

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Trincomale 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 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 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 presented 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 Trincomale 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 regarding financial statements 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 Requirements**

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Urban Council presented are 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 the recommendations made by me in the previous year of this report 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	Comments of the Council	Recommendation
(a) As on December 31 of the year under review, the suspense account had a debit balance of Rs.1,114,489.	As the related documents and data are continuously checked, action will be taken to settle them fully when received.	The suspense account should be settled.
(b) On receipt of Rs.367,770 out of the opening arrears balance of Circuit bungalow rent in the year under review, , it was accounted as income for the year.	Action will be taken to maintain income accounts and arrears income accounts etc. in separate ledgers in the future.	That value should be deducted from the rent in arrears.
(c) No provision was made for total outstanding audit fees amounting to Rs.2,770,831 for 04 years from 2019 to 2022 and for audit fees in the year under review.	Actions will be taken to correct the relevant matter in the final accounts of the current year.	Audit fees for each financial year should be updated and accounted for.
(d) For the year 2021, the court fines charges received in the year under review amounted to Rs.288,660 had been shown as income of the year under review.	- Do -	Revenue should be accounted for on an accrual basis.
(e) Rs.5,969,230 of court fine charges due for the month of December 2022, were not accounted for.	As calculation of listed value for court fine charges is problematic in practice, it has been decided to disclose the estimated value as listed value in the accounts in future	- Do -
(f) In the year under review, the interest income was understated by Rs.145,669.	As per the details of renewals of fixed deposits, the interest for the prescribed period will be calculated and disclosed in the accounts and the relevant fact will be corrected in the current year.	- Do -
(g) As of December of the year under review, the salary and members 'allowances due amounted to Rs.10,784,193, were not accounted for as receivables.	It will be corrected in the financial statements in the current year.	It should be recorded as receivables.
(h) In the year under review, the sum of Rs.5,979,498 in expenses like payable expenses, payable stamp duty and rebates given for assessment tax was debited to the accumulated fund	The respective values are disclosed in the Income and Expenditure Account. Also, instead of accounting the surplus income for the year under review in the Accumulated Fund, the income and	Expense Payables should be debited in the Income and Expenditure Account for the

instead of being debited in the Income and Expenditure Account of the year.

expenditure have been accounted for separately. However, as per your instructions, steps will be taken to disclose the Accumulated Fund in the current year.

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|-----|---|---|-----------------------------------|
| (i) | Fixed assets worth Rs.17,952,501 purchased in the year under review were not capitalized. | The relevant matter will be rectified while preparing the financial statements of the current year. | It should be accounted correctly. |
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### 1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
02 account balances worth Rs.6,051,507 as on 31st December of the year under review could not be satisfactorily verified due to non-submission of required documents and ledger accounts for audit.	Details have been requested and it will be corrected when details are received,	Evidence required for audit should be submitted.

### 1.6.3 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
As on December 31 of the year under review, there was a difference of Rs.3,701,147 between the balances of 03 ledger accounts and their respective schedules.	The reasons for the variation are being investigated.	Balances should be reconciled and corrected.

## 1.7 Non- Compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows

Reference to Laws, Rules Regulations etc...	Non-compliance	Comments of the Council	Recommendation
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 371	In respect of deposits of Rs.92,249,690 included in refundable deposits in the financial statements for more than 20 years from 05, No action had been taken by the council to pay the concerned persons or to transfer the government.	The deposit documents related to the amount of deposits you have disclosed have been updated from 2013 till date. Whereof, Deposits with evidence and available; have been transferred to the income account of the year under review and steps have been taken to transfer to	Relevant action should be taken as per the Financial Regulations.

the income account of the current year.

- (b) Articles 4.2, 4.4, 6.1, 6.3, 7, 7.2, 8 and 9 of Chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka
- The Urban Council had not developed a selection procedure in providing Quarters for rent, and in choosing the eligibility of the officer to be rented.
- As per Section 4.2 of Chapter XIX of the Institutions Code, the guidelines are being prepared immediately.
- As per the Code of establishment, appropriate action should be taken.

## 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. 96,899,734 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 2,374,395 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 Sabha 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 Rs. 000	Revenue billed Rs. 000	Revenue Collected Rs. 000	Arrears as at 31 December Rs. 000	Estimated Revenue Rs. 000	Revenue billed Rs. 000	Revenue Collected Rs. 000	Arrears as at 31 December Rs. 000
Rates and Taxes	42,355	40,376	41,992	100,061	42,440	38,847	35,245	101,596
Rent	36,570	28,925	20,727	45,623	37,774	27,865	25,536	38,161
License Fees	12,668	19,124	19,124	--	13,399	13,660	13,660	--
Other revenue	14,330	11,038	6,038	33,212	16,469	8,912	8,912	3,711
<b>Total</b>	<b><u>105,923</u></b>	<b><u>99,463</u></b>	<b><u>87,881</u></b>	<b><u>178,896</u></b>	<b><u>110,082</u></b>	<b><u>89,284</u></b>	<b><u>83,353</u></b>	<b><u>143,468</u></b>

#### 2.2.2 Performance in Revenue Collection

##### Audit Observation

##### Comments of the Council

##### Recommendation

#### (a) Rates and Taxes

- (i) As many as 3649 immovable property owners within the Urban area of authority were not notified through Form 'K' regarding levy of assessment tax.
- The council has faced great difficulties in issuing the forms.
- Forms 'K' should be issued to property owners in respect of arrears of assessment tax.
- (ii) As on December 31 of the year under review, the assessment tax of Rs.16,303,605 for the year and Rs.101,596,687 for the previous years should have been collected.
- Arrears taxes are being collected.
- Assessments in arrears should be recovered as per the provision of Act.

#### (b) Rent

As of December 31 of the year under review, the arrears of rent for a period of 01 to 12 years

- Do -

Collections should be made as per the

from 390 business premises belonging to the Urban Council amounted to Rs.46,194,443.

agreement.

**(c) Stamp duties**

The stamp duty due from the Deputy Secretary of the Provincial Council and other authorities on December 31, 2022 was Rs.40,873,870.

Despite letters and direct inquiries were made from the Land Registration Department and Provincial Inland Revenue Departments regarding this matter, asking the arrears, regarding that time, there was a delay in getting to us.

Relevant actions should be taken.

**3. Operational Review**  
**3.1 Identified Losses**

**Audit Observation**

06 gas cylinders, the value of which has not been identified so far, which are used for cremation in the Hindu cemetery belonging to the Urban council, had been stolen, but the necessary measures had not been taken and the investigations had not been completed.

**Comments of the Council**

An investigation committee has been appointed by the Assistant Commissioner of Local Government to re-investigate the investigation and report regarding the theft of gas cylinders.

**Recommendation**

Investigations should be conducted properly and reports should be submitted to the relevant parties.

**3.2 Management Inefficiencies**

**Audit Observation**

(a) Due to non-availability of medicines since September 2022 at the Ayurvedic Hospital located within the Urban Council area, patients visiting the hospital were sent back without any medicines. The estimated budget allocation for this purpose was not properly utilized by the management.

**Comments of the Council**

After September 2022, the Ayurvedic hospital ran out of painkillers. However, other drugs have been given to patients.

**Recommendation**

Actions should be taken to provide services to the ordinary people continuously.

(b) All the garbage collected in the Trincomalee Urban Council area of 7.5 square kilometers was being dumped in the land belonging to the Forest Conservation Department located in Kinniya without segregating it. This situation had arisen due to non-implementation of the agreement signed in 2017 with CGL regarding waste management.

In the future, according to the agreement, the solid waste collected by the municipality will be able to be handed over to CGL International Private Company without being segregated.

Necessary action should be taken as per agreement.

### 3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) 80 out of 374 stalls owned by the Urban Council, no action has been taken by the Urban Council to rent them from the year 2019. As a result a loss of Rs. 15,199,135 had been occurred to the sabha.	Arrangements are being made to rent the stalls.	Appropriate measures should be taken for renting out stalls.
(b) Property valuations were to be done every 5 years, but shop valuations were not done after 2009.	That several attempts were made to obtain the services of the Valuation Department in connection with the revaluation of the property, but it was unsuccessful.	Property revaluation should be done once in 05 years.

### 3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) <b>Assets not transferred/assets not transferred ownership</b>		
The ownership of 51 vehicles used by the Urban Council From 03 to 35 years, had not been taken over.	There is a situation where it is not possible to quickly transfer the ownership of these vehicles or sell them at auction. At present, arrangements are being made to obtain the Certificate of registration.	Steps should be taken to transfer the ownership in the name of the Urban Council.
(b) <b>Idle or underutilized Assets</b>		
(i) The machine worth Rs. 5,695,830 installed for incineration of hospital waste has been idle since 2018 and the machine was completely rusted.	Although efforts were made to hand it over to Trincomalee Regional Health Services Office, It was said that there are no spare parts for it in the market and not undertaken.	Necessary actions should be taken.
(ii) Malaiyaruvi market complex, owned by the Urban Council, with 54 stalls and a fish market, built in 1997 remained unused for the last 26 years.	The council has decided to give the said place to Sri Sanmuga Hindu Girls' College.	- Do -
(iii) 48 shops in the central market complex remained idle since 2009.	Due to defects in the building structure, the lessees did not come forward to lease. The management is seeking the way of effective utilization of this location.	- Do -

(iv)	43 vehicles belonging to the Urban council remained unusable for more than 12 years, and the council had not taken action to remove those vehicles or sell them at auction.	Due to the absence of the relevant certificate of registration, they are being procured from the Motor Traffic Department to sell those vehicles at the auction.	The council should take action to dispose the vehicles or sell them at auction.
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### 3.5 Human Resources Management

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	<b>Employee vacancies and surplus</b>		
	A total of 119 vacancies, including 88 vacancies in primary level post, 29 vacancies in secondary officer level post, 02 vacancies in senior level post, had not been filled up.	As per the circular dated 26.04.2022, recruitment cannot be done for the existing vacancies.	Appropriate action should be taken to fill up the vacancies.
(b)	<b>Employee loan</b>		
	As on December 31 of the year under review, loans of Rs.2,239,712 given to 74 employees were not recovered from the respective employees or guarantors.	Out of these, a large number are long-standing balances. No data about them has been received so far. That these will be settled when received.	- Do -

### 4. Accountability and Good Governance

#### Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
It was observed that the budget document was not used as an effective management control tool as the variances between estimated expenditure and actual expenditure ranged from 14 percent to 394 percent.	This was due to the multifold increase in prices, Arrears of electricity, water consumption, audit fees, legal advice fees and communication default charges, and increase of rebates given (assessment tax), commissions given (stamp duty) etc.	Necessary measures should be taken to avoid large variations.