

Mannar Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mannar Urban Council for the year ended 31 December 2023 comprising the balance sheet as at 31 December 2023 and income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 reported 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 Mannar Urban Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

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 Principles 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 Observations	Comments of the Council	Recommendations
(a) An Electric Solar purchased at cost of Rs. 13,601,839 from the Council Fund in the year 2022, had not been accounted as fixed assets.	Action is being taken to include the specified work schemes in the financial year 2024.	Financial statements should be prepared accurately.
(b) The total estimated cost of Rs.5,458,000 related to 03 un-completed construction works had been accounted as creditors.	Works had been completed and payment made in current year.	-Do-
(c) Written-off balances of outstanding loan Rs.305,702 had been accounted against to the fixed assets.	Actions have been taken to correct in the financial statements for the year 2024.	-Do-
(d) Even though 04 Generators had been auctioned, the value of those Rs. 1,700,000 had not been deducted from the assets.	-Do-	-Do-

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Cost of a Laundry Rs. 12,000,000 shown in the financial statements had not made available for physical verification in audit.	Decision will be made for additional actions by obtaining relevant advices.	Reasons for physically unavailability, should be rendered to audit.

1.7 Non-compliances

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

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Council	Recommendation
Financial Regulations 571(1), (2) and (3) of the Democratic Socialist Republic of Sri Lanka	15 lapsed deposits exceeding 02 years amounting to Rs. 845,376 had not been settled.	Actions will be taken to reimburse and transfer to revenue.	Actions should be taken according to the Financial Regulations.

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 2023 amounted to Rs. 99,598,413 as compared with the excess of revenue over recurrent expenditure amounted to Rs.75,044,641 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	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	16,250,000	24,994,858	8,390,341	16,604,517	16,200,000	17,310,435	9,866,830	7,443,605
Rent	63,350,000	73,282,104	62,427,743	10,854,361	61,751,960	59,226,017	50,817,441	8,408,576
License Fees	1,930,000	1,637,610	1,637,610	-	1,760,000	1,339,380	1,339,380	-
Other revenue	45,736,500	78,035,069	55,238,786	22,796,283	24,749,000	40,408,169	17,611,886	22,796,283
Total	127,266,500	177,949,641	127,694,480	50,255,161	104,460,960	118,284,001	79,635,537	38,648,464

2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Council	Recommendation
Lease rentals of 03 shops aggregating to Rs. 1,379,553 and License fee belonging to 03 Private Telecom Towers aggregating to Rs. 350,000 had not been recovered during the period ranging from 02 to 16 years.	Actions has been taken to recover and write off the arrears.	Meaningful actions should be taken to recover the arrears.

3. Operating Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) Advance account balance amounting to Rs. 650,000 recoverable from 02 parties had not been recovered over 11 years and meaningful actions had not been taken to recover those.	It had been decided to settle the advances.	Actions should be taken to settle the advance account balance.
(b) Action had not been taken to engage in revenue generating sources for the balance of Rs. 46,344,232 available in the current account.	Actions are being taken to deposit to fixed deposit account.	Actions should be taken to engage in the revenue generating sources.

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
Action had not been taken to dispose the 09 vehicles of sabha repaired but not in a position to utilise, 13 items in the Mannar Town Hall and 11 equipments for physical training during over 05 years.	Action had been taken to auctioned in the year 2024.	Action should be taken to dispose the under utilised assets.

3.3 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
Actions had not been taken to recover the staff loan balance Rs. 687,224 from 05 officers interdicted and vacated their post during the period ranging from 01 to 04 years.	Letters had been forwarded to suerties and proper action had been taken to recover from their monthly salary.	Proper actions should be taken to recover the outstanding staff loan balances.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
Due to the fact that there were variations from 15 per cent to 43 per cent in 03 revenue items, from 10 per cent to 85 per cent in 08 expenditure items and 46 per cent in one capital expenditure items when comparing the estimated revenue and expenditure with the actual revenue and expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool.	Actions are being taken to prepare the budget	Needs should be identified and the budget should be prepared carefully.