

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Mannar Urban Council including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, 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 Section 181(1) of the Urban Council Ordinance (Chapter 255) and Sub-section 10 (1) of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be report 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 2024, 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 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 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 Municipal 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 Municipal 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 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 the recommendations made by me in the previous year except the observations mentioned in section 1.6.2 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)	24 capital works valued at Rs.166,620,643 which were completed in the year under review and previous years had not been capitalized.	That will be reviewed and capitalized in this year's financial statements.	Accounts must be prepared correctly.
(b)	The estimated cost of Rs.18,327,703 relating to 17 unfinished constructions had been accounted for as creditors.	Payment for work is being processed.	-Do-
(c)	There was a difference of Rs. 771,894 between the Government Contribution Balance for Capital Expenditure and the Fixed Asset Balance as stated in the financial statements.	Correct adjustments will be accounted for in the final accounts of the 2025 financial year.	The difference should be identified and adjusted correctly in the account.
(d)	The value of books amounting to Rs.166,580 received as donations during the year under review was not disclosed in the financial statements.	Action is being taken to be reflected in the financial statements.	Financial statements should be prepared accurately, including all assets.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 983,903 between the balance as per the financial statements and the corresponding balance in the records regarding library books.	This year's balances will be reviewed and compared.	Steps should be taken to compare the balances in the financial statements with the relevant source documents.

1.6.3 Lack of Written Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
The laundry, which cost Rs.12,000,000 as stated in the financial statements, was not physically inspected during the audit.	Decisions will be made after getting advices on future actions.	Valid reasons for physical absence must be submitted for the audit.

1.7 Non-compliance

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

Reference to Laws, Rules, and Regulations	Non-compliance	Comments of the Council	Recommendation
(a) Section 160 (1) of the Urban Councils Ordinance (Chapter 255)	Out of the 11,521 properties that the Council should have levied property tax during the year under review, K forms had not been distributed to 7,946 properties.	Action is being taken.	Action must be taken in accordance with the provisions of the Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 371 (2)	Steps had not been taken up to the end of the year under review to settle Rs. 715,000 which had been paid as advances on 05 occasions between 2009 and 2024.	That action will be taken regarding the settlement of advances.	Advances should be settled in accordance with the provisions of the Financial Regulations.
(ii) Financial Regulations 571(1), (2) and (3)	16 deposits of Rs.785,845, that were overdue for more than 02 years, had not been settled.	Action will be taken to transfer unclaimed deposits to this year's income.	Financial regulations should be followed.
(c) Special Provisions on Local Government Institutions, No. 48 of 1971	Although immovable properties in urban areas were to be assessed once every 5 years for the purpose of levying property taxes, property taxes were levied based on the assessed value of 2017.	Action is being taken.	According to the provisions of the Act, assessment should be carried out once every 5 years and levied tax.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Council for the year ended 31 December 2024 amounted to Rs.111,704,219 compared to the excess of income over recurrent expenditure amounted to Rs.99,598,413 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 submitted by the Council, 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	2024				2023			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	16,500,000	17,906,785	9,318,058	8,588,727	16,250,000	17,551,253	8,390,342	9,160,912
Rent	63,373,200	85,690,410	82,028,083	3,662,327	63,350,000	64,873,528	62,427,743	2,445,785
License Fee	1,798,000	1,771,800	1,771,800	-	1,930,000	1,637,610	1,637,610	-
Other Revenue	369,777,680	362,115,352	361,201,104	914,248	45,736,500	55,238,787	55,238,787	-
Total	<u>451,448,880</u>	<u>467,484,347</u>	<u>454,319,045</u>	<u>13,165,302</u>	<u>127,266,500</u>	<u>13,301,178</u>	<u>127,694,482</u>	<u>11,606,697</u>

2.2.2 Performance in Collecting Revenue

	Audit Observation	Comments of the Council	Recommendation
(a)	A total of Rs.35,921,298 in rates and tax arrears, Rs.2,601,614 in lease rent for 4 market stalls and lands, Rs.636,000 in arrears for 212 stalls, and Rs. 350,000 in overdue Annual Trade License Fees and fees for 3 private communication towers, which were outstanding for periods ranging from 2 to 16 years, remained uncollected at the end of the year under review.	That the steps are being taken to collect the outstanding amounts.	Appropriate action should be taken to recover outstanding amounts without delay.
(b)	No appropriate action had been taken to recover court fines amounting to Rs.914,248 and stamp duties amounting to Rs.734,695, which were due from the Chief Secretary of the Provincial Council and other relevant authorities as at 31 December 2024.	Not answered.	Appropriate action should be taken to recover arrears of income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The balance of Rs. 392,793,815 available in fixed deposits during the year under review had not been utilized and used in development activities related to public utility services.	That appropriate development projects will be identified and steps will be taken to implement them using fixed deposits.	Steps should be taken to utilize fixed deposit funds in development activities related to public utility services.
(b) The Council had not taken steps to commence 7 capital projects, which had a total allocation of Rs. 18 million under the Council's budget for the year under review, even by the end of that year.	Not answered.	Steps should be taken to complete the capital program within the relevant time frame.
(c) The council had not taken any action against the tenants regarding the sub-lease of 36 shops and the sale of 02 shops.	A committee has been established to investigate this matter.	Appropriate action should be taken against the tenant.
(d) The long-term lease agreements of 59 shops, which were supposed to be renewed every 3 years, had been maintained for a period of 2 to 34 years without being renewed.	That the process of renewing the agreement is underway.	Steps should be taken to renew rental agreements at regular intervals.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although, in accordance with Section 15(1) of the Housing Construction and Urban Development Ordinance No. 15 of 1915, a Certificate of Compliance (COC) should be issued to verify whether the buildings have been constructed in accordance with the provisions of the Act, certificates of compliance had not been issued for 104 development permits issued for the construction of buildings by the end of the year under review.	Notifications have been issued to obtain the certificate of compliance.	Steps should be taken to issue the certificates of compliance.

- | | | | |
|-----|---|---------------|---|
| (b) | The Council had collected liquid waste disposal fees of Rs. 7,354,850 in the year under review without preparing by-laws. | Not answered. | Steps should be taken to formulate by-laws and levy fees. |
|-----|---|---------------|---|

3.3 Assets Management

Audit Observation		Comments of the Council	Recommendation
(a)	Two children's parks, which had been constructed at a cost of Rs.1,000,000 using council funds and other project funds, had remained unused for over 5 years.	Not answered.	Steps should be taken to fully utilize assets.
(b)	The Anjali Mandapam, built by the council at a cost of Rs. 8.1 million, had been lying idle for over 2 years without being used.	-Do-	-Do-
(c)	Steps had not been taken to transfer to the name of the council, 04 children's parks, 04 playgrounds, 02 libraries, 02 cemeteries, 02 solid waste pits, 04 pieces of land and 03 vehicles, used by the council even by the end of the year under review.	Ownership transfer procedures are underway.	The ownership of the assets owned by the council must be clarified.
(d)	14 vehicles that could be repaired and sold at auction remained idle for a period of 1 to 9 years.	Not answered.	Vehicles should not be left unused.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
Steps had not been taken to recover the outstanding loan balance of Rs.112,699 from 02 retired and suspended officers for a period of 06 to 13 years.	Letters have been sent to the guarantors and appropriate steps have been taken to recover the money from their monthly salaries.	Appropriate measures should be taken to recover employee loan balances.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
When comparing the estimated income and expenditure with the actual income and expenditure as per the budget prepared for the year under review, there were variations	Efforts are made to make income and expenditure estimates based on appropriate and need information.	Needs should be identified and budgeted carefully.

ranging from 18 percent to 35 percent in 05 income objects and from 22 percent to 76 percent in 05 expenditure objects, therefore, the budget had not been used as an effective management control tool.

4.2 Environmental Issues

Audit Observation

The Council had granted approval to industrial establishments that were engaged in commercial activities without obtaining trade licenses in accordance with the National Environment Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000, and the regulations in force there under.

Comments of the Council

They will be issued an environmental permit after receiving a satisfactory report.

Recommendation

Steps should be taken to renew trade licenses in accordance with the National Environment Act and the regulations in force there under.