

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 2022 comprising the statement of financial position as at 31 December 2022, statement of financial performance, statement of changes in equity, cash flow statement for the year then ended 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 Councils Ordinance (Chapter 255) and 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 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

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 Sub 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.

- (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	Comment of the Council	Recommendation
There was a difference of Rs.2,477,283 between the stock of stationery and consumer goods as at 31 December 2022 according to the general ledger, and said stock as at that date according to the financial statements.	It will be corrected.	Reasons for variations should be identified and corrected.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Laundry centre with cost of Rs. 12,000,000 shown in the financial statements of the year under review had not been observed in audit physical inspection.	With the Governor's approval, actions had been taken to write off from the books.	Reasons for physical absence should be submitted to Audit.

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 2022 amounted to Rs. 75,044,641 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 59,992,135 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, information 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.

Source of Revenue	2022				2021			
	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	16,200,000	17,310,435	17,119,935	27,359,594	16,250,000	17,303,530	11,971,365	28,437,773
Rent	61,751,960	59,226,017	50,817,441	7,018,575	57,955,750	45,024,597	41,237,772	9,480,056
License Fees	1,760,000	1,339,380	1,339,380	--	1,570,000	1,743,350	1,740,330	3,020
Other revenue	<u>35,416,000</u>	<u>51,457,909</u>	<u>51,457,909</u>	<u>2,824,082</u>	<u>29,559,500</u>	<u>34,406,574</u>	<u>26,590,004</u>	<u>1,761,223</u>
	<u>115,127,960</u>	<u>129,333,741</u>	<u>120,734,665</u>	<u>37,202,251</u>	<u>105,335,250</u>	<u>98,478,051</u>	<u>81,539,471</u>	<u>39,682,072</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Council	Recommendation
(a) Arrears of rates and taxes income of Rs.25,110,448 had not been collected for the period from 02 to 05 years.	Actions had been taken to recover through mobile revenue collection programs.	Revenue should be recovered without delay.
(b) The balance of rent of Rs.695,845 related to 05 shops and the balance of license fees of Rs.290,000 for 03 private communication towers had not been recovered up to now, although the period between 05 and 10 years had been lapsed.	Actions are being taken to recover.	-do-

- (c) Stamp duty more than 05 years due from the Chief Secretary of the Provincial Council and other authorities by 31 December 2022 totalling Rs. 1,113,915 had not been recovered. Information had not been received from the concerned land registrar's office. -do-

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

An advance of Rs. 1,443,000 had been given to those contractors from council fund for covering the damage caused due to the fire of 04 shops owned by the council in the years 2009 and 2011. But, a sum of Rs. 775,000 had been written off in the year 2023, and the balance amount of Rs.668,000 had remained as outstanding up to now.

Comment of the Council

As per the approval of the Governor of the Northern Provinces, it had been written off from the books and action is being taken to recover other outstanding advances.

Recommendation

Appropriate action should be taken to recover the advances paid in due course.

3.2 Assets Management

Audit Observation

Even though the period more than 05 years had passed, no action had been taken to take over the ownership of 03 vehicles being used by the council.

Comment of the Council

The owner of one unregistered vehicle could not be found. The remaining vehicles are being transferred.

Recommendation

The ownership of assets should be settled.

3.3 Human Resources Management

Audit Observation

Staff loan balalnce totalling Rs. 135,734 to be recovered from two suspended and retired officers had not been taken for recovery since last 04 years.

Comment of the Council

Actions will be taken to recover after the conclusion of the pending court case related to suspension and receipt of retirement gratuity.

Recommendation

Appropriate action should be taken to recover staff loan balances.