

Embilipitiya Urban Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Embilipitiya Urban Council for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial operations, statement of changes in equity, 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 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 Embilipitiya 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 Practices.

1.2 Basis for Qualified Opinion

I express a qualified opinion in respect of the financial statements based 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 to be prepared.

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 the Urban Council has performed according to its powers, functions and duties; and
- Whether the resources 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 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 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

Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Embilipitiya Economic Centre land valued at Rs.15,993,900 owned by the Ministry of Rural Economy had been accounted for as an asset of the Urban Council.	This will be corrected in the preparation of accounts for the year 2024 .	It should be accurately accounted for.
(b) Three constructions and computer equipment totalling to Rs.3,842,752 had not been capitalized.	-do-	-do-
(c) A land had been capitalized at Rs.318,700. Nevertheless, it had not been removed from non-current assets, even though the money had been refunded due to failure to acquire it.	-do-	-do-
(d) The value of the demolished vehicle yard amounted to Rs.410,303 had not been removed from the accounts.	-do-	-do-
(e) The opening stock balance of the year under review amounted to Rs.1,313,622 had been debited to the accumulated fund instead of debit to the stock account.	-do-	-do-

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| (f) | The transfer of Rs.4,500,000 from the general account to the Urban Development Authority account had been accounted for as an expenditure and income. | Actions will be taken in the future to avoid such errors. | -do- |
| (g) | A sum of Rs.4,626,023 received in the year 2023 for the reimbursement of salaries had been accounted for as receivable. | -do- | -do- |

1.7 Non - compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

Audit Observation	Comments of the Council	Recommendation
An advance of Rs.150,000 given in the year 2017 had not been settled in terms of Financial Regulation 371 (5).	This advance has not been settled by now.	Actions should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the income exceeding the recurrent expenditure of the Urban Council for the year ended 31 December 2023 was Rs.24,752,687 and the corresponding income that exceeded the expenditure of the preceding year was Rs.26,452,472.

2.2 Revenue Administration

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

According to the details submitted by the Secretary on the estimated income, billed income, collected income and arrears of revenue pertaining to the year under review and the previous year are presented as follows.

Source of Revenue	<u>2023</u>				<u>2022</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December
	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .
Rates and Taxes	18,516,000	19,498,383	25,412,093	56,414,123	18,303,000	19,456,728	13,686,874	61,541,824
Rents	26,166,600	15,013,014	16,639,562	3,487,716	25,334,200	11,746,140	13,042,383	6,131,941
License Fees	3,783,500	4,385,339	4,332,839	211,500	3,156,500	1,891,797	1,766,796	589,000
Other Income	<u>11,285,700</u>	<u>12,764,873</u>	<u>6,692,136</u>	<u>10,000</u>	<u>10,089,700</u>	<u>7,390,232</u>	<u>6,924,468</u>	<u>-</u>
	<u>59,751,800</u>	<u>51,661,609</u>	<u>53,076,630</u>	<u>60,123,339</u>	<u>56,883,400</u>	<u>40,484,897</u>	<u>35,420,521</u>	<u>68,262,765</u>

2.2.2 Performance of Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	Arrears of shop rents older in between 04 and 15 years amounted to Rs.3,033,281 had not been collected. Similarly, it had not been entered into agreements for 22 shops in the bus stand .	It has been informed by letters. Nevertheless, legal actions could not be taken due to defects in the agreements and unavailability of agreement. Letters have been sent to the Honourable Governor to write off the arrears.	Arrears of revenue should be collected.
(b)	Three-wheeler fees of Rs.520,000 were in arrears for the last 5 years including the year 2023. The reason for this was that the lack of consent in the negotiations with the three-wheeler association.	There is no separate by-law for this. As these fees are charged according to a common by-law, legal actions could not be taken against non-payment of fees .	Arrangements should be made to enact by-laws and collect fees.
(c)	An arrears of rates amounted to Rs.43,391,747 older for more than 05 years had not been collected even by now.	Final notices have been sent and the property foreclosure proceedings have been carried out.	Actions should be taken in terms of Urban Council Ordinance.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The Council had incurred a loss of Rs.976,600 by having to pay compensation on a court order against the illegal demolition of a building.	It had to make arrangements as per the court order.	The loss caused to the Council should be recovered from those who are responsible for it.

3.2 Idle Assets

Audit Observation	Comments of the Council	Recommendation
The baler machine received in July 2022 valued at Rs.950,000 had remained in idle even by December 2023.	Actions are being taken to install this machine immediately after getting power supply.	Assets should be utilized in an effective manner.

3.3 Contract Administration

Audit Observation	Comments of the Council	Recommendation
A sum of Rs.755,770 had been overpaid in the construction of the new office building of the Urban Council. In preparing the estimates, instead of the Sabaragamuwa Provincial building rates, the Western Province building rates had been used.	Actions will be taken to reduce overpayments from retention.	Overpayments should be charged.