

Tangalle Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tangalle Urban Council including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Income and Expenditure Accounts, Statement of changes in net assets, 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 Sub-Section 181 (1) of the Urban Council Ordinance (Chapter 255) and the provisions 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.

my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Tangalle Urban Council as at 31 December 2022, 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

Opinion is qualified 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 skepticism 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 economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The key money Rs. 2,788,747 had been accounted as a liability under mixed deposit instead of being accounted as income at the end of the year under review.	According to the circular of the Commissioner of Local Government, it will be taken as income after 05 years.	Revenues should be recognized and accounted correctly.
(b) The value of employee loan receivable at the end of the year under review had been understated by Rs. 110,668.	The receivable balances will be settled in the future.	Accounts receivable balances should be accurately accounted.
(c) The previous year's rent income of Rs. 543,400 related to the 21 shops rooms at Tangalle bus stand had been understated.	The council had decided not to charge.	The revenues should be recognized and accounted for correctly.
(d) The unreimbursed employee salary expenditure of Rs. 200,984 had not been accounted as a receivable balance at the end of the year under review.	The arrears will be reimbursed.	Accounts receivable balances should be accurately accounted.
(e) The insurance compensation to be received from the insurance company due to the accident in the year 2021 for a cab amounting to Rs. 3,195,000, had not been accounted.	Will be accounted.	Accounts receivable balances should be accurately accounted.
(f) The stamp duty revenue receivable for the second half of the year under review amounting to Rs. 3,943,500 had been understated.	It will be corrected through the final account of the year 2023.	Accounts receivable income should be accurately accounted.
(g) The aggregate value of 89 inventory items at the end of the year under review amounting to Rs. 660,367, had been accounted as a non-current asset.	It will be corrected through the final account of the year 2023.	Assets should be accurately accounted.

1.7 Non-compliances

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

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

	Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Council	Recommendation
	urban Council Ordinance			
i.	Section 157	Under the Urban Council Ordinance, by-laws should have been enacted to fulfill 15 main matters; however by-laws were enacted only for 2 matters.	Accept the audit observations.	Actions should be taken in accordance with the Act
ii.	Section 165 b (1)a	During the year under review, the action had not been taken to collect professional fees from those who are practicing professions such as doctors, notaries and registrars within the jurisdiction.	The professional tax levy will be collected.	Actions should be taken in accordance with the Act
iii.	Section 171	A council approval had been obtained on 31 May 2022 to cut off the shop receivable rents fine amounting to Rs. 783,768 on the basis of poverty without charging fines from the Writ date on 03 October 2019 to 31 March 2022.	According to the Council's decision, the billed fines were deducted.	Actions should be taken in accordance with the ordinance.
iv.	Section 227 (i)	A member of the council has entered into an agreement as a lessee from the year 2008 up to now for the shop rooms numbered S-01 belonging to the council located at the bus stand.	Further action will be done according to the instructions of the Local Government Commissioner.	The action should be taken in accordance to the provisions of the Act.

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 amounted to Rs. 8,775,520 as compared with excess of revenue over recurrent expenditure amounted to Rs. 14,704,440 in the preceding year.

2.2 Revenue Administration

2.2.1 According to the information presented by the chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
Rates and Taxes	7,050,000	7,439,833	7,136,825	4,991,704	7,050,000	6,703,656	6,077,456	4,688,696
Rent	17,734,900	17,262,075	20,314,140	12,835,692	16,364,400	16,945,245	10,476,810	15,887,757
License Fees	743,000	1,032,979	950,979	227,000	953,000	578,010	603,010	145,000
Other revenue	10,649,400	11,891,390	14,544,763	1,035,835	10,633,400	10,703,310	10,906,259	3,689,208
Total	36,177,300	37,626,277	42,946,707	19,090,231	35,000,800	34,930,221	28,063,535	24,410,661

2.2.2 Performance in Revenue Collection

Following observations are made regarding the revenue collection performance of the council.

Audit Observation	Comment of the Council	Recommendation
(a) The assessment tax amounting to Rs.4,544,709 had not been recovered from 1,163 assessment units as at 31 December of the year under review.	The red notices had been issued to recover the arrears.	Arrears of income should be collected as soon as possible.
(b) The deficit was Rs. 5,000 to Rs. 50,000 more than 152 units in the assessment tax arrears balance as at 31 December of the year under review, however the action had not been taken by the Urban Council to recover those deficits according to the Ordinance.	The red notices will be sent for non-payment balances and property will be prohibited.	Legal action should be taken to recover the outstanding balances.
(c) The action had not been taken to recover business tax receivable on 112 business units as at 31 December of the year under review amounting to Rs. 287,440 and industrial tax related to 13 industries amounting to Rs. 19,000.	The action will be taken to recover an arrears.	Arrears of income should be collected as soon as possible.
(d) The action had not been taken in accordance with the Section 170 of the Urban Council Ordinance to recover receivables from 108 shops owned by the council amounting to Rs. 8,887,397 as at 31 December of the year under review.	The final notice letters have been sent to recover the arrears.	The arrears of income should be collected as soon as possible.

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| (e) | The receivable amounting to Rs. 754,366 by tendered and leased as at 31 December of the year under review, from Janatha Pola, beef shop and Pareiwella had not been recovered as per Sections 170a (1) and (2) of the Urban Ordinance. | Rs. 390,341 will be written off in the future and the balance will be recovered. | The arrears of income should be collected as soon as possible. |
| (f) | The action had not been taken to recover amounting to Rs. 3,193,328 from leased land and buildings owned by the council as per the Section 170 of the Urban council Ordinance at the end of the year under review. | The arrears will be recovered | The arrears of income should be collected as soon as possible. |
| (g) | In violation of the agreement signed by the council with the lessees and the Local Government Commissioner's (South) Circular No. SLG/CLG/2010/01 dated 27th December 2010, | | |
| i. | Although 07 stalls of the Tangalle bus station owned by the council had been leased between 2016 and 2022, the council management had not taken steps to act according to the agreement. | The notices are being given in writing to hand over the shops to the council if the sub leases have been made. | The action should be taken according to the Act. |
| ii. | On non-action regarding the rent collection of 14 shops at Tangalle bus station Rs. 904,472 had failed to be recovered by the council | The legal action will be taken to recover the arrears. | The arrears of income should be collected as soon as possible. |
| (h) | The trade license fees receivable in respect of 91 business units amounted to Rs. 109,000 had not been recovered as at 31 December of the year under review. | The arrears will be recovered. | The arrears of income should be collected as soon as possible. |
| (i) | The action had not been taken to recover the advertising board fees receivable amounting to Rs. 118,000 as at 31 December of the year under review were | The arrears will be recovered. | The arrears of income should be collected as soon as possible. |
| (j) | The action had not been taken to recover the total revenue receivable from the council's car parks, fire and disaster unit and ambulance amounting to Rs. 366,505 as at December 31 of the year under review in accordance with the Sections 170a (1) and (2) of the Urban Council Ordinance. | The notices have been given in writing for recovery the arrears. | The arrears of income should be collected as soon as possible. |

2.3 Operating Inefficiencies

Audit Observation	Comment of the Council	Recommendation
According to Section 26 of the National Environment Act No. 47 of 1980 as amended by Acts No. 56 of 1988 and No. 53 of 2000, Although the powers related to the collection of environmental license fees have been delegated to the council from 24 February 2022 by the Central Environment Authority Chairman's letter No. 14/01/1423/2022 dated 27 February 2022, however the council had decided not to charge environmental license fees.	A decision will be taken in the future regarding the issuance of environmental license.	Should be act in accordance with the Act.

3. Operational Review

3.1 Performance of functions assigned 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 Council Ordinance are shown below.

Audit Observation	Comment of the Council	Recommendation
02 development proposals valued at Rs.4,100,000 planned to be implemented by the Sabha in the year 2022 had not been implemented even though the Urban Sabha had sufficient financial allocations.	These works were not carried out due to the court order that had been given preventing the activities of the council and the lack of approval of the Sabha.	Budget development proposals should be fulfilled.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
Although the total estimated cost of repairs is Rs.6,154,088 as per the detailed report prepared under Finance Regulation 104 (4) in respect of the cab used by the Chairman which was involved in an accident while traveling without approval on 13 May 2021, due to the non-reimbursement of the full compensation amount by the insurance company, the loss to the Urban Council fund was Rs. 2,959,088.	Further the action will be taken after the conclusion of the legal action and that the chairman has used the vehicle outside the provisions of the letter.	According to the recommendations as per F.R. 104(4) the action should be taken regarding the loss.

3.3 Transactions of Extraneous Nature.

Audit Observation	Comment of the Council	Recommendation
(a) Making payment for an expelled member attend the council meetings for the period of 06 months in the year 2022, the total of Rs. 114,661 had paid as membership allowances, fuel allowances and telephone allowances.	The further action will be taken according to the existing rules.	The action should be taken as per the Financial Regulations 102-104.
(b) Excluding the square feet allocated for the public parking lot of the fair ground for the sales promotion program held in three days of November 2021 at the Tangalle old fair ground, the remaining square feet amount and the amount due for banners amounting to Rs. 688,500 had been lost to the Council due to the negligence of the Council management.	A gazette had not been made to collect income from flagpoles.	Bye-laws should be enacted for the charging of fees.

3.4 Assets Management.

Audit Observation	Comment of the Council	Recommendation
The legal ownership of 22 lands and 05 buildings used by the Urban Council had not been transferred in the name of the Council as at 31 December of the year under review.	The requests had been made to the Divisional Secretary to transfer the ownership.	Legal ownership of assets should be transferred.

3.5 Deficiencies in Contracts Administration

Audit Observation	Comment of the Council	Recommendation
(a) The renovation of the Tangalle Town Hall was entrusted to an approved society and a sum of Rs.1,606,305 had been paid.		
i. In contravention of paragraph 3.9.2 of the Government Procurement Guidelines of 2006, the works of setting up the sound management system and curtaining of the City Hall, which is not a construction work, were also assigned and the contract society had those works performed by two external agencies.	Accept the audit observations.	Government procurement guidelines should be followed.
ii. Although Rs.283,400 had been paid stating that 50 12.5-watt LED bulbs were supplied and installed for the town hall, the full amount was paid for supplying and installing non-compliant bulbs.	The overpaid amount will be recovered.	The overpayments should be recovered.

- (b) Rs. 1,398,386 had been paid for the installation of 203 concrete slab (Cover slab) under the Mahinda Rajapaksa stadium development work and the full amount had been paid without considering the compressive strength of the concrete slabs was not up to the required amount. A new quality inspection report will be obtained and submitted. Reports of compressibility should be obtained before payment.

3.6 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
(a) As at 31 December of the year under review, 36 excesses in the approved and actual staff of the council had not been regularized by the end of the year under review.	The department heads had been informed about the 18 existing at the secondary level.	The action should be made to regularize employee excesses.
(b) The effective action had not been taken by the management to recover the festival advance of Rs 5,000 and distress loan of Rs. 46,135 from two officers who have died in the year 2012 and 2016 as at 31 December of the year under review.	The action will be taken to recover the loan balance.	Action should be done to recover the employee loan.