

Embilipitiya Urban Council - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Embilipitiya Urban Council for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 Statement of Financial Operations, Cash Flow Statement, Statement of changes in equity 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, sub section 181(1) of Urban Council Ordinance (Chapter 255). 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 Embilipitiya 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 financial statement 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.

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 of this 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 Observation	Comments of the Council	Recommendation
(a) Due to the non-capitalization of Rs. 121,000 spent on purchasing shelves for the library, Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated by that amount.	That will be corrected in 2025.	Capital expenditure must be accounted for correctly.
(b) The Non-Current Assets and Contribution from Revenue to Capital Outlay Account was understated due to the non-capitalization of Rs. 786,213 spent on concreting the internal roads of the compost yard.	That will be corrected in 2025.	Capital expenditure must be accounted for correctly.
(c) Due to the fact that the surplus of Rs. 19,682,953 from the previous year had not been credited to the Accumulated Fund, the Accumulated Fund was understated by that amount at the end of the year under review.	That revised financial statements will be submitted.	The surplus must be accounted for correctly.
(d) The surplus for the year was overstated by that amount due to the fact that Rs. 19,074,709 payable to industrial creditors had not been accounted for as capital expenditure.	That revised financial statements will be submitted.	Capital expenditure must be accounted for correctly.

- (e) Due to the fact that the loan installments paid to the Local Loans and Development Fund of Rs. 574,234 were shown as capital expenditure in the Statement of Financial Performance, the surplus for the year was shown less by that amount. That revised financial statements will be submitted. The financial statements must be corrected.

1.7 Non- Compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommend ation
National Budget Circular No. 02/2017 dated 25th July 2017	Output indicators and key performance indicators had not been identified.	Work is underway to correct it.	Action should be taken as per the circular.

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 2024 amounted to Rs. 22,193,747 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 24,752,687 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 Secretary, the following is the information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year.

Source of Revenue	2024				2023			
	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	18,516,000	18,821,320	19,160,508	55,644,853	18,516,000	19,498,383	25,412,093	56,414,123
Rent	20,603,390	16,820,725	17,919,947	2,230,784	26,166,600	15,013,014	16,639,562	3,487,716
License fees	4,443,250	5,615,251	5,637,750	181,000	3,783,500	4,385,339	4,332,839	211,500
Other Revenue	36,655,187	18,015,138	14,812,153	667,488	11,285,700	12,764,873	6,692,136	10,000
	80,217,827	59,272,434	57,530,358	58,724,125	59,751,800	51,661,609	53,076,630	60,123,339

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
The outstanding assessment balance of Rs. 55,644,853 as at the end of the year under review included 5040 assessment units worth Rs. 34,856,314 which had been outstanding for more than 05 years.	That step was taken to recover arrears through property prohibiting and mobile programs on several occasions during the year 2024.	Action should be taken to recover the arrears of revenue.

3. Operational Review

3.1 Performing of Functions Enacted by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the council under Section 4 of the Urban Councils Ordinance are shown below.

3.1.1 Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
While a Works Administrator officer was deployed to supervise the collection of waste, the segregation of the daily collected waste remained at a very low level. The unsegregated waste collected was dumped in the open without composting and by the end of the year under review, the amount dumped in the open and covered with soil was approximately 600 tons.	Due to having to deal with a limited number of health staff, their irregular leave, and the inability to separate and collect garbage on certain days, the garbage is disposed of through sanitary landfills.	An environmentally friendly waste management program should be planned and implemented.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The arrears of lease rent of Rs. 153,400 for the old village sabha building in Udagama, which were more than 06 years, had not been recovered even by the end of the year under review.	The relevant institution was informed in writing on numerous occasions to collect these arrears amounts.	Action should be taken to recover the arrears of revenue.

(b)	The number of plots of land sold in a land auction held within the council domain area in 2022 and their actual values had not been identified and steps had not been taken to collect the fees due thereon.	The Land Registrar's Office has been referred to verify the value of the two plots of land that have been sold.	Action should be taken to recover the arrears of revenue.
(c)	The 9 shops of the New Town Public Market, which were given on a lease basis without formal agreements, were sealed in 2018, 2019 and 2020 due to non-payment of shop rent and key money of Rs. 579,100 and Rs. 567,800 respectively, but the arrears had not been recovered by April 2025.	The shops were re-tendered and an investigation is underway to determine those responsible.	The investigation should determine those responsible and steps should be taken to recover the outstanding amounts.

3.3 Assets Management

Failure to ensure the security of assets

Audit Observation

As at 24th of October 2024, about 72.8 perches of the 118.6 perches of land received from the Mahaweli Authority under the transfer orders of 11th of June 2002 for garbage collection had been occupied by unauthorized persons.

Comments of the Council

That the necessary work is being done to settle the border.

Recommendation

Steps must be taken to ensure the security of assets.

3.4 Idle assets

Audit Observation

- (a) The baler machine worth Rs. 950,000 provided by the Provincial Council for the waste management project on 22nd of May 2022 remained idle at the end of the year under review.
- (b) The Waste Management Center, built in 2006 at a cost of Rs. 1,608,100, and the Sampath Sewana Center, built in 2017 at a cost of Rs. 639,559, also remained underutilized due to lack of infrastructure and sufficient workers.

Comments of the Council

Due to the high cost of obtaining three-phase electricity, requests have been made to the Chief Secretary to obtain provision.

Requests have been made from the Chief Secretary for the necessary provisions to obtain three-phase electricity, and requests have been made through the staff report regarding the shortage of staff.

Recommendation

Assets must be utilized efficiently and effectively.

Necessary actions should be taken to streamline waste management activities and efforts should be made to utilize other assets effectively.

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| (c) | 34 security cameras worth Rs. 980,322, which had been purchased in 2018 for installation in the council office building, weekly market and compost yard, had been stored in storage since 2023. | The 34 active security cameras are to be installed in the council office as required. | Assets should be utilized effectively for intended purposes. |
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