

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katthankudi 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, 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 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 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 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 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
(a) The value of the building constructed at a cost of Rs. 67,907,157 to install the Kawashima machine and the administration building constructed at a cost of Rs. 22,858,774 had not been capitalized.	That the instructions given will be implemented in the current year.	Assets should be shown in the financial statements.
(b) During the year under review, the value of 3,352 books received as donations to the libraries had not been shown in the financial statements and the value of books destroyed of Rs. 175,043 had not been removed from the accounts.	That the value of books received as donations to the libraries has been assessed and the value of books destroyed has also been adjusted in the financial statements of the current year.	Actions should be made to adjust the value of library books

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
As at 31 December of the year under review, 09 account balances worth Rs. 1,273,371,337 could not be satisfactorily monitored during the audit due to non-submission of land deeds, fixed asset registers, schedules and balance confirmations.	That actions are being made to obtain land deeds and documents related to machinery, motor vehicles, and wooden fittings.	Documents of the assets should be obtained and documented.

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
Circular No. 29 dated 02 March 2020 of the Urban Development Authority of the Ministry of Urban Development, Water Supply and Housing	Although the approval of building plans should be completed within 14 days, the council had been approved the building plans with a delay of 06 to 11 months in the reviewed year.	That will be dealt with in the future in this regard.	Actions should be made for immediate approval of building plans.

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 2022 amounted to Rs. 9,567,389 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 9,523,357 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

The details 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.)
i. Rates and Taxes	21,612,000	22,371,641	20,367,473	11,594,381	21,258,000	19,956,284	20,229,692	9,590,213
ii. Rent Income	12,420,000	7,495,627	7,287,527	208,100	8,905,000	6,366,269	6,366,269	-
iii. License Fees	4,060,000	4,088,230	4,073,780	38,000	4,060,000	3,671,125	3,666,125	23,550
iv. Other revenue	124,804,000	100,644,294	100,582,287	5,614,576	45,475,000	86,667,192	86,673,612	5,552,569
Total	<u>162,896,000</u>	<u>134,599,792</u>	<u>132,311,067</u>	<u>17,455,057</u>	<u>79,698,000</u>	<u>116,660,870</u>	<u>116,935,698</u>	<u>15,166,332</u>

2.2.2 Revenue Collection Performance

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

Audit Observation	Comment of the Council	Recommendation
<p>Stamp Duty</p> <p>The stamp duty of Rs. 6,245,270 should have been collected from the Chief Secretary of the Provincial Council and other officials for the last 5 years as at 31 December of the reviewed year.</p>	<p>That the actions have been made to collect the relevant stamp duty.</p>	<p>Actions should be made to obtain detailed documents regarding stamp duty.</p>

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The council had not taken actions to pay off or write off the amount of Rs. 6,643,239 for water supply creditor that had been shown as a liability in the financial statements for more than 05 years.	That the necessary instructions have been sought from the Commissioner of Local Government to collect this amount which has been pending for a long time.	Actions should be made to pay off or write off the water supply loan amount.
(b) The value of land, buildings and cars owned by the council had not been assessed and shown in the financial statements.	That a committee has been appointed to assess the assets of the year reviewed and that necessary actions have been made for valuation by the valuation department.	Fixed assets should be valued and shown in the financial statements.
(c) Although financial provision was not made for the construction of the Kattankudy shop mall, the council had been spent Rs. 142,311 for inviting quotations through newspaper advertisements. However, the project had been abandoned due to lack of funding.	That these projects have been abandoned.	Should be ensured about the financial availability before starting procurement activities.

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) The council had not been taken actions to repair 05 repairable vehicles owned by the council and to properly dispose of 06 vehicles that were not in running condition.	That will be done in the future.	Vehicles should be repaired or disposed.
(b) The council did not have registration certificates for 09 vehicles including tractor-tailor machines.	That the actions are made to obtain vehicle registration certificates.	Actions should be made to obtain vehicle registration certificates.

3.3 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
<p>(a) Employee Vacancies and Excess There were 27 vacancies and 12 excess in 12 posts of approved staff in the Department of Management Services.</p>	<p>That although council decisions have been taken and applied to fill the vacant staff vacancies, there has been no progress.</p>	<p>Actions should be made to fill up employee vacancies and regularize excess.</p>
<p>(b) Employee Loans For the last 7 years, necessary actions had not been made to recover Rs. 315,000 outstanding in connection with disaster loans and other loans given to 02 members of the council's staff.</p>	<p>That the monthly widow and orphan provident fund of the deceased officer is being charged.</p>	<p>Outstanding employee loans should be recovered.</p>