

## **Ampara Urban Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ampara Urban Council including the financial statements for the year ended 31 December 2023 comprising the Balance Sheet as at 31 December 2023, Income and Expenditure Account, Statement of changes in net assets, 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 Ampara 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.

- (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 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 on Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Urban Council	Recommendation
(a) The shop rental income was over stated by Rs.702,818 in the year under review.	Actions will be taken to corrected during the preparation of the final accounts in the year 2024.	Should be properly accounted for
(b) According to the shop rental schedules submitted with the financial statements of the year under review, the arrear as on 31 December the shop rental penalty of Rs.1,363,009 had not been accounted for.	Actions will be taken to corrected during the preparation of the final accounts in the year 2024.	- Do -
(c) The shop rent arrears income was understated by Rs.1,630,817 as on 31 December of the year under review.	That if it is confirmed that there is any change after a re-examination, it will be corrected in the future financial statements.	- Do -
(d) As on 31 December of the year under review, the outstanding balance of stamp duty and court fine was overstated by Rs.3,318,250.	The corrections will be done in the final accounts of the year 2024.	- Do -
(e) As on 31 December of the year under review, fixed deposit interest income was understated by Rs.303,642.	- Do -	- Do -

(f)	The receivables and payables of Rs.1,389,540 as on 31 December of the year under review in respect of 03 projects executed under the Annual Implementation Program (AIP) – 2023 were not accounted for under Industrial Debtors and Industrial Creditors.	Actions will be done to be corrected in the final accounts of the year 2024.	Should be properly accounted for.
(g)	As on December 31 of the year under review, The value of deposits was understated by Rs.277,633.	- Do -	- Do -
(h)	In relation to the reviewed year, the opening and closing stock of the inn was adjusted and the cost of sales was Rs. 31,491,728 should be shown in the income and expense account, but due to the purchase cost being shown as Rs. 32,054,955, the surplus of the reviewed year was understated by Rs. 563,227.	A re-study of the defects should be carried out. If there are corrections, it will be corrected from the final accounts of 2024.	- Do -

### 1.6.2 Un-reconciled Control Accounts or Records

	<b>Audit Observation</b>	<b>Comment of the Urban Council</b>	<b>Recommendation</b>
(a)	There was a mismatch of Rs.2,853,229 between the value of assessment outstanding as per the financial statements as on 31 December of the year under review and the total value of the list of assessment arrear balances.	That the correct balance will be included in future financial statements after correcting errors by the related institute of the the assessment data system.	The correct balance should be identified and accounted for.
(b)	There was a mismatch of Rs.643,536 between purchase value of the summary expenditure schedule and the purchase value in the trading account.	If any change is found to be re-examined, it will be corrected in future financial statements.	- Do -

### 1.6.3 Absence of Written Evidence for Audit

	<b>Subject</b>	<b>Amount Rs.</b>	<b>Written evidence not submitted</b>	<b>Comment of the Urban Council</b>	<b>Recommendation</b>
(a)	Furniture and fittings	17,663,561	(i) Fixed Register  (ii) Schedules	Regarding the opening balance, a committee should be appointed again	Evidence must be submitted to confirm the account balances shown in the

				and a census should be taken and that would take some time.	financial statements.
(b)	Industrial Deposits	968,481	(i) Schedules identifying the party liable	This balance is a balance that has existed since before the year 2019 and the future activities are expected to be based on the decisions of the policy committee.	- Do -
(c)	VAT Deposits	3,106,386	(i) Documents (ii) Balance confirmations	A special inquiry will be made in this regard and further action will be taken.	- Do -
	Tax	39,657			
(d)	Balance of outstanding rent account as on 31st December 2022 debited to accumulated fund as on 01st January 2023.	1,626,640	Information about the reasons for written off.	A proper study will be done and if there is a difference, it will be corrected in the final accounts for the year 2024.	Rental income should be written off after identifying the reasons and obtaining approval.

## 1.7 Non-compliance

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

Below are the incidents where laws, rules, regulations and management decisions were not complied with.

Reference to laws, rules, regulations and management decisions	Non-compliance	Comment of the Urban Council	Recommendation
(a) Urban Ordinance (255 Authority) Section 170	The urban council had not taken measures to implement the procedures that should be carried out by prohibiting the property for the Arrears of assessment tax due on	Arrears are being collected. Also, about 23 shops belonging to the urban Council have	Actions should be done in accordance with the provisions of

	property owned by the urban council and to recover the value of Rs. 51,094,421 which is the rental amount due from the rent of property belonging to the Urban Council.	been sealed and related legal actions have been initiated.	the Municipal Ordinance	
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 880 and 881	Actions had not been taken to get security deposits from the officers in charge of cash and assets such as the urban cashier, officers in charge of cash and cheques, officers who sign cheques, officers in charge of warehouses and the revenue inspector, etc.	That the actions will be taken in the future according to audit findings	Actions should be done with according to financial regulations.
(c)	<b>Public Administration Circulars</b> -----			
	(i) Circular No. 02/2021(VIII) dated 12 May 2023 issued by the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government			
	• Section 2(iv) of Circular No. 2009/09 dated 16 April 2009	From 15 May, 2023, the provisions of the circular should be re-implemented and if time-based for allowances paid after regular working hours such as overtime and holiday pay, such time should be verified by finger print machine and contrary to this, Rs.46,096 had been paid as holiday payments to the Acting Accountant of the Council	Acting Accountant has been informed several times. Accordingly, the concerned officer is currently using the fingerprint machine to mark the arrival and departure.	Actions should be done as per the provisions of the circular.

for the period from May to December 2023.

(ii) Section 3 of Public Administration Circular No. 30/2016 dated 29 December 2016	Vehicle fuel combustion test should be done once every 12 months or after driving 25,000 kilometers, but fuel combustion test had not been done for 15 vehicles owned by the Council.	Looking forward to doing so.	Actions should be done as per the provisions of the circular.
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## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Urban Council for the year ended 31 December 2023 amounted to Rs. 10,008,803 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 13,522,976 in the preceding year

### 2.2 Financial Control

<b>Audit Observations</b>	<b>Comment of the Urban Council</b>	<b>Recommendation</b>
As of 31 December 2022, an amount of Rs.16,911,069 was kept as a reserve in three bank accounts owned to the urban council and the Secretary had not taken steps to earn income by keeping the money needed to cover the recurring expenses of the year 2023 and investing the remaining money in sources that can generate income.	The bank account belonging to the restaurant shows the highest balance of Rs.11,862,232. It is currently planned to upgrade the restaurant to the level of private institutions and competition and for that purpose this money will be collected in the relevant account.	The surplus money should be invested to generate income.

### 2.3 Revenue Administration

#### 2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the chairman, 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	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
i. Assessment taxes and taxes	11,700,000	10,341,122	7,786,972	37,875,918	10,800,000	8,872,372	6,504,958	35,321,768
ii. Rental	12,453,126	9,617,823	8,574,559	13,218,503	11,528,226	8,920,981	4,744,811	12,175,239
iii. License fees	3,302,000	1,475,065	1,475,065	–	3,702,000	1,635,448	1,635,447	–
iv. Other income	76,502,580	68,974,836	68,974,836	–	63,528,580	41,520,104	41,520,104	–
v. Total	<u>103,957,706</u>	<u>90,408,846</u>	<u>86,811,432</u>	<u>51,094,421</u>	<u>89,558,806</u>	<u>60,948,905</u>	<u>54,405,320</u>	<u>47,497,007</u>

### 2.3.2 Revenue Collection Performance

Audit Observations	Comment of the Urban Council	Recommendation
(a) As at 31 December of the year under review, the amount of assessment tax to be collected was Rs.37,875,918, which was more than four times the amount of annual assessment.	That the work of mobile services and home-to-home collection of assessment tax has already started at the regional level.	Arrangements should be made to recover the arrears of income promptly.
(b) From the year 2018 to 21 December 2023, the receivable rent from the shops balance had been continuously increased and as of 31 December 2023, the receivable rent balance was Rs.13,218,503.	A problem has arisen regarding the accuracy of the amount shown as the outstanding rent from shops balance. That the accuracy will be followed up and any changes will be corrected in the final accounts of the year 2024.	Necessary actions should be taken to settle the outstanding balance and recover the dues.

## 3. Operational Review

### 3.1 Performance of functions assigned by the Act

Audit Observations	Comment of the Urban Council	Recommendation
Under Section 157 of the Urban Council Ordinance Act, all the tasks to be enacted by-laws had not been identified and by-laws had not been enacted and by 31 December 2023, only 06 by-laws had been enacted.	There is a practical problem of adopting by-laws. That the Ministry of Local Government is in the process of preparing a series of general by-laws.	By-laws should be Enacted and legalized.



### 3.2 Management Inefficiencies

Audit Observations	Comment of the Urban Council	Recommendation
(a) In the year 2023, the urban council had collected 200 tons of decomposable garbage and 100 tons of non-decomposable garbage for an annual total of about 3600 tons at a cost of Rs. 5,596,364, and by using the decomposable garbage, 7562 kg of compost was produced and sold in the year 2023 and generated only Rs. 151,233 of an income.	A gradual decline in public gardening, compost sales also decreased.	A program to increase compost production and sales should be developed and implemented.
(b) Out of the 166 shops owned to the urban council, 163 shops have exceeded the valid contract period from 03 to 10 years, but the urban council has not taken actions to re-tender and contract those shops.	As revealed during the audit, arrangements are being made to renew the relevant agreements.	Arrangements should be made for timely renewal of contracts.
(c) Surveys of all trade, business and industrial institutions within the urban council area had not been formally conducted and lists had been prepared and submitted to the Secretary before 31 March and the information was not documented and charges had not been collected.	That the documents have been prepared and the related arrears are being recovered from the related parties.	Surveys should be conducted and efforts should be made to collect fees from all institutions and identify revenue deficit income.
(d) After renovating the old building located in Ampara Public Park, with the aim of increasing the income level of the urban council by providing rent for events, conferences and meetings, the goods had been purchased in June 2023 at a cost of Rs. 2,445,535 for Ampara Public Park. It was observed that they were stored unused even as of the audited date and due to this purchase prior to the renovation of the building located at Ampara Public Park, these goods had not been used and their warranty period had already exceeded 07 months.	Since the provision was allocated in 2023 and due to the aim of obtaining the funds for the relevant project without delay, arrangements have been made to purchase the goods immediately. That a substantial period of time has passed since the warranty period of the goods.	The goods must be used as the warranty period is over.

### 3.3 Operational inefficiencies

<b>Audit Observation</b>	<b>Comment of the Urban Council</b>	<b>Recommendation</b>
(a) Based on an assessment made in the year 2005, 18 years ago, assessment tax was levied for the year 2023 on the property belonging to the urban council area.	Currently, the assessment work is being done by the valuation department. That the relevant assessment work is expected to be completed in the near future.	Taxes should be assessed and collected on time.
(b) Based on the assessments of 2009 and 2016, the shops rent had been charged from 141 shops owned to the urban council in the year 2023.	Requests have been made through letters and the relevant assessments are currently being done and assessment reports are being received.	Rent should be assessed and collected on time.

### 3.4 Idle or Underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comment of the Urban Council</b>	<b>Recommendation</b>
10 non-repairable vehicles owned by the urban council and remained idle due to not being auctioned.	That arrangement will be made to auction the vehicles owned by the urban council that cannot be repaired in the near future.	Vehicles should be properly disposed of.

### 3.5 Assets Management

<b>Audit Observation</b>	<b>Comment of the Urban Council</b>	<b>Recommendation</b>
(a) 42 lands belonging to the urban council and the value of the buildings located on those lands had not been identified and schedules had not been prepared and the values had not been included in the asset registers and had not kept up to date.	It is informed that preliminary work is being done to carry out a formal assessment of the land and buildings and that it will take some time.	Value must be identified, documented and accounted for.
(b) It was observed that 12 vehicles owned by the urban council were in a state of repair and due to this, the urban council lost the income that could be earned from 05 vehicles that could be rented.	Repairs cost a lot of money. That the council does not have enough income for that.	Vehicles must be repaired and put to use.
(c) As of the date of audit, the council had not taken any action to take over the ownership of 19 vehicles in the name of urban council.	That arrangement will be made to take ownership of vehicles that have not been taken over in the future.	Arrangements should be made to take over to the name of the council.

### 3.6 Human Resources Management

#### Audit Observation

As on December 31 of the year under review, there were 74 vacancies in the Urban Council.

#### Comment of the Urban Council

That the relevant institutions have been informed about this.

#### Recommendation

Necessary action should be taken to fill up the vacancies.

## 4. Accountability and Good Governance

### 4.1 Internal Audit

#### Audit Observation

In terms of Section 40 of the National Audit Act No. 19 of 2018 and Finance Regulation 133(1), the internal audit had not developed recommendations to improve corporate operational processes and enhance performance covering all functions of the urban Council.

#### Comment of the Urban Council

That an internal audit committee has been appointed in the years 2022/2023 and work has been done to improve the corporate operation process and office performance.

#### Recommendation

According to the National Audit Act, recommendations should be made to improve corporate operational processes and increase performance, covering all functions of the urban council.

### 4.2 Audit Committee

#### Audit Observation

In accordance with the Circular No. DMA/01-2019 dated 12 January 2019 of the Management Audit Department on Internal Audit Guidelines, the Council did not establish Audit and Management Committees and did not hold committee meetings during the year under review.

#### Comment of the Urban Council

As revealed during the audit, no Audit and Management Committee has been appointed. However, it is further informed that according to the audit instructions, an audit and management committee will be appointed in the future.

#### Recommendation

Steps should be taken to initiate procedures and conduct meetings for the Audit and Management Committee.

### 4.3 Environmental Problems

#### Audit Observations

- (a) Ampara Urban Council should have obtained a valid environmental permit from the Central Environment Authority for the solid waste management center run at Buddhangala Road,

#### Comment of the Urban Council

Due to insufficient physical and human resources, it was a very difficult matter to

#### Recommendation

Arrangements should be made to obtain a valid

Tissapura, but without renewing the environmental permit Solid Waste Management Center had been maintained. The environmental permit has been expired before more than 1½ years.

maintain and carry out in a formal manner. That it is not possible to obtain an environmental permit at this time due to the fact that the actions to be fulfilled in order to obtain an environmental permit have not been completed.

environmental permit.

- (b) By the audited date of 21 November 2023, the activities of the Solid Waste Management Center had caused serious environmental damage due to non-biodegradable waste being collected in the open in violation of environmental recommendations, Non-segregation of recyclable and non-recyclable materials, therefore a non-biodegradable waste recycling program in the city is urgent attention of the council was required.

From the date of 2023.12.04, the collected waste should be segregated into perishable/non-perishable and that the public has been informed about it.

The waste management facility should be maintained in a manner that does not violate environmental recommendations.

#### 4.4 Sustainable Development Goals

##### **Audit Observation**

According to the Sustainable Development Act No. 19 of 2017, the council had not taken sufficient measures to collect the necessary data to achieve the sustainable development goals and objectives and thereby make the necessary financial allocations.

##### **Comments of the Urban Council**

In the preparation of the 2024 budget, allocations have been allocated to achieve sustainable development goals and those tasks have been completed by now.

##### **Recommendation**

According to the circular, the council should take actions to achieving the sustainable development goals and objectives.