Trincomale Urban Council – 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Trincomalee Urban Council for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 Article154 (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 sub-section 10 (1) of 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 Trincomale Urban Council as at 31 December 2024, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices.

1.2. Basis for Qualified opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 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 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)	Although legal action had been taken against those who had illegally occupied the council's hostel, no disclosure of the contingent liabilities had been made in the financial statements.	Action will be taken to adjust the contingent liabilities in relation to these two cases in the final accounts of the current year.	Contingent liabilities should be identified and provisions should be made for them.
(b)	Although the Eastern Province, Local Government Institutions had not adopted Public Sector Accounting Standards, depreciation of Rs. 64,927,707 had been made and included in the financial statements during the year under review.	Since this council is scheduled to be upgraded to a Municipal council in the current year, depreciation will be made in the final accounts according to the Municipal Council methodology.	Until public accounting standards are adopted, accounts should be prepared in accordance with generally accepted accounting practices.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to the lack of supporting evidence for 06 subjects of accumulated funds and fixed assets accounts totaling Rs. 60,583,861, it was not possible to satisfactorily examine them.	Actions will be taken to obtain the relevant information and transfer it to revenue.	Actions should be taken to obtain evidence and maintain records related to assets.

1.7 Non-compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571 (1), (2), (3)	Necessary action had not been taken regarding the lapsed retention deposits of Rs. 99,127,351 to be refunded to the contractors.	The retention deposits in the deposit register will be checked and action will be taken.	Action should be taken to identify and settle lapsed deposits.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2024 amounted to Rs. 25,716,258 as compared with the excess of revenue over expenditure amounted to Rs. 59,152,235 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 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

		2024				2023			
	Source of Revenue	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.
(i)	Rates and Taxes	42,950,000	141,889,982	43,704,548	98,185,435	39,105,000	143,594,750	45,418,121	98,176,629
(ii)	Rent	37,600,000	99,049,486	29,314,884	69,734,602	32,320,000	83,764,504	29,818,993	53,945,511
(iii)	License Fees	24,352,000	29,277,358	22,736,968	6,540,391	18,783,460	23,504,203	22,736,968	767,235
(iv)	Other revenue	42,640,000	161,949,964	91,633,082	70,316,882	17,423,000	172,415,963	92,113,921	80,302,042
(v)	Total	147,542,000	432,166,790	187,389,482	244,777,310	107,631,460	423,279,420	190,088,003	233,191,417

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

	Audit Observation	Comments of the Council	Recommendation
(a)	**Rates & Tax**		
	The Council had not taken proper action to collect the arrears property tax amounting to Rs. 95,964,004 as on the end of the year under review.	Out of the total arrears, Rs. 6,420,221 relating to the year 2024 and previous years has been collected by the end of 2025. Actions are being taken to collect the arrears from those who have not paid.	Actions should be taken to promptly recover arrears property taxes.
(b)	**Rent**		
(i)	**Stall Rent**		
	The total amount of rent for 328 business premises belonging to the Urban Council, amounting to Rs. 56,032,168, had not been collected for the last 13 years.	Out of the arrears of the Urban Council stalls for the years 2024 and 2025,Rs.1,447,568 has been collected. Furthermore, special attention is being paid to collecting arrears from the lessees who have been in arrears for a long time.	Appropriate actions should be taken immediately to recover the arrears rent.
(ii)	**Rent for government Quaters**		
	At the end of the year under review, the total house rent due from the officials who used 43 government quarters amounted to Rs. 1,102,906, which had been carried forward for more than 10 years, but no actions had been taken to recover it.	Special attention has been paid to government quarters rents as they have been carrying forward for over 10 years, and Actions will be taken to give up them when they cannot be collected.	Every action should be taken to collect rent in arrears.

3. Operational Review

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 Public and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

3.1 Identified Losses

	Audit Observation	Comments of the Council	Recommendation
(a)	An uninsured pickup vehicle owned by the Urban Council was involved in an accident on January 12, 2023, but the preliminary and final reports regarding the accident had not been prepared and	The accident has been reported to the police. Further action will be taken after receiving the full investigation report.	Appropriate action should be taken regarding the cases and Actions should be taken to report

	submitted to the Auditor General in accordance with the Financial Regulations.		them to the Auditor General.
(b)	Six gas cylinders and other assets of unrecognized value used for cremation purposes at the Hindu cemetery under the control of the Urban Council were stolen in 2023, but no investigation had been conducted and no report had been made so far.	Once the comrehensive investigation report regarding the gas cylinder theft is received, action will be taken regarding the losses and they will be disclosed in the financial statements.	Immediate action should be taken regarding theft.

3.2 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
For the year under review, the Urban Council had spent Rs.31,969,002 on fuel and daily running charts had not been maintained for 40 vehicles used by the Council. Furthermore, fuel consumption tests had not been carried out. Accordingly, the accuracy of fuel expenditure could not be verified and proper internal control procedures regarding vehicle usage had not been followed.	Fuel testing has been conducted on 13 vehicles currently in use. Arrangements are being made to conduct the same on other vehicles. Daily running charts are also being updated.	Fuel test should be carried out for vehicles in use and action should be taken to update daily running charts.

3.3 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	Due to the machine worth Rs.5,695,830 installed for incinerating hospital waste not being used since 2018, as of now this machine has become completely unusable.	Since the relevant machine is not economically productive, action are being taken to dispose of it.	Necessary actions should be taken regarding machines.
(b)	48 stalls in the Central Market Building Shopping Complex had remained idle since 2009 to even at the end of the year under review, and no necessary actions had been taken to rent out or utilize the said shop complex effectively.	Actions are being taken to lease that stalls as a non-market stall in the future.	Necessary actions should be taken to rent out the shopping complex.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
Although the posts of Secretary and Accountant of the Council had been vacant for more than 7 years, officers from the Sri Lanka Administrative Service and the Sri Lanka Accountants Service had not been appointed for them.	Permanent appointments have been given to 85 tertiary level employees. Actions are being taken to fill other vacancies.	Relevant actions should be taken to fill employee vacancies.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
While four development goals have been identified, a plan had not been prepared to identify other goals that could be achieved through efficient and effective use of resources and to physically achieve them.	In accordance with Circular No. V.S.P./2018/61 dated April 23, 2018, attention will be paid to preparing a sustainable development agenda to be achieved by 2030.	Necessary actions should be taken to achieve sustainable development goals in accordance with the circular.