

## **Ampara Urban Council - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ampara 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, Statement of changes in net assets, 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 Ampara 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.

- (a) 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.
- (b) 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 Observations	Comments of the Council	Recommendations
(a) The balance of the loan payable to the Local Loan and Development Fund as at 31 December of the year under review had been under accounted by Rs. 395,642.	That the actions will be taken to rectify through the account of the year 2023.	Should be properly accounted.
(b) The amount of discount granted on the assessment tax related to the year under review of Rs. 203,785 had not been accounted.	That the actions will be taken to account the discount granted in the account of the year 2023.	- Do -
(c) The amount of assessment tax penalty charged during the year under review of Rs. 519,148, had been accounted as assessment tax income.	That the actions will be taken to account the assessment tax penalty as other income from the year 2023.	- Do -
(d) The general inventory balance had been over accounted by Rs. 954,010 as at 31 December of the year under review.	That the actions will be taken to rectify the general inventory balance.	- Do -
(e) The reimbursement amounts of salary and allowances receivable of Rs. 6,337,045 had not been accounted as at 31 December of the year under review.	Accepted and actions will be taken to rectify in the future.	- Do -
(f) The amount of court fine income receivable of Rs. 201,833 had not been accounted as at 31 December of the year under review.	- Do -	- Do -
(g) The stamp duty income receivable had been over accounted by Rs. 7,130,028 as at 31 December of the year under review.	- Do -	- Do -
(h) The balance of Rest House Service Charge Deposits had been over accounted by Rs. 793,000 as at 31 December of the year under review.	That actions will be taken to rectify the balance of the Rest House Service Charge Deposit Account in the year 2023.	- Do -
(i) The creditor balance had been under accounted by Rs. 357,676 as at 31 December of the year under review.	That the actions will be taken to rectify through the account of the year 2023.	- Do -
(j) Although the cost of sales should be shown by adjusting the opening and closing inventory	- Do -	- Do -

balance of the Rest House in respect of the year under review, since the cost of purchase had been mentioned, the surplus of the year under review had been understated by Rs. 1,859,335.

- (k) The amount of payable and receivable for the industry of Rs. 9,426,750 had not been accounted as at 31 December of the year under review. - Do - - Do -

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observations	Comments of the Council	Recommendations
(a) As at 31 December of the year under review, there was a mismatch of Rs. 2,700,480 between the total of 04 account balances and the total of balances as per documents and schedules.	That the actions will be taken to investigate the reasons for the changes and to rectify.	The correct balance should be identified and accounted.
(b) There was a mismatch of Rs. 1,667,914 between the sales income as per corrected trade and profit & loss account of the Rest House for the year ended 31 December of the year under review and the sales income as per the income expenditure account.	That the actions will be taken to rectify through the account of the year 2023.	- Do -

### 1.6.3 Unauthorized Transactions

Audit Observation	Comment of the Council	Recommendation
Shop rent arrears of Rs. 632,062 had been written off from the financial statements without approval in the year under review.	A write-off was made to correct the opening balance and that will be corrected.	Should be properly accounted.

## 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. 13,522,976 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 4,434,941 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 chairman, 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 Decemb
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	10,800,000	8,872,372	6,504,958	35,321,768	10,750,000	8,872,372	5,115,656	32,954,353
ii. Rent Income	11,528,226	8,920,981	4,744,811	12,175,239	11,925,926	9,326,366	5,104,891	10,162,989
iii. License Fees	3,702,000	1,635,448	1,635,447	-	3,402,000	1,456,160	1,456,160	-
iv. Other revenue	63,528,580	41,520,104	41,520,104	-	49,402,403	26,663,920	26,663,920	-
Total	<u>89,558,806</u>	<u>60,948,905</u>	<u>54,405,320</u>	<u>47,497,007</u>	<u>75,480,329</u>	<u>46,318,818</u>	<u>38,340,627</u>	<u>43,117,342</u>

### 2.2.2 Revenue Collection Performance

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observations	Comments of the Council	Recommendations
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#### Assessment and Taxes

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| (a) The assessment cards containing information relating to 8,592 units of assessed property owned by the urban council had not been updated quarterly from 2017 to 2022 and it was observed that only the balance of January 2023 had been recorded directly. | The outstanding balance was obtained with respect to January 2023 to accurately obtain the outstanding balance till date. That the values related to this outstanding balance will be obtained from quarter to quarter and the balance will be recorded correctly. | Documents should be kept up to date with the computerized system.                           |
| (b) As at 31 December of the year under review, the balance of outstanding assessment tax was Rs. 35,321,768.  | That action plans are being prepared for recovery of arrears of assessment taxes from the year 2023.   | Necessary actions should be taken for recovery of arrears as per the provisions of the Act. |

#### Rental

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| (c) As at 31 December of the year under review, the outstanding balance of shop rent was Rs. 12,175,239 out of which Rs. 10,479,079 i.e. 86 per cent had been due from the renovated bus stand shops. | That action plans are being prepared to recover the due bus stand shop rent from the year 2023. | Necessary actions should be taken to recover the arrears. |
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### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
(a) The recommendations made by the Annual Board of Survey 2021 had not been implemented till the date of audit.	That the recommendations of the Annual Board of Survey in the year 2022 will be implemented in the future.	Board of Survey recommendations should be implemented without delay.
(b) The Urban Council had not been taken action to update the contracts of 152 shops owned by the Urban Council, whose valid contract period had passed.	That the Honorable Governor has been informed in writing to update the contracts for these 152 shops.	Necessary actions should be taken immediately.

#### 3.2 Operational Inefficiencies

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
(a) Assessment tax was being levied on properties belonging to the Urban Council based on the 2005 assessment.	That all necessary arrangements for a new assessment have been made and forwarded to the Valuation Department.	Taxes should be assessed and collected on time.
(b) The rent charged for 142 shops owned by the urban council had not been assessed on time.	That the actions will be taken to assess and collect in the future.	- Do -

#### 3.3 Assets Management

<b>Audit Observations</b>	<b>Comments of the Council</b>	<b>Recommendations</b>
(a) The value of 42 lands belonging to the urban council and the buildings located on those lands had not been identified, accounted and included in the fixed assets register.	That although the Batticaloa Valuation Department has been referred to assess the properties belonging to the urban council and assessment reports have not been given so far.	Value should be identified, documented and accounted.
(b) Urban Council had not been prepared and submitted along with the account, including the values related to each item under the classifications of fixed assets of Rs. 192,414,809 of machines & equipment, motor vehicles & carts and wooden	That the necessary actions will be taken to prepare the relevant schedules and submit with financial statements of the year 2023 and update the fixed asset registers.	Schedules should be prepared and documents should be kept up-to-date including the value as at 31 December.

furniture & fittings belonging to the council and fixed asset register had not been maintained up to date as at 31 December of the year under review.

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| (c) | The value of 71 library books, a water pump and a display box received as donations to the Urban Council during the year under review had not been identified and accounted. | That a register with the value of the assets will be maintained from next year and the materials received as donations will be accounted. | Value should be identified, documented and accounted. |
| (d) | The value of 04 vehicle items owned by the Urban Council had not been identified, documented and accounted.  | That the necessary actions will be taken to document and account those vehicles in the coming year.                                       | Value should be identified, documented and accounted. |
| (e) | The ownership of 19 vehicles of the Urban Council had not been transferred to the name of the Urban Council.   | That the necessary actions will be taken to take over in the coming year.   | Transfer should be done without delay.                |
| (f) | Actions had not been taken to properly dispose the 12 unrepairable vehicles belonging to the urban council.  | That the necessary actions will be taken regarding this.  | Vehicles should be properly disposed.                 |

### 3.4 Human Resource Management

#### Audit Observation

It was observed that 76 posts including the post of Secretary and Accountant of the Urban Council were vacant, out of which 43 posts i.e. 58 per cent of the vacancies had been recruited on a casual basis and Rs. 17,119,194 had been paid as wages from the Urban Council Fund during the year under review.

#### Comment of the Council

That the Local Government Commissioner has been informed about the employee vacancies.

#### Recommendation

Relevant institutions should be informed by requesting permanent officers for vacancies.