Out of the money paid to a state owned company in the year 2018 for the purchase of goods, goods valued at Rs. 275,805 had not been received as at 31 December of the year under review.	Necessary arrangements have been made to obtain goods to the Council.	Goods related to the payments should be obtained.

(ii)	F.R. 396 (d)	No action had been taken to settle issued 30 cheques worth Rs. 2,394,582 that had expired due to not submitting for the payments.	Action will be taken to credit the relevant unsettled cheques to the Revenue.	Action should be taken in accordance with Financial Regulations.
(iii)	F.R.571	Although the balance shall not be credited to the Revenue without being paid attention to the matters described on the disposal of lapsed deposits, balances of Rs. 3,265,096 related to unrealized cheques, deposits of the Urban Development Authority, and the deposits on court decisions had been credited to the Revenue.	This matter will be rechecked and accordingly, corrections will be made.	- Do -
(d)	Financial Regulations as amended by State Finance Circular No. 01/2020 dated 28 August 2020	Paragraph 371 (2) (b)	There were advances of Rs. 1,960,650 that remained unsettled since a period ranging from 01 month to 08 years relating to 10 occasions.	A preliminary inquiry will be conducted in this regard. Action should be taken to settle advances.
(e)	Section 16 (2) of the National Audit Act, No.19 of 2018.	A performance report had not been submitted for the year under review.	The audit observation is agreed upon.	Performance report should be submitted

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 219,928,379 for the year ended on 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 130,904,874.

2.2. Financial Control Audit Observation

Comment of the Council

Recommendation

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| (a) | Sums totalling Rs. 5,509,725, comprising unidentified receipts, direct deposits, and bank charges related to 02 current accounts | Action will be taken to adjust this amount to the cash book in the future. | Relevant balances should be identified and accounted for. |
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and stated in the bank reconciliation statements as at the end of the year under review had not been identified and accounted for.

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| (b) | No action had been taken with respect to cheques worth Rs. 1,100,834 that had become dishonoured after being received as revenue within a period of 08 years from the year 2014 up to the year under review | Action will be taken in accordance with Financial Regulations in respect of dishonoured cheques. | Action should be taken in accordance with Financial Regulations. |
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2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information submitted by the Mayor, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	139,912,400	129,038,341	138,880,404	124,723,544	147,257,700	113,114,777	123,149,826	134,565,609
(ii) Stall Rents	78,955,000	58,864,187	56,869,600	73,329,599	81,466,154	63,380,926	71,671,502	71,335,012
(iii) License Fees	19,807,000	23,595,274	17,610,877	27,280,075	21,554,750	20,144,177	16,141,310	21,295,678
(iv) Other Revenue	465,849,100	54,395,698	45,294,666	47,561,373	465,866,558	33,042,066	318,456,705	38,460,341
Total	704,523,500	265,893,500	258,655,547	272,894,591	716,145,162	229,681,946	529,419,343	265,656,640

2.3.2 Performance in Collecting Revenue

The observations relating to the collection of revenue of the Council are indicated below.

Audit Observation	Comment of the Council	Recommendation
(a) Rate and Taxes		
i. The balance of the Outstanding Rates Account as at the end of the year under review was Rs.78,266,493, of which the outstanding Rates due from private properties amounted to Rs. 63,220,565. Out of that amount, a sum of Rs.56,744,559 remained recoverable from 3875 premises of Rates for a period from 01 year to more than 10 years.	A programme aiming at the recovery of outstanding Rates is being implemented covering all the divisions.	Arrears of revenue should be recovered.

<p>ii A balance of Rs. 17,523,980 was due from 171 land lease holders as at the end of the year under review and the outstanding balance that remained overdue for more than 01 year was Rs.16,633,980. Further, Rs. 2,932,032 had not been recovered from 09 land lease holders each of home have outstanding lease balance of more than Rs.50,000 including in the outstanding balances exceeding 25 years.</p>	<p>Action has been taken to inform the land lease holders in writing to recover the arrears.</p>	<p>Outstanding balances should be recovered.</p>
(b) Rent		
<p>i. An arrears of Rs. 38,813,255 was due from 442 stalls as at the end of the year under review and it included an outstanding balance of Rs. 35,365,655 that continued to exist for more than 03 years from 212 stalls.</p>	<p>Action will be taken to recover the outstanding stalls rent within this year.</p>	<p>Revenue in arrears should be recovered.</p>
<p>ii. There was an outstanding amount of Rs. 2,678,288 from Greragary stalls rents by the end of the year under review and it included a recoverable balance of Rs. 2,183,228 continued to exist between 01 and 05 years.</p>	<p>Requests have been made to cut off the bills stating that they could not earn income during the Covid 19 epidemic.</p>	<p>Outstanding revenue should be recovered.</p>
<p>iii. The lease rent due from the properties given on annual lease amounted to Rs. 11,358,981 by the end of the year under review, and it included the balances of Rs. 3,010,396 overdue for more than 05 years from 05 properties. A sum of Rs. 7,954,499 related to 03 properties remained outstanding for a period from 01 to 05 years.</p>	<p>Arrears will be recovered in due course.</p>	<p>Arrears of revenue should be recovered.</p>
<p>iv The new restaurant in Victoria Park had been leased for 10 years from 15 March 2011. Although its contract period ended on 14 March 2021, action had not been taken to renew the contract and the total rent of Rs. 2,241,319 as at that date had not been recovered.</p>	<p>Legal action will be taken against the default of outstanding rents.</p>	<p>- Do -</p>
(c) Licence Fees		
<p>i. The outstanding balance of the Annual License Account as at the end of the year under review was Rs.23,682,206 out of which Rs.23,678,766 had not been recovered from 473 lessees for more than 20 years from 01 year.</p>	<p>Written notification has been made to recover the arrears.</p>	<p>Arrears of revenue should be recovered.</p>

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| ii. | Annual license fees of Rs.17,523,980 were due from 171 land lease holders as at 31 December of the year under review, and the outstanding balance over 01 year was Rs.16,633,980. Nevertheless, the outstanding fees had not been recovered. | Action has been taken to inform the land lease holders in writing to recover the arrears. | - Do - |
| iii. | In the issue of licences as per Section 247 (a) of the Municipal Council Ordinance, although business licence charges of Rs. 5000 should be levied when its assessed value exceeds Rs.2500, business licence charges less in value of Rs.5,000 had been levied from 139 business places of which the annual assessed value exceeded Rs.2,500. As a result, the Council Fund had sustained a loss of Rs. 353,000. | Action has been taken to levy the due charges from the year 2023. | Action should be taken in accordance with the provisions of the Act. |

(d) Other Revenue

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| i. | The balance of the Boat Revenue Account that remained recoverable as at the end of the year under review stood at Rs. 18,632,011, and a balance of Rs. 15,087,072 included in that balance, which was due from 09 boat owners whose outstanding amount exceeded Rs.500,000, had not been recovered. | Written notification has been made to recover the arrears of boat rents. | Arrears of revenue should be recovered. |
| ii. | The outstanding water charges balance as at the end of the year under review was Rs. 28,833,071, of which Rs. 14,811,076 had not been recovered from 1541 water consumers over a period from 01 year to more than 10 years. | The disconnection of the water connections for which the charges have not been paid will be carried out regularly. | - Do - |

(e) Court Fines and Stamp Duty

The court fines and stamp duty that remained receivable from the Chief Secretary of the Provincial Council and the other authorities were Rs. 426,379 and Rs.47,127,786, respectively.	Request have been made to the Chief Secretary of the Central Provincial Council send the receivable stamp duty.	Arrears of revenue should be recovered.
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3. Operating Review

3.1 Execution of duties entrusted by the Act

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Municipal 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) Provisions of Rs. 111,450,200 made for 11 programmes of the health sector during the past 05 years had been retained idle without incurring any expenses and the projects such as construction of toilets, a funeral parlour, purchase of vehicles, and renovation of sewage systems had not been carried out.	Due to the shortage of materials and the price hike, all the development projects had to be stopped temporarily.	Activities should be completed in accordance with the estimates.
(b) Provisions of Rs. 15,000,000 had been allocated from the budget for the maintenance and improvement of 107 ditches and canals under the waste management during the year under review and without being carried out 93 of the above activities, a sum of Rs.12,110,812 had been saved by the end of the year under review.	A new waste management plan will be prepared and action will be taken accordingly since the year 2023.	Ditches and canals should be cleaned.
(c) Although 158 proposals had been planned to be implemented in the four-year plan for the period 2018 to 2022 for physical planning, roads, land and building programs, only 52 of the planned projects had been implemented in 04 years. Accordingly, 106 planned projects had not been implemented and unplanned 48 projects had been implemented at a cost of Rs. 40,885,340.	In the occurrence of disaster situations such as natural disasters and floods, there are some instances where the given projects are not implemented and projects have to be implemented to prevent disaster situations. Further, some mega projects could not be implemented due to the financial position of the Council.	Approved plans should be implemented.
(d) Nine activities approved to be carried out by the four-year plan, including the construction of new pipelines in place of decayed old pipelines, improvement of chlorination system, maintenance and control, construction of water testing laboratory, water generation improvement project, conducting raids, construction of Brewster pumping station, etc. had not been implemented.	Each expenditure had been incurred under the recurrent income and expenditure heads.	Action should be taken in accordance with the plan.
(e) It was observed in the sample field inspection carried out together with the officers of the electricity division on 23 December 2022 regarding the solar powered electric lamp project implemented in the year 2017 at a cost of Rs.12,087,162 that the batteries of 18 out of examined 35 street lamp posts and 11 solar panels had been misplaced. The employees of	The inquiry into the misplacement of batteries is being conducted by the Nuwara Eliya Police Station.	After identifying the responsible persons, necessary measures should be taken.

the Municipal Council had removed the batteries with a three- year warranty period, and due to not applying options, the project had become unsuccessful.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Eleven motor vehicles received as the donations during the period from 1991 to 2018 had not been valued and accounted for.	Letters have been referred to the Deputy Chief Assessor of the Department of Valuation for the valuation of all vehicles.	Vehicles should be valued and brought to account.
(b) Out of 496 applications handed over to the Health Division from 04 January 2022 to 08 September 2022 for obtaining health recommendations in the issuance of business licences, 388 applications had not been provided back by making recommendations and 108 applications had been given after a delay of 02 to 09 months.	Action will be taken to provide business licences without delay in the future.	Action should be taken to obtain recommendations without delay.
(c) Tender charges totalling Rs. 801,218 due from the Hawaeliya and Udapussellawa road recycling centre for the years 2015 and 2016 had not been recovered.	Action will be taken to levy charges.	Receivable rent/charges should be levied.
(d) Although a decision had been reached at the General Assembly held on 07 April 2014 to lease, on long-term basis, 16 shops adjacent to the head office on the Udapussellawa road to the permanent residents within the limits of municipality by calling for bids regionally, 02 shops had been provided to the persons outside the municipality limit. Three stall owners had transferred their power of attorney to the individuals outside the limits of the municipality. Twelve lessees had maintained professions and businesses extraneous to the contracted business, and 10 stalls had been subleased at the rates ranging from Rs.30,000 to 60,000. The lessee of a one shop had also prepared a	This matter will be looked into and action will be taken accordingly.	Sublessees should be evicted and the shops should be transferred lawfully.

deed of declaration for the respective shop.

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| (e) | Charges of Rs. 1,153,701 had been paid for the court cases during the year under review, and no details were submitted to the Audit in respect of the cases filed against and filed by the Council. | Action will be taken in this regard in the future. | Details on the cases should be documented and maintained. |
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3.3 Transactions of Contentious Nature

Audit Observation	Comment of the Council	Recommendation
It was observed during the field inspections on 23 December 2022 that a wall and a Gabion wall with 100 meters in length and from 1.8 to 2.4 meters in height had been constructed around the golf ground without obtaining the approval of the Planning Committee.	They had taken action to construct a boundary wall in that location during a long weekend.	Legal actions should be taken regarding unauthorized constructions.

3.4 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) No action had been taken to get the ownership of 03 vehicles transferred to the Council that had been received by the Council since the year 1980.	Action will be taken to get the ownership transferred.	Action should be taken to get the ownership transferred.
(b) Seven motor vehicles in dilapidated condition worth Rs. 5,578,000, and 02 unassessed motor vehicles remained idle and underutilized.	As they are already in dilapidated condition, action will be taken to auction them after obtaining a government valuation.	Action should be taken either to dispose of or utilize them.

3.5 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
There were 121 vacancies of 33 positions and 47 excess cadre in 03 posts by the end of the year under review.	Requests have been made from the Commissioner of Local Government and the Secretary of the Council in this regard.	Vacancies should be filled.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

According to the budget prepared for the year under review, when comparing the estimated income and expenditure with the actual income and expenditure, variations ranging from 02 per cent to 25 per cent were observed relating to 05 items of income and variations ranging from 9 per cent to 90 per cent were observed relating to 06 items of expenditure. Further, the expenditure of 40 capital projects worth Rs. 52,516,800 had become zero in value. As such, the budget had not been made use of as an effective instrument in control.

Comment of the Council

Activities could not be carried out as planned due to the economic crisis and the unfavourable condition prevailing in the country.

Recommendation

Budget should be prepared giving due consideration in keeping with the requirements.

4.2 Environmental Issues

Audit Observation

- (a) A proper waste management plan had not been prepared for the year under review. Attention had not been focused on the production of organic fertilizer with the use of about 5931 degradable waste collected annually and there had been followed a practice to dispose such waste to the Sandathenna waste yard and bury under the soil.

Comment of the Council

A new waste management plan prepared and action will be taken accordingly from the year 2023.

Recommendation

A proper waste management programme should be implemented.

- (b) It was observed that the waste of the Talagala Oya was being directly discharged into the Gregory Lake and due this discharge of untreated wastewater, it had polluted the Gregory Lake, resulting in threatening to the aquatic plants and aquatic organism living in the lake.

Necessary arrangements will be made to implement the project of treating wastewater discharged from the Thalagala Oya.

Waste water should be treated.

4.3 Sustainable Development Goals

Audit Observation

Sustainable goals had not been set for the year 2022 in accordance with the Sustainable Development Act, No.19 of 2017.

Comment of the Council

Audit observations are agreed upon.

Recommendation

Action should be taken in accordance with the provisions of the Act.