

Tangalle Urban Council - 2023

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 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations, Statement of changes in net assets Cash Flow Statement 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 of the National Audit Act No. 19 of 2018, Sub-Section 181 (1) of the Urban Councils 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 Tangalle Urban Council as at 31 December 2023, 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 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 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	Comments of the Council	Recommendation
(a) The amount of key money received for previous years of Rs.2,788,747 had been accounted as income of the year.	That the sums of key money under mixed deposits were accounted for as other income.	Income should be accurately identified and accounted.
(b) The inventory of consumables totalling Rs.715,397 had not been accounted.	Only the value of inventory of consumables remaining on hand unissued from the warehouse is shown under inventory value.	Inventory should be accurately identified and accounted.
(c) From the year 2012 to April 2016, the total of receivable of Rs.543,400 for 21 shop room at Tangalle Bus stand was unbilled and therefore the income had been shown less by the same value.	From the year 2012 to the month of April 2016 there has been no billing of shop rental.	Receivable income should be accurately identified and accounted.
(d) Fixed deposit interest income had been over-accounted by Rs.379,468.	That will be corrected by the final account of the year 2024.	Income should be accurately identified and accounted

1.6.2 Lack of Documentary Evidences for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of necessary information, the value of land and buildings amounting to Rs.30,605,855 could not be satisfactorily verified during the audit.	That the necessary arrangements are being made for the valuation of all assets and that the assessed values will be adjusted in the accounts for the year 2024.	Evidence should be submitted to confirm the account balances shown in the financial statements.

1.7 Non- Compliances

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	The section 20 of the Taxation and Valuation Act No. 30 of 1946	Although the assessable property has to be assessed once in 05 years and assessed tax is levied, but without doing so, assessment tax was levied in the year under review based on the assessment of the year 2013. And the period during which the assessment was not implemented was 05 years.	That requests have been made to the Valuation Department for revision of the valuation of the assessed property.	Actions should be taken as per the provisions of the Act.
(b)	Section 74 and 77 of the Urban Councils	The provisions of the Act had not been followed in relation to 13 shop premises where the ownership of the land had been legally given to the council and where permanent shops were built without permission and the trade activities were carried out without paying rent.	Regarding these shops, appropriate procedures will be taken in consultation with the Road Passenger Transport Authority and the Urban Development Authority.	Action should be taken as per 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 Sabha for the year ended 31 December 2023 amounted to Rs.28,954,795 as compared with excess of revenue over recurrent expenditure amounted to Rs.8,775,520 in the preceding year.

2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	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)
Assessments and taxes	6,880,500	8,125,611	9,836,885	2,721,646	7,050,000	7439,833,	7,136,825	4,432,920
Rent	19,647,200	19,778,392	20,392,721	12,221,362	17,734,900	17,262,075	20,314,140	12,835,691
License fees	799,500	1,053,388	927,388	353,000	743,000	1,032,979	950,979	227,000

Other income	14,724,400	21,636,030	19,818,708	3,411,940	10,649,400	11,891,390	14,544,763	1,594,618
Total	42,051,600	50,593,421	50,975,702	18,707,948	36,177,300	37,626,277	42,946,707	19,090,229

2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the council	Recommendation
(a)	According to Section 170 of the Urban Council Ordinance, assessment tax receivables from 1564 units as Rs.2,234,701 and also Rs.7,396,737 of rent receivables from 106 shops had not been to charged. Also in the deficient assessment tax balance, the balance between years 02 and 03 and more than 03 years was Rs.284,930 and Rs.453,020 respectively.	That assessment tax and shop rent were charged Rs.261,389 and Rs.5,153,429 respectively , and red notices were issued to 94 assessment units above Rs.5,000.	Arrears should be recovered promptly.
(b)	According to the Gazette Notice No. 2312 dated 23 rd December 2022, Although Rs.392,240 business tax due from 140 business units and Rs.22,000 industrial tax due from 15 industrial units should be charged before 31 st March 2023, but the same was not done.	From the deficit of business tax and industry tax, Rs.90,400 has been recovered and the remaining arrears are being recovered	Arrears should be recovered as soon as possible.
(c)	Non-acceptance of the assessment rent of Rs.15,750 mentioned in the assessment report submitted by the valuation department in the year 2018 for the shop room bearing number S-24 by the monthly general meeting and although the monthly general meeting had accepted the monthly assessment rent of Rs.16,500 mentioned in the 2022 assessment report, therefore due to the council not agreeing to the new assessment amount the loss to the council fund at the end of the year under review was Rs.1,115,000 .	An advice has been request from the Commissioner of Local Government regarding the further action to be taken regarding this shop, And further work will be done based on the instructions given.	Action should be taken charged the assessed rent.
(d)	Although the lessee who leased the shop No. 32 owned by the council since 19th May 1994, in default of paying the rent, constructed a two-storied building and carry on restaurant in the place of the shop without permission. Even by the end of the year of	That the land where the shop room owned by the Tangalle Divisional Secretary, that it was referred to the Finance and Policy Committee to decide on further action to be taken	Arrangements should be made to take possession of the unauthorized shop.

under review, the council management had not taken any legal action in that regard.

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| (e) | That a person who worked as a member of the Urban Council from the year 2008 to 18th March 2023 appearing as the lessee of the shop room bearing bus stand number S-01 belonging to the council was not comply with section 227(1) of the Urban Councils ordinance and the value of allowances paid to him for that period totalled Rs.1,864,000. Also until the end of the reviewed year, the council had not taken steps to charge both receivable rent of Rs.946,011 and fines of Rs.43,000 for those shops. | That notices have been published at 10 th October 2023 for the termination of the occupancy tax regarding this shop, and that the related court session is scheduled to be recalled at 10th May 2024. | Arrears should be recovered as soon as possible. |
| (f) | According to paragraph ii of letter No. 4/03/09 dated 23rd April 2021 of the Southern Province Deputy Local Government Commissioner addressed to the Secretary of the council, taking legal action to take over the S-1 shop room or although it has been stated that it is appropriate to proceed according to the Act for Withdrawal of Certificate of Government Lands No. 07 of 1979, however by the end of the year of under review, the council management had not taken any legal action against this shop room. | That notices have been published at 10th October 2023 for the termination of the occupancy tax regarding this shop, and that the related court session is scheduled to be recalled at 10th May 2024. | Action should be made to take over the shop. |
| (g) | Rs.4,349,253 due from the lease of the guesthouse owned by the council had not been recovered. In the outstanding balance, the balance over 02 years was Rs.790,406. | That legal action will be taken to recover the arrears. | Arrears should be recovered as soon as possible. |
| (h) | Fees of 268 billboard units receivable amounting of Rs.268,000 , trade license fees of 85 business units amounting of Rs.85,000 and fees of 04 permanent billboard units amounting of Rs.1,010,000 have not been collected. | Billboard fees and trade license fees of Rs.14,000 and Rs.3000 were collected respectively. And that the governor has approved the revision of the rates by Rs.150 per square foot on the requests made that Rs.500 per square foot is too expensive for the permanent billboards. | Arrears should be recovered as soon as possible. |

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| (i) | As per Gazette No. 2312 dated 23rd December 2022, although a service charge of Rs.500 per square foot shall be charged in respect of a permanent billboard displayed by an island-wide or international company or organization but without doing so, the council had lost as total of Rs.1,000,500 revenue for 13 billboards as they had been billed at the rate of Rs.1,000 per year. | According to the interim constitution, only a license fee of Rs.1,000 can be charged from permanent billboards. | Arrears should be recovered as soon as possible. |
| (j) | In accordance with Sections 170a(1) and (2) of the Urban Council Ordinance, the collection of receivable revenues amounting to Rs.654,825 from the council's fire and disaster unit and also ambulance had not been done. | That legal action will be taken in the future to collect the arrears. | Arrears should be recovered as soon as possible. |
| (k) | The stamp duty due from the Chief Secretary of the Provincial Council was Rs.15,636,568. | That Rs.4,399,979 have been recovered and the rest of the arrears will be charged. | Arrangements should be made to collect the 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 people and amenities by the Council under Section 4 of the Section 4 of the Urban Councils Ordinance are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
According to Gazette No. 2312 dated 23rd December 2022, a fee of Rs.75 per square feet can be charged for a permanent billboard installed only in the jurisdiction, As the fee was limited to a maximum of Rs.1,000, the council had lost an income that could have been earned.	According to the interim constitution accepted by the council, although the chargeable fee for permanent notice boards is Rs.2.50, and then the notice board fees were decided at the discretion of the members.	Action should be proceed as per the provisions of the Gazette.

3.2 Delays in Project Activities or Capital work

Audit Observation	Comments of the Council	Recommendation
The 05 development proposals with a total value of Rs.2,500,000 which had been approved for implementation by the annual budget of 2023 had not been implanted. The management of the	That caused to the amount allocated for the development projects was not sufficient, the heavy rainfall and the non-essentialness of some projects at present.	Development proposals for which allocations have been made in the budget should be implemented.

council was bank that revenue of the council without implementing the work. Accordingly tasks assigned to the council by the Urban Council Ordinance had not been done.

3.3 Assets Management

Audit Observation

Comments of the Council

Recommendation

The legal ownership of 21 Lands and buildings owned by the Urban Council had not been taken over in the name of the council.

That the activities related to taking over the assets are being carried out.

Urgent steps should be taken to take legal ownership of the assets.

3.4 Procurement Management

Audit Observation

Comments of the Council

Recommendation

(a) Purchases with a total value of Rs.671,400 was not dealt with in accordance with Section 5.6.1 (a) of the Government Procurement Guidelines 2006.

When obtaining quotations for goods or services to be procured in the future, quotations are obtained with detailed specifications.

Procurement should be done as per the provisions of the Code .

(b) Among the specification items included in the quotation letter of the technical evaluation committee report for the purchase of 04 tires with a total value of Rs.324,000 for the council's compactor vehicle was mentioned warranty period, type, number of threads, country of manufacture and price , however the designation of the eligible entity for procurement by the Technical Evaluation Committee based on price and type alone was not in accordance with Article 2.6 (a) (II) of the Procurement Guidelines.

In the technical implications committee held in the future, efforts will be made to raise awareness about this .

Procurement should be done as per the provisions of the Code .

(c) Apart from the provisions of section 3.8 of the Government Procurement Guidelines 2006, 830 CR books of 120 pages totalling Rs.140,270 were purchased as an emergency procurement to give prizes for the student skill program.

That it has been done according to the written instructions of the Assistant Commissioner of Local Government , and that the approval of the Governor has been received .

Procurement should be done as per the provisions of the Code .

- (d) As per Section 2.8.1 (a) of the Government Procurement Guidelines 2006, although a member shall not be a member of both the Procurement Committee and the Technical Evaluation Committee and without doing so, a technical evaluation committee member who was appointed in relation to three purchases with a total value of Rs.902,200 had been acted as a member of the procurement committee.
- Arrangements will be made not to appoint the same member of both the Procurement Committee and the Technical Evaluation Committee.
- Procurement should be done as per the provisions of the Code .

3.5 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
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| (a) Provisions of Rs.2,000,000 were received for the implementation of 04 industries under the Provincial Specific Grants - 2023, and due to the fact that those industries were not implemented as estimated and due to the fact that estimates were not prepared correctly, the allocations of Rs.569,794 were left . | That estimation work will be done in such a way that there will be no money savings in the future. | Action should be done to prepare accurate estimates and implement industries as estimated. |
| (b) A document (bar bending schedule) showing how steel has been used for reinforcement in relation to 03 industries that had been prepared and implemented by the council. For disguises without preparation and presentation Rs.442,725 had been paid . | This omission will be taken care of in making payments for future estimates. | Action should not be taken to payment for wire, unless the document showing how the wire has been used for wrapping was submitted. |

3.6 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
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| (a) By the end of the year under review, 26 redundancies related to 07 positions had not been formalized, since the approved carder and actual working bodies of the council were 147 and 144 respectively. | That excess Development Officers will be included in the sanctioned cadre and that the duties of vacant posts will be covered by excess posts. | Efforts should be made to formalized staff redundancies. |
| (b) Employees of the council have taken 701.5 leave days in the year 2022 and 25 employees have taken 1142 leave days in the year 2023 beyond the 45 leave days they are entitled to, and the | That cause to health workers are constantly facing health problems. That the reasons for taking leave were due to unannounced absence from work | Provision of unpaid leave must be managed. |

council management has not paid attention to control those situations in order to hinder the daily work of the council. and an employee appearing as a provincial council election candidate .

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| (c) No effective action was taken by the management to recover Rs.5,000 festival advances and Rs.46,135 distress loans due from two deceased employees in 2012 and 2016 respectively. | That there are no guarantors to recover the loan balance of Rs.15,010 and that the employee loan of Rs.36,125 has been referred to the Pension Department. | Action should be done to recover the employee loan. |
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3.7 Visual Irregularities

Audit Observation	Comments of the Council	Recommendation
A building plan and certificate of compliance was fraudulently prepared using the urban council's date stamp and letterhead and given to an outside person and a technical officer of the council was contacted, prepared and given to the concerned person. Also no formal action was taken in this regard.	That the preliminary investigation related to this incident is currently being conducted.	Action should be taken as per the provisions of the Establishment Code.