

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of Vavuniya Municipal Council including the balance sheet as at 31 December 2023 comprising the income and expenditure account, cash flow statement and notes to the financial accounting policies for the period of ended 31 December 2023 was under my detection in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with subsection 10(1) of the National Audit Act No. 19 of 2018 and Municipal Council Ordinance sub section 219(Cap. 252).

In my opinion except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Vavuniya Municipal Council as at 31 December 2023 for the period then ended and of its financial performance and its cash flows for the year then ended in accordance with the Public Sector Accounting Practices

1.2. Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 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 Statement

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, for Local Authority 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 Municipal Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Municipal Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statement)

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 skepticism 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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 is 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 Municipal Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council ;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) For the period ended 31 December 2023, although 19 activities amounting to Rs. 23,868,064 had not been carried out, payment vouchers had been prepared based on estimates, agreements, and decisions, and recorded under various creditors. As a result, current liabilities had been overstated by that amount.	Payment vouchers had been prepared in respect of creditor provisions, and the values of the relevant works had been debited to the applicable capital expenditures as expenses at the end of the financial year, and transferred to various creditor accounts as provisions/reserves.	Actual liabilities should be disclosed.
(b) During the year under review, maintenance expenses amounting to Rs. 9,586,114 incurred for graveling 19 roads belonging to the Council had been capitalized, resulting in an overstatement of capital expenditure by that amount.	A sum of Rs. 5,478,930 incurred for graveling 19 roads had been accounted for as capital expenditure.	It should be accounted for under the appropriate expenditure category.
(c) During the year under review, the value of 27 items of machinery and equipment received as donations, amounting to Rs. 5,478,930, had been included under the furniture category. As a result, the value of the furniture category had been overstated, while the value of plant and machinery had been understated by that amount.	Office equipment, computers, etc. had been classified under the furniture and office equipment category and accounted for accordingly.	-do-
(d) During the year under review, the passenger waiting building complex located at the old bus stand belonging to the Council had been removed. However, its value had not been assessed and removed from the value of fixed assets.	Since the value of the removed building had not been assessed, it had not been eliminated from the fixed assets value up to the year 2024.	The value of assets should be accurately disclosed..
(e) Provisions for audit fees had not been made and disclosed in the financial statements..	No response had been provided..	Provisions should be made for expenses relating to the relevant period in a timely manner.

1.5.2 Documentary Evidence not made available for Audit

Audit Observation	Comment of the Sabha	Recommendation
(a) Title deeds and survey plans relating to 16 lands shown in the financial statements as at 31 December 2023 had not been submitted for audit.	It was stated that further action is being taken to obtain acquisition orders in respect of 26 lands, totaling 16.17 hectares, belonging to the Municipal Council.	Relevant documentary evidence required for the audit should be submitted.
(b) As at 31 December 2023, the general ledger and journal entries had not been submitted for audit to verify the total balance of assets and liabilities amounting to Rs. 1,642,862,542 reported in the financial statements.	Since most of the processes involved in the preparation of financial statements had been computerized, the entries in the general ledger had been maintained through the computer system.	-do-
(c) As at 31 December 2023, evidence such as individual arrears lists, arrears age analysis, and arrears registers had not been submitted for audit to verify the total outstanding balance of Rs. 39,881,237 identified under three revenue heads in the statement of financial position.	It was stated that such confirmations had not been submitted due to the need to present the financial statements of the Municipal Council within a short period of time.	-do-

1.6 Non-Compliance with

1.6.1 Non-compliance with laws, Rules, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Value Ru.	Non-compliance	Comment of the Sabha	Recommendation
(a) Municipal Council Ordinance (Cap. 252)				
(i) Section 155	-	Action had not been taken to periodically assess and recover rent for 304 stalls and lease charges	It was stated that valuations had been carried out in 2024 for 255 stalls and rent	Actions should be taken in accordance with the provisions of the Act.

			for 95 lands had been belonging to the Council.	had been recovered based on the revised assessed rates.	
(ii)	Section 252	34,082,765	The Council had not taken action to issue written notices to property owners who had defaulted on assessment tax, nor to recover the amounts due or to enforce the prescribed procedures, including the attachment of	It was stated that, out of the total outstanding balance of Rs. 32,707,191 as at 31 December 2024, a sum of Rs. 8,244,934 had been recovered to date.	-do-
(b)	Special Regulations relating to Local Government Institutions No. 48 of 1971 -		Although immovable properties within the Municipal Council area should be revalued once every five years for the purpose of levying assessment tax, such taxes had been levied based on 15,340 property units valued in the year 2009.	It was stated that, as the valuation process had been completed by the end of 2024, assessment tax would be levied from 2025 onwards based on the revised property valuations.	Actions should be taken in compliance with the relevant provisions.
(c)	Public Administration Circular No. 26/92 dated 19 August 1992	-	Action had not been taken to display the government emblem on vehicles belonging to the Municipal Council.	It was stated that action is being taken to display the emblem of the Municipal Council.	The circular should be complied with.
(d)	Section 02(a) of Treasury Secretary's Circular No. 01/2018 dated 19 March 2018		The Municipal Council had not taken action to dispose of 10 vehicles which had remained idle for a	At present, further action is being taken to carry out the valuation process in relation to	Action should be taken in compliance with the circular.

period ranging from 05 years to over 10 years and were unfit for road use.” . selling them again by auction and disposing of them as spare parts.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the recurrent expenditure of the Council exceeded its revenue by Rs. 59,851,921 for the period ended 31 December 2023.

2.2. Revenue Administration

2.2.1 Estimated Revenue .Billed Revenue, Collected Revenue and Arrears Of revenue

Action had not been taken to prepare information relating to the estimated revenue, billed revenue, collected revenue and arrears of revenue for the period under review.

2.2.2 Performance in Revenue Collection

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Rate and Taxes		
	An outstanding balance of rates and taxes amounting to Rs. 24,462,256 remained as at the end of the year under review, and such arrears had existed for a period ranging from 02 to 10 years..	Out of the total arrears of Rs. 32,707,191 shown in the final accounts as at 31 December 2024, a sum of Rs. 8,244,935 had been recovered up to now.	Long outstanding revenue arrears should be recovered..
(b)	Rent		
(i)	Appropriate action had not been taken to recover arrears of rental income amounting to Rs. 733,217 receivable from the properties owned by the Council, which had remained outstanding for a period ranging from 02 to 10 years.	Mediation Board proceedings were being carried out to recover the outstanding amount of Rs. 733,217.00..	-do-
(ii)	Although the lease periods relating to 304 shop premises and 95 land plots owned by the Council had expired for periods ranging from 01 to 33 years, action had not been taken to enter into renewed agreements in accordance with Paragraph 7 of Circular No. 1980/46 issued by the Commissioner of Local Government.	Since agreements had been entered into on different dates in respect of all 431 lessees, including 336 shop premises and 95 land plots, requests had also been received from 170 lessees to renew the agreements after changing the names, with a view to revising the	Action should be taken in accordance with the Circular.

agreement dates to a common date.

(c) Trade Licence

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| <p>(i) In terms of Section 247(a) of the Municipal Councils Ordinance, a proper survey had not been carried out in respect of trade licences for the year under review. Although trade licence fees had been included in the budget, legal action had not been taken, in terms of Section 247(6)4 of the Ordinance, against business establishments operating without such licences..</p> | <p>with effect from the year 2026, attention would be focused on this matter and legal action would be instituted against those operating without obtaining trade licences.”</p> | <p>Action should be taken in compliance with the Ordinance.”</p> |
| <p>(ii) In terms of Section 267 of the Municipal Councils Ordinance, a formal procedure had not been followed for the issuance of licences relating to advertisement boards. Further, according to the lists submitted for audit, although a sum of Rs. 1,735,100 had been computed as additional advertisement board licence fees, action had not been taken either to recover the amount or to bring it to account.</p> | <p>It is expected to recover the advertisement charges in full by the year 2026, and that further action would be taken in respect of advertisement boards for which such charges had not been paid, in accordance with the Municipal Councils Ordinance.”</p> | <p>-do-</p> |
| <p>(iii) As a proper survey had not been carried out to identify the business establishments currently requiring environmental licences, out of the 33 business establishments within the Municipal Council area that had obtained such licences between 1 and 10 years ago, it was not possible to ascertain how many businesses within the Municipal Council area presently required an environmental licence..</p> | <p>Business establishments currently required to obtain environmental licences had been identified and classified, and that letters were being sent to those businesses required to obtain environmental licences once every three years.”</p> | <p>A proper survey should be conducted and environmental licences should be issued accordingly.</p> |

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) The Council had not prepared budget estimates for the period from 18 March</p>	<p>It was stated that all activities during the year 2023 had been carried out in</p>	<p>Action should be taken to prepare a budget for</p>

- 2023 to 31 December 2023, following its re-establishment as a Municipal Council.
- (b) During the year under review, a sum of Rs. 3,000,000 out of the revenue earned had been transferred to the Development Reserve without a decision of the Council or the Management Committee meeting. .
- (c) It was observed that a 7-perch plot of land belonging to the Urban Council had been unlawfully occupied by an individual and was being utilized for the operation of a factory. Nevertheless, no action had been taken in terms of Section 255 of the Urban Councils Ordinance.
- (d) Although it is required that K Forms be issued annually by the Council to property owners for the purpose of recovering rates and taxes on lands, houses and buildings situated within the Municipal Council area, out of the 11,372 properties from which rates and taxes were recoverable during the year under review, K Forms had not been distributed to 397 properties by the Council.
- (e) The Vavuniyakulam Tourist Centre, which had been constructed in **2018** at a cost of Rs. 7,230,939 with the objective of developing the tourism industry, had been leased out to an individual. However, the lessee had failed to keep the centre open to the public for a period of over four years. Moreover, the Council had recovered only approximately Rs. 277,000, inclusive of the lease rental deposit, as revenue from the lessee up to date.
- (f) By-laws had not been enacted for solid waste management. .
- accordance with the budget applicable to the Urban Council.
- It was stated that, according to the decision of the Management Committee meeting No. 17 dated 21 February 2024, a sum of Rs. 30 million, being the revenue surplus for the year 2023, had been decided to be transferred to the Development Reserve Account.
- Further action in relation to the relevant land would be taken after the boundary demarcation is completed through the Department of Survey and the Divisional Secretary.
- It was stated that the forms had not been distributed due to discrepancies between the names appearing in the forms and the names of the persons currently residing in the properties.”
- As the lessee had violated the agreement and carried out additional constructions without obtaining the approval of the Council, a case is currently being heard in the District Court against the lessee by the Urban Council. Accordingly, it was stated that no further action could be taken at present in relation to this leased centre.
- It was stated that the matter of enacting by-laws would be discussed at future Council meetings
- the Municipal Council in respect of the relevant period.
The relevant approval should be submitted for audit..
- Action should be taken in accordance with the provisions of the Ordinance.”
- Action should be taken to distribute K Forms to all rateable properties.”
- Appropriate action should be taken.”
- Appropriate rules should be enacted.

and that further action would be taken accordingly.

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| (g) | The Council had not prepared a long-term plan for the waste management process, which is one of the main functions of Municipal Councils.” | The Pambaimadu solid waste disposal site, where solid waste is being dumped, is a land belonging to the Vavuniya Tamil Pradeshiya Sabha. As continuous complaints had been received at the community level in relation to this site, a situation had arisen requiring the relocation of the site. Accordingly, it was stated that an environmental licence could not be obtained for such a location. | A suitable location should be selected and the waste management process should be expedited.” |
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**3.2 Operational Review
Audit Observation**

	Comment of the Sabha	Recommendation	
(a)	According to Clause 04 of the lease agreement relating to the leasing of vacant lands, the lessee was not permitted to construct a permanent building on such leased lands, contrary to the Urban Development Authority Ordinance without the prior approval of the Council. However, in contravention of that agreement, permanent buildings had been constructed by the lessees on 95 leased lands. In this regard, the Municipal Council had not taken any action up to date in terms of Section 42A of the Municipal Councils Ordinance.	According to the decisions of the Municipal Council meeting bearing No. VMC/2025/09/03/32 dated 29 August 2025, a committee had been appointed to look into the unauthorized constructions erected on 95 properties leased out by the Municipal Council, and action was being taken through that committee.	Appropriate action should be taken with regard to unauthorized constructions.”
(b)	There was no formal mechanism in place to identify unauthorized constructions, and such structures had been identified solely based on public complaints. Furthermore, the Council had not maintained a register of unauthorized constructions.	In the future, it is planned that the Municipal Council will deploy field officers to conduct inspections at the divisional level, gather information on unauthorized constructions, and take action under the Urban Development Act.	Proper records should be maintained in respect of unauthorized constructions, and appropriate action should be taken in relation thereto.

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| (c) | Compliance certificates had not been issued for 58 development permits granted for building constructions during the year under review. | Letters are being issued requesting the obtainment of compliance certificates. It is planned to take further legal action against those who fail to obtain the compliance certificates after the stipulated period. | Compliance certificates should be issued in an appropriate manner. |
| (d) | The Council had not taken appropriate action to operationalize 02 registered but inactive community-based centers within the Municipal Council area. | The Community Development Officer is currently taking follow-up actions to conduct meetings at the community-based centers. | Necessary steps should be taken to operationalize the community-based centers. |

3.3 Assets Management

Audit Observation	Comment of the Sabha	Recommendation
The Council had not taken action to repair and bring back into use 02 tractors, 11 trailers, 03 tipper vehicles, 04 gully bowser units, a backhoe loader, and a two-wheel tractor that were in an unusable condition.	The Council has taken action regarding the deployment of the relevant vehicles for operation.	Appropriate measures should be taken to effectively utilize the assets.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Sabha	Recommendation
Estimates relating to income and expenditure had not been prepared for the period ended 31 December 2023. As a result, it was not possible to compare variances between actual income and expenditure for the relevant period.	Due to the failure to fulfill fundamental requirements such as the appointment of the Commissioner and the selection and appointment of members, the Municipal Council was unable to present its financial statements for the year 2023. Accordingly, financial statements relating to the Urban Council had been presented, and all activities during the 2023 period had been carried out based on the budget relevant to the Urban Council.	Budget estimates should be prepared for the relevant period.