

## **Katthankudi Urban Council - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Katthankudi Urban Council including the financial statements for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021, Income and Expenditure Account, Cash Flow Statement for the year, significant Accounting Policies and other explanatory information was carried out, for the year then ended, 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 181 (1) of Urban Council Ordinance (Chapter 255) 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 paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Katthankudi 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 Practices.

#### **1.2 Basis for Qualified Opinion**

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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**

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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 Responsibility of the Auditor for the audit of Financial Statements

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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 scepticism 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 1

## 1.5 Report on Other Legal and Regulatory Requirements

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The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 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

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comment of the Council	Recommendation
(a) At the end of the year under review, the reimbursement of salaries and members' allowances due from the Provincial Council amounting to Rs.5,612,569 had not been disclosed as receivable in the financial statements.	It will be rectified and disclosed as reimbursement receivable in the next financial year.	Receivables should be disclosed as assets in the accounts.
(b) Public libraries belonging to the council had received books worth Rs.1,973,692 as donations by the last day of the year under review, but they had not been included in the financial statements.	Actions will be taken for inclusion in the next year.	Assets should be disclosed in the accounts.

### 1.6.2 Documentary Evidences not made available for Audit

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Audit Observation	Comment of the Council	Recommendation
The title deeds, fixed assets register and individual value confirmation documents, asset registers and proof of ownership related to 05 asset account balances worth Rs. 95,660,790 included in the financial statements had not been submitted to the audit as at 31 December of the reviewed year.	Actions are currently being taken to obtain the documents and maintain the related documents in a formal manner.	Actions should be made to obtain written evidence for assets.

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(a) Financial Regulation no 371	Actions had not been taken to settle the advances of Rs.3,694,066 given for various needs since the last 8 years.	Actions have been taken to appoint a committee to settle the advances which have not been settled for a long time.	Actions should be taken to recover the advances as per the financial regulations.
(b) Financial Regulation no 571	Necessary actions had not been taken to pay and settle the deposits of Rs. 15,160,840 which had been presented in the accounts since a long time of years and deposited for various needs or transferred to income by the end of the year under review.	Actions have been taken to transfer some long-standing deposits into income.	Deposits should be paid and settled or transferred to income per the financial regulations.

## 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 2021 amounted to Rs.9,523,357 as compared with the excess of revenue over recurrent expenditure amounted to Rs.18,709,100 in the preceding year.

## 2.2 Revenue Administration

### 2.2.1 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Actions had not been taken to recover the arrears of assessment and tax amounting to Rs. 10,166,724 in the year under review.	Due to the covid-19 corona epidemic situation in the country, all activities were at a cessation. Currently, the property is being appraised.	Actions should be taken to collect arrears.
(b) Court fines of Rs.2,754,844 and stamp duty of Rs.10,408,908 should have been received from the Chief Secretary of the Provincial Council and all officials by 31 December 2021.	Actions will be made to obtain them in the future.	Actions should be taken to collect court fines and stamp duty.

## 3. Operational Review

### 3.1 Identified Losses

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
On June 7, 2020, spare parts worth Rs. 27,774,030 related to the Kawasima machine were damaged by fire, and the parties responsible for the related damage and loss had not been identified by the council as of 30 June 2022.	The mentioned matters will be taken into consideration.	Actions should be taken to identify the parties responsible for the damage and recover the loss.

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Monthly contributions from the year 1995 to 2013 worth Rs. 2,375,058 due to the pension plan of the local government bodies had not been settled still on 31 March 2022.	Remittance of this money will be done keeping in view the financial condition and liquidity of the council.	Actions should be taken to pay contributions into the pension plan.
(b) Creditors amounting to Rs.6,643,239, which was stated as a debt liability in the financial statements, had not been settled for more than 05 years.	Actions will be taken by drawing the attention of the Commissioner of Local Government and the Governor of Eastern Province since no any document or register can be obtained.	Actions should be taken to settle the debt.

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| (c) | An annual board of survey of the artifacts in the museum had not been conducted by 30 June 2022. | The matters mentioned about the museum will be taken into consideration. | As per financial regulations, annual board of survey should be conducted. |
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**3.3 Human Resources Management**  
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Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) According to approved carder by the Department of Management Services, 39 vacancies belonging to 17 categories of posts had not been filled by the Council.	Forms for approving the posts and filling up the vacancies have been prepared and sent.	Actions should be taken to fill up the vacancies.
(b) The council had not taken actions to collect the loan amount of Rs. 440,550 from the retirement gratuity or guarantors to be collected from the 08 retired suspended and deceased.	Due to non-clearance of these loans, action have taken to file lawsuits against these persons.	Actions should be taken to recover outstanding employee loans from them or guarantors.

**4. Accountability and Good Governance**  
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**4.1 Sustainable Development Goals**  
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Audit Observation -----	Comment of the Council -----	Recommendation -----
According to the Sustainable Development Act No. 19 of 2017, sustainable development objectives had not been identified.	Sustainable development goals for the year 2020 have been established and various actions have been taken to achieve them and actions will also be taken to assess the achievement of the goals.	Sustainable development indicators need to be identified and actions should be taken to implement them.