

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Valvettithurai 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 Valvettithurai 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 except for observations 1.6.1 (b) and 1.6.2 of my 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 Observations	Comment of the Councils	Recommendations
(a) The total cost of walls constructed at 02 places, garden seats, computers and sports equipment amounting Rs. 3,717,251 had not been capitalized.	Action will be taken to rectify in the final accounts of the year 2024.	Accounts should be properly prepared.
(b) The balance of Local Loan Development Fund of Rs.551,000 had been omitted from the financial statements.	Further action has been taken.	-Do-

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Supplier details and supplier registration certificate had not been submitted for Value Added Tax of Rs. 898,530.	Letters have been sent to obtain sufficient evidence.	Information required for 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 2023 amounted to Rs. 20,171,175 as compared with the excess of revenue over recurrent expenditure amounted to Rs.12,829,657 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	4,898,304	5,261,643	4,355,501	8,190,121	5,213,073	5,152,972	5,213,073	7,283,980
Rent	8,021,433	6,706,632	6,730,132	23,500	4,501,920	4,525,225	4,501,919	47,000
License Fees	1,647,800	1,590,700	1,590,700	-	1,346,030	1,346,030	1,346,030	-
Other revenue	29,140,387	27,094,279	27,854,946	551,836	18,550,276	20,719,803	18,550,276	1,312,503
Total	<u>43,707,924</u>	<u>40,653,254</u>	<u>40,531,279</u>	<u>8,765,457</u>	<u>29,611,299</u>	<u>31,744,030</u>	<u>29,611,298</u>	<u>8,643,483</u>

2.2.2 Performance in Revenue Collection

Audit Observation

Assessment tax outstanding in the year under review amounting to Rs. 6,929,252 had not been recovered. Also, stamp duty receivables of Rs.278,836 had been more than 08 years old.

Comment of the Council

Actions have been taken to recover arrears of assessment tax through revenue collection officers and mobile services and waive stamp duty.

Recommendation

Actions should be taken to recover arrears of revenue promptly.

3. Operating Review

3.1 Management Inefficiency

Audit Observation	Comment of the Council	Recommendation
Actions had not been taken to utilize a sum of Rs. 13,890,980 which was idle in the development reserve for more than 05 years, in 04 capital development work schemes.	The relevant funds will be used after receiving suitable land.	Funds should be utilized for the intended purposes.

3.2 Assets Management

Audit Observations	Comment of the Councils	Recommendations
(a) Fish market land and buildings amounting to Rs.14,299,896 had been included in the financial statements as fixed assets, but they had not been owned by the council.	Action has been taken to acquire to the Council.	Ownership of the assets should be settled.
(b) A sum of Rs.1,636,726 had been paid from the council fund for the renovation works of the Urani Hindu Cemetery on land not belonging to the council in contrary to paragraph 1.1 of the Finance Commission Circular No. 2016/01 of 30 December 2015.	Action are being taken to acquire the cemeteries.	Action should be taken according to the circular.
(c) Although a sum of Rs.2,090,000 had been paid to acquire the ownership of the land where the swimming pool is located, no actions had been taken to acquire it to the council for 05 years.	It will be included in fixed assets after approval of survey department.	The ownership of assets should be settled.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

Due to the fact that there were variations from 12 per cent to 51 per cent in 04 revenue items and from 16 per cent to 31 per cent in 05 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.

Comment of the Council

Action has been taken from the year 2024.

Recommendation

Needs should be identified and the budget should be prepared carefully.