**Eravur Urban Council - 2024**

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## 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 2024 comprising the balance sheet as at 31 December 2024, 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 in sub-section 10(1) 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 2024, 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 regarding the preparation of financial statements

### 1.6.1 Accounting Deficiencies

| | Audit Observations | Comments of the Council | Recommendations |
|---|---|---|---|
| (a) | Total amount of Rs. 8,157,776 for unpaid construction works, library books, public utility and plant and machineries had been over stated in assets during the year under review. | Action will be taken to correct in the accounts for the year 2025. | Action should be taken to show the accurate value of the identified assets. |
| (b) | The value of Rs. 335,234 and the unpriced value of the books were not shown as assets in the financial statements. | -Do- | Action should be taken to show the value of the assets. |
| (c) | The receivable amount of Rs. 2,024,000 to the Council, from compensation and court expenditure through the court judgment during the year under review, had not been shown in notes of the financial statements. | Action will be taken to show in the accounts for the year 2025. | Action should be taken to show the contingent assets as notes in the financial statements. |

### 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, fixed asset registers title deeds and other documents of 06 account balances amount of Rs. 237,953,471 had not been submitted to the audit. | Registers have been updated and the actions are being processed. | Action should be taken to obtain and enter the documents. |

### 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-compliances | Comments of the Council | Recommendations |
|---|---|---|---|---|
| **(a)** | Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | |
| (i) | Financial Regulations 371(5) | No action had been taken by the council to collect advance amount of Rs. 399,386 during the year from1988 to 2013. | Actions are being taken to recover the advances from the heirs of the death persons. | Immediate action should be taken to identify and settle the advance payments. |
| (ii) | Financial Regulations 571 (1), (2) & (3) | No action has been taken to repay to relevant persons or change as income the 13 types of deposits of Rs. 1,656,714 which were lapsed over two years. | Construction deposits is necessary to maintain due to the COPA activity and some of other deposits are being solved. | Immediate action should be taken to dealt with the lapsed deposits. |
| **(b)** | Commissioner of the Local Government letter No. EP/14/ACC/PE/Gen dated 15th September 2017 | Council was made vehicle repair for the amount of Rs. 1,845,084 and 50 percent amount Rs. 923,000 of this expenditure had been paid, without proper approval for vehicle repair from the Chief Secretary, | The council vehicle repair had been made with the valuation report and procurement decision and balance amount will be paid while receipt of the Chief Secretary's satisfactory report. | Action should be taken to obtain the approval as per the letter of the Commissioner of the Local Government. |

## 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 2024 amounted to Rs. 3,746,006 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 6,849,118 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.

| | | 2024 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Source of Revenue | 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.) |
| i. | Rates and Taxes | 16,140,820 | 14,158,638 | 16,939,984 | 19,426,283 | 13,393,510 | 37,471,865 | 15,228,233 | 22,243,632 |
| ii. | Rent Income | 8,264,600 | 6,701,290 | 6,322,590 | 6,043,120 | 13,510,800 | 11,530,679 | 5,876,910 | 5,653,769 |
| iii. | License Fees | 5,670,000 | 5,022,170 | 4,932,170 | 234,000 | 11,074,000 | 5,521,180 | 5,407,180 | 114,000 |
| iv. | Other revenue | 17,135,623 | 19,455,629 | 20,012,629 | 20,012,846 | 16,731,850 | 18,426,088 | 15,738,024 | 2,688,064 |
| | Total | 47,211,043 | 45,337,727 | 48,207,590 | 27,730,753 | 54,710,160 | 72,949,812 | 42,250,347 | 30,699,465 |

### 2.2.2 Performance of Revenue Collection

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

| | Audit Observations | Comments of the Council | Recommendations |
|---|---|---|---|
| **(a)** | **Rates and Taxes** | | |
| (i) | Action had not been taken to recover the assessment tax and waste disposal tax arrears of Rs. 28,660,256 and Rs. 456,548 respectively, at the end of the year under review. | Action is being taken to inform to the related parties. | Immediate action should be taken to recover assessment tax arrears. |
| (ii) | The outstanding entertainment tax of Rs. 177,856 for the years 2013 and 2014 had not been recovered for the last 10 years. | Arrears cannot recover from the particular person due to who was migrated and living in abroad. | Action should be taken to recover the entertainment tax arrears from the particular person. |
| **(b)** | **Rent**<br>Action had not been taken to recover the shop rent and market lease rent arrears amount of Rs. 567,312 and Rs. 4,992,060 respectively. | Action is being taken to recover the arrears. | Immediate action should be taken to collect the rent arrears. |

| | | | |
|---|---|---|---|
| **(c)** | **Trade License** | | |
| | No action had been taken to collect the trade license fee of Rs. 234,000 and the trade license fee of Rs. 75,000 for the telecommunications tower for the year under review. | -Do- | Immediate action should be taken to recover the outstanding trade license fees. |
| **(d)** | **Other income** | | |
| | The amount of Rs 141,000 due from a person for the sale of skins of goats and cows for the year ended 2018 and 2019, had not been collected for more than 5 years. | Particular person had informed to pay the part of the arrear's payment. | Action should be taken to collect the arrears without any loss. |

## 3. Operational Review

### 3.1 Management Inefficiencies

| | Audit Observations | Comments of the Council | Recommendations |
|---|---|---|---|
| **(a)** | Although, the land of the located building of Sri Lanka Telecom institution was acquired by the Council through the map number A 1695 through the gazette paper no. 10459 dated 03 October 1952, Council had not been taken action to properly lease the building to the institution or to seize this land through legal action. | Although, it has not been possible to recover the license fee or recover this land, continuous processes are being made in this regard. | Immediate action should be taken to lease the land or to take legal action to the Sri Lanka Telecom institution. |
| **(b)** | Although, Parliamentary Public Accounts Committee (COPA) had been pointed out the issues such as the construction of unauthorized office building and the leasing of the cultural hall in 2017, Council had not been taken action to solve the recommendations, for the last 07 years. | Action will be taken after receive of the report from the Chief Secretary. | Action should be taken on the matters pointed out by the Parliamentary Public Accounts Committee (COPA) |
| **(c)** | No action has been taken to settle the amount of Rs. 367,250 electricity bills due from 33 shopkeepers in the old market till the end of the year under review. | Letter has been sent to traders to settle the arrears and few of them are being paid. | Action should be taken to collect the receivable electricity bill from the particular persons. |
| **(d)** | Action had not been taken to recover the advance amount of Rs 786,122 over long term, it was paid to the Electricity Board. | Appropriate actions are being taken to recover the arrears. | Immediate action should be taken to recover the advance amount paid to the Electricity Board. |

### 3.2 Unused and underused assets, machines and equipment

| | Audit Observations | Comments of the Council | Recommendations |
|---|---|---|---|
| **(a)** | The market building complex located on the main road, which consists of 66 shop units and was constructed at a cost of Rs. 125 million, has been closed for the last 07 years and no action have been taken by the council to lease or to provide another use. | The shops will be rented out upon receipt of the report from the Valuation Department. | Proper action should be taken to lease or to another use the market building complex. |
| **(b)** | Although, the land was purchased at a cost of Rs. 08 million for the solid waste disposal center during the year 2023, it had been idled without proper utilization up to the date of audit carried out. | It is not possible to use it due to the public protest to dumping garbage at this place. | Before the purchasing the land for solid waste disposal center, action should be taken to conduct a feasibility study and to dispose of solid waste without harm to the environment. |

### 3.3 Assets Management

| | Audit Observations | Comments of the Council | Recommendations |
|---|---|---|---|
| **(a)** | No action had been taken to auction the 09 no. of vehicles, which are being unused over 10 years. | Actions are being taken to identified the long term repaired vehicles by special instigation committee and to get the valuation report. | Action should be taken to auction the vehicles and tractors. |
| **(b)** | No action has been taken to repair and to bring into the running condition the 07 vehicles. | Action will be taken to repair the vehicles to bring into the running condition. | Action should be taken to repair the vehicles to bring into the running condition. |
| **(c)** | Although, the council's JCB machine was repaired at a cost of Rs. 3,629,408 in 2023 under the supervision report of the Mechanical Engineer, the said JCB machine is currently unusable. However, it was observed in the audit the particular repair was due to improper repair and maintenance. | It cannot be repaired due to insufficient funds to cover the assessed value. | Action should be taken to properly repair and use the JCB machine. |

| | | | |
|---|---|---|---|
| **(d)** | No action had been taken to transfer the ownership of 04 vehicles in the names of other ministries and departments. | Actions are currently being taken to get the vehicle ownership. | Action should be taken to transfer the ownership of the vehicles to the Council name. |
| **(e)** | Action had not been taken to register and to get the numbers of the 09 vehicles used by the council in the Department of Motor Vehicles. | A request letter has been sent to the Department of Motor Vehicles to the issue the registration certificate. | Steps should be taken to register the vehicles used by the council and obtain vehicle numbers. |

### 3.4 Human Resources Management

| | Audit Observations | Comments of the Council | Recommendations |
|---|---|---|---|
| **(a)** | Action had not been taken to fill the 09 vacancies at the secondary level approved by the Department of Management Services. | Action will be taken to fill the vacancies. | Action should be taken to fill the vacancies. |
| **(b)** | No action has been taken to recover the distress loan amount of Rs. 52,800 from vacated staff over 10 years. | Although, it was informed many times to particular staff, unable to collect the arrears. However, it was reported to the Mediation board. | Action should be taken to recover staff loan arrears. |

## 4. Accountability and Good Governance

### 4.1 Internal Audit

| Audit Observation | Comment of the Council | Recommendation |
|---|---|---|
| As per paragraph 6 of Management Audit Circular No. DMA/01-2019 dated 12th January 2019internal auditor had not conducted internal audit activities for 25 matters included in internal audit plan. | Action will be taken to audit the all matters and errors founded by the internal auditor, are being corrected immediately. | Action should be taken to include the all matter in internal audit report included in plan. |

## 4.2 Environmental Issues

| | Audit Observations | Comments of the Council | Recommendations |
|---|---|---|---|
| **(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, Council had not been obtained the Environmental protection License for Slaughter house and solid waste center. | Actions are being taken to obtain environmental license for the slaughter house and the solid waste center. | Immediate action should be taken to obtain environmental license for the slaughter house and the solid waste center. |
| **(b)** | Although the council collects 190,000 Kilograms of bio degradable waste monthly during the area of the urban council, it was observed this waste is disposed of without any steps being taken to produce organic fertilizer or reuse it. Hence, 260,000 kilograms of non-biodegradable waste collected monthly was dumped harmful to health. | biodegradable waste will be composted while fertilizer production plant is completed and the necessary machinery and equipment are purchased and non-biodegradable waste will be disposed without harm to the river. | Action should be taken to produce fertilizer from the bio degradable waste and to dispose the non-biodegradable waste without harm to the health. |