Hikkaduwa Urban Council - 2024

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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 2024 comprising the Statement of financial position as at 31 December 2024, Income and Expenditure Accounts, 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 Sub-Section 10(1) 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 2024, 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

I expressed qualified Opinion 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

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

(a) The financial Statements of the Urban Council presented is consistent with the preceding year as per the requirement of 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 value of 06 computers costing Rs. 535,500 was shown under computers and accessories but was shown under machines and equipment.	steps will be taken to correct this in the final account of 2025.	It should be shown under the correct asset category in the financial statements.
(b)	The Council has included in the statement of financial position the value of 02 machines and a vehicle worth Rs.5.59 million, which are not physically present in the Council, which has resulted in an increase in non-current assets by that amount. .	It is stated that these items are not physically present in the Council and further investigation is being carried out on the matter	An immediate investigation should be conducted and legal action should be taken regarding the physically absent assets and the correct values of the assets should be shown in the financial statements.
(c)	Due to the inclusion of the value of 04 tires worth Rs. 100,000 under furniture and equipment, the value of furniture and equipment was overstated by that amount.	That steps will be taken to correct this in the final accounts of 2025.	The value of tires should be removed from the value of furniture and tires should be included in the stock value.

(d)	The value of 62 plots of land in the possession of the council had not been assessed and accounted for.	Once the assessed value is received, steps will be taken to correct it through the final account of 2025.	All lands should be assessed and accounted for.

1.6.2 Unreconciled control accounts

	Audit Observation	Comments of the Council	Recommendation
(a)	As of December 31 of the year under review, there was a difference of Rs. 21.41 million between the balances relating to 09 accounting subjects shown in the financial statements and the balances shown in the supporting documents and schedules relating to them.	That the differences in the accounts will be investigated and facts will be presented.	The reasons for the differences should be identified and steps should be taken to correct them.
(b)	Although the value of property, plant and equipment as per the statement of financial position as on 31st December of the year under review was Rs. 1.76 million, it was stated as Rs. 2.22 million in the statement of changes in net assets.	Action will be taken to correct it through the final account of 2025.	The difference should be identified and corrected.

1.7 Non-compliances

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

The following are observations of non-compliance with laws, rules, regulations and management decisions.

Reference to laws, rules, regulations etc.	Non-compliance	Comments of the Council	Recommendation
Section 05 of the Circular No. දපපා/පපාකො/2010/01 dated 27th December 2010 of the Commissioner of	The agreements of 47 stalls belonging to the Urban Council in the Hikkaduwa Shopping Complex, Kumarakanda Shopping Complex 01, 02, Hikkaduwa Public Market and Hikkaduwa Fish Market had	The lessees have been informed in writing and that in future all stalls that	The agreements for the stalls should be updated and the agreements should be implemented.

Local Government, Southern Province	expired but had not been renewed.	do not operate as per the agreements will be taken over by the Council.

2 Financial Review

2.1 Financial result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31 December 2024 amounted to Rs.47.49 million as compared with the excess of revenue over recurrent expenditure amounting to Rs.32.92 million 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 submitted by the Secretary, the following is information on estimated income, billed income, collected income and arrears of income for the year under review and the previous year.

	2024				2023			
Source of Revenue	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue billed RS.	Revenue Collected Rs.	Arrears as at 31 December Rs.
Rates and Taxes	41,530,550	47,483,921	37,651,528	49,235,925	25,269,759	36,545,992	39,460,140	39,403,532
Rent	9,023,400	12,896,330	12,804,500	1,417,809	12,197,400	7,733,555	10,715,402	1,325,979
License Fees	569,000	487,735	489,735	47,555	524,300	554,810	555,610	47,555
Other revenue	7,395,362	14,361,316	14,361,316	-	8,385,000	8,961,407	8,961,407	-
Total	58,518,312	75,229,302	65,307,079	50,699,289	46,376,459	53,795,764	59,692,559	40,777,066

2.2.2 Performance in Revenue Collection

The following are observations regarding the revenue collection performance of the council

Audit Observation	Comments of the Council	Recommendation
(a) Assessment and Taxes		
The total arrears of assessment and tax	That steps will be	A plan should be

	revenue, which were Rs. 39.4 million as on January 01 of the year under review, had increased by Rs. 9.83 million to Rs. 49.23 million by the end of the year.	taken to increase the collection of assessments in the future.	prepared promptly to recover the income and arrears of the previous year and steps should be taken to recover them.
(b)	Rent		
	As of December 31st of the year under review, there was a rent arrears of Rs. 1.42 million.	Letters have been sent to the lessees to recover the arrears.	A plan should be prepared urgently to recover the arrears and steps should be taken to recover them.
(c)	Other Revenue		
	As on 31st December of the year under review, Rs. 14.37 million in stamp duty and Rs. 137,784 in court fines were to be received from the Chief Secretary of the Provincial Council and other authorities.	An amount of Rs. 14,365,885 in stamp duty and Rs. 165,000 in court fines are to be received.	A formal program should be prepared and implemented to recover the arrears of revenue.

3. Operational Review

3.1 Performing the functions assigned by the Act

	Audit Observation	Comments of the Council	Recommendation
(a)	The council had incurred an expenditure of Rs. 38.76 million on waste management activities during the year under review, but no formal waste management program had been implemented and the non-biodegradable waste collected after October 2024 had been disposed of in the area surrounding the Walamulla crematorium belonging to the council.	Awareness programs have been implemented to limit the collection of non-biodegradable waste, reduce the generation of non-biodegradable waste generated by the public and to change the attitude of the public towards recycling such non-biodegradable waste.	A formal waste management project should be implemented and efforts should be made to reduce the source of non-biodegradable waste.

	Audit Observation	Comment of the Council	Recommendation
(b)	Although it is possible to prepare by-laws in accordance with Section 157(9)(b) of the Urban Council Ordinance and take steps to levy a waste tax, the council had not taken steps to collect the waste tax by conducting a census of businesses that can levy the waste tax. .	The gazettement of the waste tax will be done in the future.	A census of businesses that can levy the waste tax should be taken and further action should be taken

3.2 Management inefficiencies.

	Audit Observation	Comment of the Council	Recommendation
(a)	Although a private firm had submitted an estimate of Rs. 4.47 million for repairs due to damage to the van owned by the Urban Council in the year 2022, the relevant estimate had not been approved by a mechanical engineer. Also, citing the delay in the repair work of that firm, the repair work had been carried out by another garage outside the procurement process at an estimate of Rs. 6.59 million, and Rs. 3.43 million had been paid.	Appropriate action should be taken against the officials responsible for not obtaining engineering approval and deviating from the procurement process.	Appropriate action should be taken against the officials responsible for not obtaining engineering approval and deviating from the procurement process.
(b)	As per the recommendations of the Financial Regulation 104 report, the loss of Rs. 3,431,900 incurred to the van had not been recovered from the responsible parties.	In the future, the Finance and Policy Committee will calculate the loss and take necessary steps to recover the amount from the responsible parties.	Financial regulations must be followed.

(c)	The Urban Council had taken steps to levy an entertainment tax of Rs. 300 per trip for a local tourist and Rs. 1000 per trip for a foreign tourist for the glass bottom boat service operating in the Hikkaduwa Marine National Park, but the Council had not taken steps to levy the said entertainment tax after October 07 of the year under review.	Two employees of the Council have been employed for this purpose since the year 2025 and revenue inspectors have been appointed to supervise the activities.	An investigation should be conducted regarding the loss of revenue to the Council, the responsible officers should be identified, the lost revenue should be recovered and a systematic and specific procedure should be implemented to obtain revenue.

3.3 Human Resource Management

	Audit Observation	Comment of the Council	Recommendation
(a)	As of the end of the year under review, the Council had a surplus of 03 Pre-School Teacher posts, 07 Development Officer posts, 02 Office Assistant posts, 03 Field Worker posts and 13 Health Worker posts.	Agree with the audit observation.	A staff review should be conducted according to the functions and scope of the Council and the staff should be managed accordingly.
(b)	The council was owed Rs. 1.38 million in employee debt from 17 employees who retired, transferred and were suspended from service. .	That steps will be taken to recover the debt in the future.	Urgent action should be taken to recover the outstanding debt balance