

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Eravur Urban Council including the financial statements for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022, Income and Expenditure Account, Cash Flow Statement for the year, 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 Urban Council Ordinance (Chapter 255) and provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In 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 Eravur 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

My 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
Business tax income of Rs. 30,000 to be collected from 05 communication towers located in the council's administrative jurisdiction had not been accounted.	That actions have been taken to adjust the financial statements of the year 2023 through journal entries.	Revenues for the year should be accounted.

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
As at 31 December of the year under review, 06 account balances worth Rs. 52,525,635 could not be satisfactorily monitored during the audit due to non-submission of title deeds, fixed asset registers, schedules with balances.	That the registers have been updated and the actions are being processed to obtain deeds.	Required evidence should be submitted to the audit.

1.7 Non- Compliances

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

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Urban Council Ordinance (Chapter 255)			
(i)	Sections 44, 46 and 49 and Batticaloa District Local Government Commissioner's letter No. BT/ACLG/PL/Road/2013 dated 10 July 2013	The Council's roads had not been published in the Gazette.	That the Council is currently working to publish all the roads in the Gazette.	Actions should be taken to gazette all the roads.
(ii)	Sections 170 (1) and (2) and Rule 54 (3) of the Urban Council Rules (Chapter III)	Actions had not been taken to collect the arrears of assessment tax from 50 property owners who had outstanding balances of more than Rs. 10,000 of property tax.	That actions have been taken to collect the outstanding property tax in the year 2023.	Actions should be taken to collect the assessment tax as per the provisions of the Act.
(iii)	Sections 171	Arrears of trade license fees and arrears of warrant fees had been written off without prior approval of the Minister.	That is currently being worked.	Actions should be made to write off with formal approval, according to the Act.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka – 371	Advances given by the council from 1988 to 2013 had not been settled.	Currently, actions are being taken to identify and submit them for the approval of the Chief Secretary to write off the advances.	Actions should be made to cover the advance.

- (c) Section 19 of the Housing and Urban Development Ordinance No. 15 of 1915 and Section 4.2 (g) of Chapter 04 of the Manual for Public Health Inspectors published by the Ministry of Health
- In the year under review, 15 building applications had been approved to construct buildings without the recommendation of the Medical Superintendent of Health.
- That the Housing and Urban Development Ordinance No. 15 of 1915 will be applied.
- According to the Act, building approval should be given only after taking health and environment related recommendations.

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 2022 amounted to Rs. 8,726,921 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 12,946,800 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

The details 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.)
i. Rates and Taxes	11,311,941	11,877,209	12,035,594	20,632,517	9,358,200	8,308,200	5,918,057	20,790,901
ii. Rent Income	14,130,400	4,898,114	4,580,713	5,973,759	2,611,100	107,300	107,300	5,656,359
iii. License Fees	3,650,000	2,754,705	2,754,705	--	5,050,000	2,669,210	2,669,210	--
iv. Other revenue	<u>27,589,466</u>	<u>104,341,012</u>	<u>97,998,214</u>	<u>9,661,378</u>	<u>117,108,000</u>	<u>59,218,693</u>	<u>58,730,386</u>	<u>3,318,581</u>
Total	<u>56,681,807</u>	<u>123,871,040</u>	<u>117,369,226</u>	<u>36,267,654</u>	<u>134,127,300</u>	<u>70,303,403</u>	<u>67,424,953</u>	<u>29,765,841</u>

2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observation	Comment of the Council	Recommendation
(a) The arrears of garbage disposal tax of Rs. 322,500 from 15 chicken meat shops since 2013, entertainment tax Rs. 177,856 since 05 years and arrears of rent in 2012 of Rs. 483,979 had not been recovered.	That problems have arisen in collection due to non-availability of documents, creditors moving abroad and death.	Actions should be made to collect the arrears of income.
(b) Court fines and stamp duty receivables from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review were Rs. 7,993,590 and Rs. 6,036,000 respectively.	There were no answers.	Actions should be taken to collect stamp duty and court fines income.
(c) Due to reasons such as schedule mismatch and absence of deposit documents in the bank, the council had not been taken action to recover the stamp duty receivables of Rs. 3,201,500 for the last 5 years up to the end of the reviewed year.	There were no answers.	Stamp duty income should be remitted on time.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The council had appointed 04 officers in the division to take action regarding unauthorized buildings and paid Rs. 850,525 as salary in the reviewed year, but the council had not been taken any action regarding 09 buildings constructed without approval in the reviewed year.	Currently, division members are being appointed for this purpose and information is being gathered.	Legal action should be taken against illegal buildings.

(b) Unauthorized office building construction works

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| (i) | This office building was considered as an unapproved building, due to the lack of prior approval from the Road Development Authority, Urban Development Authority and Central Environment Authority etc., As a result of this, it was observed that when the relevant authority took legal action in this regard, the council may have to pay fines. | Documents in this regard have been received from the National Archives Department in Colombo. That the council are working to get approval from UDA, RDA and Central Environment Authority etc. | Actions should be made to get the approval of Road Development Authority, Urban Development Authority and Central Environment Authority etc. |
| (ii) | The reason for the part of the building that was constructed in addition to the planned requirement by the Parliamentary Public Accounts Committee was not explained until now and due to the fact that the upper part of the 2nd floor of the building was not fully completed, there was a water leak and the building could not be used. | Have reported for building defects and fraud of government property. That works will be completed when funds are received for this purpose. | Actions should be taken to complete the construction of buildings. |
| (iii) | The compliance certificate regarding the relevant building, which was required by the Parliamentary Public Accounts Council, had not been submitted for more than 06 years. | That the relevant report will be sent as soon as it is received from the Chief Engineer of the Batticaloa Building Department. | Actions should be taken to obtain the compliance certificate related to the building. |
| (iv) | The supervision and guidelines for the relevant building had been supervised by a non-qualified engineering private institution supervisor. | There is a suspicion that the above work is contrary to government policies and business ethics, and is an attempt to waste government money and get it by wrong ways for their own profit. | Building construction works should be supervised by a qualified engineer. Also, actions should be taken to recover the losses from the relevant officials. |

3.2 Operational Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) 14 years had been passed since the contract period of the cultural hall which was rented in 2006. Even though, the rental money had not been received as per the agreement and the council had not been taken any action to return this cultural hall to the council and rent it out. Due to this, the council had incurred losses of Rs. 2,204,000 so far.	That the contracts have been terminated and actions are being taken to recover rentals.	Actions should be taken to get maximum income from property.
(b) The council had not been taken actions to repair 04 vehicles that were damaged and to remove 04 other vehicles that could not be used.	That the actions are being made to repair vehicles and to invite bids for 04 unusable vehicles.	Actions should also be taken to repair vehicles and remove unusable vehicles.

3.3 Delays in Project, Activities or Capital work

Audit Observation	Comment of the Council	Recommendation
The market building complex with 64 shops on the main road, which was built in 2001 at a cost of Rs. 10 million, had been closed till now without opening for public use and without earning any rental income.	At present, after the completion of the construction work of the fish market in the relevant market complex under the LDSP project, the council will hand it over for public use and earn income.	Actions should be taken to generate income using assets.

3.4 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
(a) Employee Vacancies and Excess According to the staff list approved by the Department of Management Services, there were 41 vacancies and 06 excess in 19 posts in the council.	That the requests for approval of the Department of Management Services regarding the vacancies are being processed.	Actions should also be taken to fill up vacancies and take appropriate action in respect of excess staff.

(b) Employee Loans

For more than 03 years, a sum of Rs. 261,914 were to be collected from five retired officers and two suspended officers.	That actions have been taken to recover outstanding loan balances from retired and suspended officers.	Actions should be taken to recover outstanding employee loans.
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4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Council	Recommendation
According to the annual budget, the council had not been prepared an action plan for 43 activities to be implemented.	That the annual action plan will be prepared in the future.	Annual action plan should be prepared according to the budget.

4.2 Internal Audit

Audit Observation	Comment of the Council	Recommendation
As per the provisions of Financial Regulations of the Democratic Socialist Republic of Sri Lanka 133 and 134, an officer had been appointed for internal audit of the council, internal audit functions had not been carried out for the year under review.	That internal audit functions are being functioning.	Actions should be made to implement internal audit functions.

4.3 Environmental Issues

Audit Observation	Comment of the Council	Recommendation
(a) As per the National Environment Act No. 47 of 1980, as amended by Act No. 56 of 1988, Act No. 53 of 2000, Act No. 01 of 20008 and Section “B” of Special Gazette No. 2264/18 dated 27 January 2022, Slaughterhouses and Solid Waste Center Environmental Permits had not been obtained by the council.	That the process of obtaining environmental permits for slaughterhouses and solid waste centers is going properly.	Environmental permits should be obtained as per the Act.

- (b) According to Section "d" of Special Gazette No. 2264/18, the Council had not been taken action to issue environmental permits to 92 entities such as hotels or restaurants, catering entities or food delivery services or to conduct a formal field inspection of their entities.
- Only some have applied for environmental permits. That the field inspection related to the issuance of licenses to them is currently being done.
- Actions should be taken to issue environmental permits as required.