

Valvettithurai Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valvettithurai Urban Council for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory 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 provisions of section 181 (1) of Urban Council Ordinance (Cap.255) and 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 Valvettithurai Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My 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 Principles 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 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.

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 utilized 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.

- (a) The financial statements of the Urban Council is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
Although the loan balance confirmed by the local loans and development fund on 31 December 2021 was Rs. 684,775, that balance was disclosed as Rs. 133,776 in the financial statement, thus the loan had been understated.	The reason for the balance difference is the loan amount of Rs. 551,000 received for the electricity development project on 14 March 1983 due to the fact that even though the Sri Lanka Electricity Board took over the electricity projects carried out by the Valvettithurai on 27 January 1997 when the assets and liabilities were handed over, it was failed to hand over the liabilities. Therefore the loan remains in the name of the council as the council is seen as responsible for that liability. Follow-up action will be taken to advise the council decision and local loans and development fund.	It should be ensured that the activities are completed in accordance with accounting policies and records are made and that errors should be rectified.

1.6.2 Non-submission of Documentary Evidence for Audit

Item -----	Amount -----	Evidence not submitted -----	Comment of the Council -----	Recommendation -----
(a) The value added tax	Rs. 888,530	Letter of the Department of Inland Revenue	Actions will be taken to adjust the said value added tax of Rs 888,530 after confirming by the Inland Revenue Department.	Actions should be taken to submit appropriate audit evidence regarding the matter and it should be confirmed that the evidence related to the activities of the council

is properly maintained by the council.

(b)	Fish market land	3,250,000	Deeds	Acquisition activities are being carried out to obtain the ownership of the Valvettithurai fish market land was being maintained by the urban council.	Actions should be taken to received deeds
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2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs.13,265,119 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 20,000,860.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observations -----	Comments of the Council -----	Recommendations -----
Rates and Taxes		
It was observed that no meaningful actions had been taken to recover arrears of assessment tax of Rs. 7,541,978 to be recovered on lands and constructed houses and buildings comes under the purview of the urban council as per 160(1) of chapter 255 of urban council ordinance.	Meaningful actions are being taken to recover arrears of assessment tax of Rs. 7,541,978 to be recovered on lands and constructed houses and buildings comes under the purview of the urban council as per 160(1) of chapter 255 of urban council ordinance.	Effective measures should be taken to make the efficient revenue collection management and recover the arrears quickly.

3. Operational Review

The matters observed in respect of execution of activities that should be executed under Section 4 of the Urban Councils Ordinance such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
A fixed deposit of Rs. 90,965,520 had been deposited in the bank for the purpose of earning interest income without being used for urban development purposes.	At present, steps have been taken to prepare plans for carrying out city development works on the basis of priority of needs in collaboration with the field officers for discussion in the council.	It should be ensured that council funds are mobilized for operational activities at optimum level without waste.

3.2 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
Employee security Employee security of Rs. 45,000 to be recovered by the council from the revenue inspectors for the last 02 years had not been recovered in accordance with the Provincial Financial Circular No. PF/01/2017 (a) dated 07 March 2020.	Steps have been taken to collect employee security from financial assistant, librarian, officers who handle cheques.	Steps should be taken to collect security amount.