

Embilipitiya Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Embilipitiya Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations, cash flow statement, statement of changes in equity, significant accounting policies and the summary of 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 the sub section 181 (1) of the Urban Council Ordinance (Authority 255) and 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 Embilipitiya Urban Council as at 31 December 2022 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 based 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 Responsibility for the Audit of 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 financial reporting process of the Urban Council

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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Auditor's Responsibility 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 exercise 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 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 contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 the Urban Council has performed according to its powers, functions and duties; and
- Whether the resources 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) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Urban Council is corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year are included in the financial statements as requirement by Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) 04 Tractors, a motor grader and library books totaling Rs. 13,027,436 were unaccounted as non-current assets and under-accounted.	This will be corrected in the accounts of the year 2023.	This should be corrected.
(b) 07 Carts and library books worth Rs. 372,725 over accounted as non-current assets.	This will be corrected in the accounts of the year 2023.	This should be corrected.
(c) The balance of the loan account of Local credit Development Fund as at 31 December 2022 was overstated by Rs. 5,147,338.	Interest to be paid for the loan is included. That the loan interest will be indicated separately in future.	The reasons for the difference should be identified and solved.

1.7 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with Laws, Rules, Regulations and management decisions are as given below.

Non-compliances -----	Comments of the Council -----	Recommendation -----
Advances of Rs. 681,567, which were given on 08 occasions during the period between the years 2010-2020, were not settled as per Financial Regulation 371 (5).	Governor's approval has been received to cut off Rs. 25,357 from outstanding advances. That the remaining advances will be settled.	Should be act as per Financial Regulations.

2. Financial Review

2.1 Financial Result

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2022 was Rs. 26,452,472 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 29,169,228.

2.2 Revenue Administration

2.2.1 Estimated income, billed income, collected income and arrears of income

According to the information submitted by the council, the information about the estimated income, billed income, collected income and arrears of income related to the year under review and the previous year is given below.

Income Source	2022				2021			
	Estimated income	Billed income	Collected income	Arrears as at 31 December	Estimated income	Billed income	Collected income	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assessments and tax	18,303,000	19,456,728	13,686,874	61,541,824	18,423,000	17,927,025	15,839,898	49,786,646
Rentals	25,334,200	11,746,140	13,042,383	6,131,941	25,194,400	12,877,972	9,775,534	8,459,378
License fee	3,156,500	1,891,797	1,766,796	589,000	3,256,000	1,892,179	1,752,679	2,923,402
Other income	<u>10,089,700</u>	<u>7,390,232</u>	<u>6,924,468</u>	<u>-</u>	<u>9,479,700</u>	<u>6,068,539</u>	<u>6,065,539</u>	<u>-</u>
	<u>56,883,400</u>	<u>40,484,897</u>	<u>35,420,521</u>	<u>68,262,765</u>	<u>56,353,100</u>	<u>38,765,715</u>	<u>33,433,650</u>	<u>61,169,426</u>

2.2.2 Performance of the Revenue Collection

The observations regarding the performance of the revenue collection of the council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) There was an assessment balance of Rs. 49,747,851 which was more than 05 years old as at the last date of the year under review.	Final notices are being distributed to recover arrears. That further work will be done as per section 170 of the Urban Council Ordinance.	Arrears of revenue should be collected.
(b) There was an arrears of land and building tax balance of Rs. 156,000 in the year under review and the previous 02 years.	Action is being taken to recover tax arrears.	Arrears of revenue should be collected.
(c) Outstanding shop rents of Rs. 3,843,893 between 03 and 15 years and key money of Rs. 1,281,200 were not recovered.	Action is being taken to recover this money.	Arrears of revenue should be collected.
(d) Out of the total number of 285 three-wheelers in the council area, 283 three-wheelers had not paid the Charges of Rs. 141,500 for the year 2022. Also,	Errors in preparation of estimates indicate an increase in the outstanding amount. Action will be taken to correct	Action should be taken to collect the arrears of revenue.

charges of Rs. 541,000 were outstanding for the last 04 years including the year 2022. The reason for this was that all the discussions between the three-wheeler association and the urban council had ended without a definite agreement. the accounts in future as per the updated documents obtained from the three-wheel association.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) It was planned to install and LED notice board in the year 2019 and cover the expenditure of Rs. 2,689,200 in 20 months. But, the income given in 34 months after installing the notice board was only Rs. 35,500. Although the use of the notice board as an advertisement board of the urban council and its not being in a directly visible place were identified as the reasons for the decrease in income, the problems were not solved to increase the income.	Tenders were invited to lease this notice board, but no one came forward. Open tenders will be called to lease for the year 2023.	Arrangements should be made to get adequate utilization for the incurred expenditure.
(b) Only Rs. 246,000 was charged as entertainment tax based on the number of tickets submitted by the owner for 04 entertainment concerts held during the year under review. However, the council had not identified a method to verify the accuracy of the actual number of tickets sold at those concerts.	There a practical difficulties in levying entertainment taxes, If irregularities are reported, the deposit will be retained by the council. Action will be made to collect taxes as much as possible in future.	Arrangements should be made to collect the income to be charged to the council.
(c) There was no formal programme to identify illegal constructions and illegal constructions were identified only on public complaints. Also, there was no unauthorized construction register.	Various problems arise when removing construction. Therefore, although the Urban Development Authority has been requested for advice, it has not been received yet.	Legal action should be taken against unauthorized construction.
(d) A large quantity of non-perishable waste was dumped daily which was detrimental to the environment. The	Due to the economic and health crisis, the expected income could not be generated. Those	A formal solid waste management plan should be prepared and

baler machine which was given in July 2022 for non-perishable waste center at Rs. 950,000 remained unused till December 2022. Compost fertilizer production of 164,280 kg in the year 2021 was decreased to 6,240 kg in the year 2022 and sales income had decreased by Rs. 1,580,400 compared to last year.

efforts are being made to increase the production of compost fertilizer and use the baler machine.

3.2 Assets Management

Audit Observation

There was a risk of unauthorized acquisition as the boundaries of 0.1285 hectare of Malwaththa land located in Udagama, Embilipitiya were not settled and it was not displayed as a land owned by the council.

Comments of the Council

Action will be done to settle the boundaries in future.

Recommendation

The existence and security of the properties owned by the council should be confirmed.