

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chavakachcheri Urban Council for the year ended 31 December 2023 comprising the balance sheet as at 31 December 2023 and income and expenditure account and 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 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 reported 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 Chavakachcheri 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 Principles.

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 Principles 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.

- 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 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 Observations	Comment of the Councils	Recommendations
(a) The total cost of 06 building renovation works carried out from the council fund amounting to Rs.5,296,037 had not been accounted as fixed assets.	Action has been taken to include those work schemes in the financial year 2024.	Financial statements should be prepared accurately.
(b) The total estimated cost of Rs.1,699,794 related to 06 unfinished constructions had been accounted as creditors.	Actions will be taken to carry out the related works in this year.	-Do-
(c) Total receivable balance from 02 subjects amounting to Rs.134,100 had not been shown in the financial statements.	Actions have been taken to recover the outstanding balance.	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.7,879,705 between the goods balance as at 31 December 2023 according to the store ledger and the balances shown in the financial statements as at that date.	Action is being taken to write off.	The balances should be reconciled with the relevant source documents.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
Arrears of assessment tax and government revenue debtor balances amounting to Rs.14,089,414 as at 31 December of the year under review could not be satisfactorily verified due to non-submission of the schedules and age analysis to audit.	Actions have been taken to rectify in this financial year.	Schedules and age analysis should be prepared.

1.7 Non-compliances

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

Reference to Laws, Rules and Regulations	Non-compliances	Comment of the Councils	Recommendations
(a) Section 160(1) of Chapter 255 of Urban Council Ordinance Act,	“K” form had not been issued for 2,961 properties out of 11,670 properties that are to be recovered assessment tax by the Council in the year under review.	The property owners are living abroad and in other areas so the forms could not be provided.	Actions should be taken according to the provisions of the Act.
(b) Financial Regulations 571(1), (2) and (3) of the Democratic Socialist Republic of Sri Lanka	Fourty one lapsed deposits exceeding 02 years amounting to Rs. 244,470 had not been settled.	Actions are being taken to send reminder letters.	Actions should be taken according to the Financial Regulations.

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 2023 amounted to Rs. 76,124,474 as compared with the excess of revenue over recurrent expenditure amounted to Rs.67,424,605 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	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	7,430,000	8,052,794	9,056,496	13,011,663	6,585,000	6,629,224	3,090,821	14,015,365
Rent	25,164,600	38,272,015	38,385,545	899,849	35,069,800	36,283,219	35,067,785	1,013,379
License Fees	984,500	1,048,528	1,048,528	-	1,019,500	1,019,075	1,019,075	-
Other revenue	30,607,500	53,213,266	45,635,161	18,391,902	39,831,086	49,348,002	42,415,961	10,813,797
Total	64,186,600	100,586,603	94,125,730	32,303,414	82,505,386	93,315,520	81,593,642	25,842,541

2.2.2 Performance in Revenue Collection

Audit Observation

As at end of the year under review, the arrears rates and taxes balance of Rs.11,363,597 had to be recovered from 7,136 properties and the arrears of rent balance for 05 stalls of Rs.131,850 had been for more than 10 years. Also, stamp duty receivable balance of Rs.2,678,345 had been for more than 13 years.

Comment of the Council

Actions has been taken to recover and write off the arrears.

Recommendation

Actions should be taken to recover arrears of revenue promptly.

3. Operating Review

3.1 Management Inefficiencies

Audit Observations

(a) Actions had not been taken to utilize the balance of Rs.59,339,581 in the council bank current account in sources of income generation.

(b) The long-term rental agreements of 37 shops which should be renewed once

Comment of the Councils

Attention is paid.

Actions are being taken to renew the agreements.

Recommendations

Actions should be taken to utilize in sources of income generation.

Effective actions should be taken to

in 03 years had been continuously operated for the last 08 to 43 years without such renewal.

renew the tenancy agreements at regular intervals.

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|-----|--|----------------------------|---------------------------------------|
| (c) | Revenue loss of Rs.3,074,050 had incurred due to non-leasing of 02 shops owned by the council. | No answers had been given. | Actions should be taken to lease out. |
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3.2 Assets Management

Audit Observations	Comment of the Councils	Recommendations
(a) Six lands and 29 wells totalling Rs. 72,150,000 had been included in the financial statements as fixed assets, but they had not been owned by the council.	Action has been taken to acquire to the Council.	Ownership of the assets should be settled.
(b) Eight buildings on lands not owned by the council had been renovated at a cost of Rs.7,270,377 in contrary to paragraph 1.1 of the Finance Commission Circular No. 2016/01 of 30 December 2015.	Actions have been taken to obtain title deeds.	Action should be taken according to the circular.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
Due to the fact that there were variations from 46 per cent to 101 per cent in 03 revenue items, from 14 per cent to 87 per cent in 06 expenditure items and 106 per cent in one capital expenditure items when comparing the estimated revenue and expenditure with the actual revenue and expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool.	Action has been taken from the year 2024.	Needs should be identified and the budget should be prepared carefully.

4.2 Environmental Issues

Audit Observations	Comment of the Councils	Recommendations
(a) In the year 2016, for the production of organic fertilizers under Pilisaru Project, A land at a cost of Rs.4.69 million and donated garbage grinding machines remained unused and damaged. Also, the collected waste had not been classified into biodegradable and non-biodegradable and had been dumped of in an informal manner at the solid waste centre.	Action has been taken.	Attention should be paid to the production of organic fertilizers.
(b) In the area selected for disposal of solid waste, effective measures had not been taken to control mosquito breeding by spraying mosquito oil and removing the odor for the last 02 years.	It will be done in the future.	Garbage should be disposed of in an eco friendly manner.