

Eravur Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Eravur Urban Council including the financial statements for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021, Statement of Financial Operations, Statement of changes in equity, 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 Eravur 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

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 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

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 laws.

1.5 Report on Other Legal and Regulatory Requirements

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

- 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.
- 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

1.6.1 Accounting Deficiencies

| Audit Observation | Comment of the Council | Recommendation |
|---|--|---|
| At the end of the year under review, there was a difference of Rs. 4,684,089 between the arrears income balances shown in the statement of financial position and the register. | The amount overstated in the final accounts will be rectify in the next financial year with the approval of the council. | Corrected balances should be identified before preparing the financial statement. |

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.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Comments of the Council | Recommendation |
|---|--|---|--|
| Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| (a) Financial Regulation no 371 | Necessary actions had not been made to recover the advance amount of Rs 416,768 for several years. | Necessary actions are being taken to cut off the outstanding amount of advance for several years. | Actions should be taken to recover the advances. |

- | | | | |
|-------------------------------------|---|--|---|
| (b) Financial Regulation no 571 (2) | Actions had not been taken to refund the overdue deposits of Rs. 14,129,347 which were over 02 years, or act appropriately. | Actions are being made to refund the deposit or transfer it to income. | Deposits should be refund to the relevant persons or transferred to income. |
|-------------------------------------|---|--|---|

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. 12,946,800 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 13,609,375 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.

| Audit Observation ----- | Comment of the Council ----- | Recommendation ----- |
|---|---|---|
| (a) At the end of the year under review, the outstanding rates and taxes balance of Rs.19,229,423 had not been recovered. | It was difficult to collect taxes, due to the covid-19 epidemic in the country and the loss of public revenue. | Recovery of rates and taxes should be done promptly. |
| (b) Outstanding warrant fees amounting to Rs.1,014,294 had been further as arrears without being recovered during the year under review. | It was difficult to collect taxes, due to the covid-19 epidemic in the country and the loss of public revenue. | Recovery of warrant fees should be done promptly. |
| (c) The total of tender rent, meat shop leases and old market leases was Rs. 1,524,685 had been taken 10 years to recover, but it was shown as arrears. | Most of the arrears cannot be identified. Furthermore, the documents required for legal proceedings are also not available. | Actions should be taken to recover the long-standing arrears. |

3. Operational Review

3.1 Management Inefficiencies

| Audit Observation | Comment of the Council | Recommendation |
|--|--|---|
| (a) Although 05 years have passed, the comprehensive report regarding the relevant building requested by the Parliamentary Committee of Public Accounts had not been submitted by the council. | Letters have been sent to the Chief Engineer of the Batticaloa Buildings Department to obtain the relevant report. | The council should be act according to the recommendation of the parliament. |
| (b) The amount of Rs. 786,122 due to the Council from the Electricity Board for more than 10 years had not been recovered till the end of the year under review. | The council does not have any documents regarding these arrears. | Necessary actions should be made to recover long-standing arrears or take appropriate action. |

3.2 Delays in Project Activities or Capital work

| Audit Observation | Comment of the Council | Recommendation |
|---|---|--|
| Although contracts were signed in October 2016 for the construction of a shopping mall at an estimated cost of Rs. 193 million by obtaining Rs. 22.28 million as long-term lease of 33 years for the lands belonging to two religious places on Punnaikuda road, since the contracts were not completed, the council is paying Rs. 56,000 monthly, as ground rent to the religious places without earning anything from October 2016. | The council will earn tax revenue from public use, after the completion of the fish market construction works, under the LDSP programs. | Projects should be completed within the relevant period and used for the relevant purpose. |

3.3 Defects in Contract Administration

| Audit Observation | Comment of the Council | Recommendation |
|---|---|--|
| Although wire mesh cages and black stones were purchased before 13 September 2021 at a cost of Rs. 243,000 to reduce the scouring of the river, from the provision of Rs. 600,000 which was allocated for the development of children's parks under the Provincial Specific Development | Although we had identified the related weaknesses, due to the financial situation of the council, it could not be completed, and it has been arranged to be completed by the provisions of the year 2023. | Projects should be completed in the relevant period. |

Grants Program (PSDG) 2021, the gabion had not been filled with stones until the end of the year under review.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation

According to the Sustainable Development Act No. 19 of 2017, actions had not been made to achieve the sustainable development goals and objectives.

Comment of the Council

The council's indicators, which include 17 development goals, have been included in the 2022 budget. Furthermore, the council has included the cost details in the action plan for the year 2021 to achieve sustainable goals.

Recommendation

Sustainable development indicators should be identified and implemented.