

Valvettithurai Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valvettithurai Urban Council including the financial statements for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022, income and expenditure account for the year then ended and 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 sub-section 181(1) of the Urban Councils Ordinance (Chapter 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 financial statements give a true and fair view of the financial position of the Valvettithurai 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

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 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 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 Requirements

National Audit Act, No. 19 of 2018 include specific provisions for 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 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	Comment of the Council	Recommendation
(a) Two walls constructed and purchased sports equipment with cost of Rs.3,093,790 had not been accounted for.	Actions will be taken to show in the financial statements of the year 2023.	Accounts should be properly prepared.
(b) The balance of the Local Loan Development Fund of Rs.551,000 had been omitted from the financial statements of .	Action is being taken.	-do-

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Details of the supplier and registration certificate of the supplier regarding to value Added Tax of Rs.898,530 had not been submitted.	Actions will be taken to settle.	The information required for the audit should be submitted.

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 2022 amounted to Rs. 12,829,657 as compared with the excess of revenue over recurrent expenditure amounted to Rs.13,265,119 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 presented by the Council, information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	5,213,073	5,152,972	5,213,073	7,283,980	4,847,815	5,189,487	4,836,250	7,541,978
Rent	4,501,920	4,525,225	4,501,919	47,000	4,726,280	3,021,739	2,901,587	23,500
License Fees	1,346,030	1,346,030	1,346,030	-	739,200	288,490	288,990	-
Other revenue	<u>18,550,276</u>	<u>20,719,803</u>	<u>18,550,276</u>	<u>1,742,711</u>	<u>14,671,376</u>	<u>15,042,857</u>	<u>16,818,684</u>	<u>1,256,931</u>
	<u>29,611,299</u>	<u>31,744,030</u>	<u>29,611,298</u>	<u>9,073,691</u>	<u>24,984,671</u>	<u>23,542,573</u>	<u>24,845,511</u>	<u>8,822,409</u>

2.2.2 Performance in Revenue Collection

Audit Observation

Arrears of rates and taxes of Rs. 7,283,980 for the period between 02 years and 05 years had not been recovered.

Comment of the Council

Arrears of rates and taxes had been recovered through revenue collection officers and through mobile services.

Recommendation

Arrears of revenue should be recovered without delay.

3. Operating Review

3.1 Assets Management

Audit Observation

Contrary to the paragraph 1.1 of the Finance Commission Circular No. 2016/01 dated 30 December 2015, a sum of Rs.1,636,726 had been paid from the council fund for the renovation works of the Urani Hindu Cemetery, which was constructed on the property not belong to the council.

Comment of the Council

Actions are being taken to take over the cemetery.

Recommendation

Actions should be taken in accordance with the circular.

3.2 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
The outstanding distress loan balance of Rs.219,600 had not been recovered from 02 suspended and retired officers.	Actions had been taken to recover from the retirement gratuity and the guarantor.	Appropriate action should be taken to recover the loan balance.