

## **1 Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Vavuniya Urban Council including the financial statements for the year ended 18 March 2023 comprising the balance sheet as at 18 March 2023, income and expenditure account for the year then ended 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 Sub section 10 (1) of the 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 Vavuniya Urban Council as at 18 March 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 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 includes specific provisions for 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 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 regarding the preparation of financial statements

### 1.6.1 Accounting deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The total revenue arrears identified as at 31 December 2023, amounting to Rs.3,032,661, had been reported in the financial statements as revenue and current assets as at 18 March 2023.	The adjustments will be made with due attention in preparing the financial statements for the period ended 31 December 2023 and disclosed in the financial statements.	Only incomes belonging to the relevant period should be accounted.
(b) Work on 11 projects worth Rs.4,501,412 for the period ended 18 March 2023, had not been completed but current liabilities had been overstated by the amount by preparing payment vouchers based on valuation agreements and decisions and accounting them under various creditors.	Work worth Rs. 22,971,184 had been completed and payments made for the period ended 31 December 2023. The value of the work not completed is Rs.4,507,146.	Relevant tasks should be completed within the specified time frame and accounts should be kept under creditors correctly.
(c) Although the billed rental income for the period ended 18 March 2023 at the Modern Market Complex was Rs.1,080,924 and since the rent collected along with the arrears of the relevant period was Rs.1,978,176, which resulted in an overstatement of the income for the period under review, it had been overstated by Rs.897,252.	Adjustments to these arrears will be made in the financial statements for the period ended 31 December 2023 and the correct balance will be shown in the arrears, accumulated fund and income and expenditure accounts at the end of the year.	Only actual income should be disclosed.
(d) Although the rental income for the period ended 18 March 2023 in respect of the land provided on a lease basis was Rs.805,065 and since the total rental income of Rs.851,649, together with the arrears collected during the relevant period, was shown as tax income, it had been overstated by Rs.46,584.	Since there is insufficient time to conduct a time analysis of the arrears relating to the period ended 18 March 2023, adjustments to these arrears will be disclosed in the financial statements relating to the period ended 31 December 2023.	Only actual income should be disclosed.
(e) Due to the fact that the total value of 05 sets of machinery purchased in the year 2021, amounting to Rs. 1,765,000, in the cost of the machinery, the value of	Due to a computer typing error, the value of machinery was not included in the annual Board of survey report and financial statements and had been	Only actual income should be disclosed.

the machinery had been understated by that value

understated by Rs.1,765,000. That fact has been corrected in the books through journal entries.

- (e) Although the value of assessment and tax billed in the first quarter of the year under review was Rs.5,565,511, the income surplus for the period ended 18 March 2023 had been overstated by Rs.3,412,565 by showing Rs.8,978,076 as assessment and tax revenue in the accounts.
- The arrears related to assessments and taxes are analyzed and provided through software. Currently, since the reassessment work is being carried out through that software, it is not possible to obtain accurate data regarding the arrears as at 29 March 2023. Adjustments to these arrears will be made and disclosed in the financial statements for the period ended 31 December 2023.
- Only actual income should be disclosed.

## 1.7 Non-compliance

### 1.7.1 Non-compliance with laws, rules, regulations and management decisions

	Reference to laws, rules and regulations	Non-compliances	Comments of the Council	Recommendation
(a)	Section 145(2) of the Urban Councils act	Actions had not been taken to revise the rental fees of 397 shops and land tax fees for 95 lands belonging to the council.	Out of 336 shops belonging to the council, 255 shops had been assessed and rent collected for the period 2024. Due to the non-receipt of assessed values for the lands, the letter dated 12 September 2025 has been re-submitted.	Actions should be taken to comply with the provisions of the Act.
(b)	Sections 46 and 49 of Part (iii) of the Urban Councils act	50 roads belonging to the Urban Council had not been published in the Gazette	Further work is being carried out to include the 50 roads in the road register. They will be published in the Gazette.	Actions should be taken to comply with the provisions of the Act.
(c)	Section 34 of Chapter (111) of the Urban Councils act	The council had not maintained an assessment register in relation to the assessment tax assessment.	The property register of the council is maintained with the assessed value entered in the year 2009. Work is currently carried out to update the assessment and tax register.	Actions should be taken to act in accordance with the rules.
(d)	Financial Regulation 110 of the Democratic Socialist Republic of Sri Lanka	The register had not been updated regarding losses worth Rs.204,500.	Since the item was recorded as an expense under vehicle maintenance, this expense was not considered a loss and was not recorded in the register of losses.	Actions should be taken to comply with financial regulations

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, revenue exceeding the recurrent expenditure of the Council for the period ended 18 March 2023 amounted to Rs. 10,044,911.

### 2.2 Revenue Administration

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

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

#### 2.2.2 Performance in Revenue Collection

	<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	<b>Rates and Taxes</b>		
(i)	The total balance of assessment tax and rent receivable existing prior to the year under review had been Rs. 30,670,200, and the Council had not taken steps to recover the arrears and a time analysis had not been carried out for the arrears.	Arrears amounting to Rs.8,244,935 has been recovered. Red Notices are being issued to recover the remaining arrears. Special mobile services will be launched to recover the arrears in the year 2026.	Arrears of revenue should be recovered promptly.
(ii)	Appropriate steps had not been taken for over 05 years to recover the arrears of tax revenue amounting to Rs. 733,217 to be receivable from the properties owned by the Council.	Action is being taken by the mediation board to recover the arrears of Rs. 733,217.	-Do-
(iii)	Action had not been taken to recover rents amounting to Rs.548,876 for public park and restaurant owned by the Council.	A complaint has been lodged at the police station against the lessee for non-payment of the arrears of rent of the public park for the year 2023.	The arrears should be recovered promptly.
(iv)	Although a period of 01 year to 33 years had passed since the termination of the lease tenure for 304 shops and 95 lands owned by the Council, action had not been taken to enter into a new agreement in accordance with paragraph 7 of the Local Government Commissioner's Circular No. 1980/46.	Further action is scheduled to be taken to change the agreement dates to one and only date for 431 total tenants including 336 shops and 95 lands.	New agreements should be entered into and revised rents should be collected.

### 3. Operating Review

#### 3.1 Management inefficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Even though a person had arbitrarily occupied a land in extent of 07 perches belonging to the Urban Council and he had been running a factory in that land, action had not been taken in accordance with Section 255 of the Urban Councils Ordinance.	Further action will be taken regarding the relevant land after the demarcation of boundaries is completed by the Land Survey Department and the Divisional Secretary.	Action should be taken in accordance with the provisions of the Act.
(b) The balance that the Urban Council had maintained in the current account of a state bank without taking steps to utilize the additional funds for the regional development had been Rs.44,425,345 as at 31 March 2023.	<p>The creditor balance to be paid for the remaining work completed in the year 2023 is Rs. 25,991,245, out of the balance of that current account amounting to Rs. 65,155,447.</p> <p>The additional funds in the current account have been invested in the bank through the Swiping Facility banking service since March 2024, and a sum of Rs.1,296,808 has been earned as income for the year 2024.</p>	Additional funds should be used for the development of the area.

#### 3.2 Operational inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Arrears of the Vavuniya Holiday Resort amounting to Rs. 2,229,222 remained outstanding from August 2019 to 31 December 2023.	A case (Case No. (L218,2022)) is being heard regarding the non-payment of rent arrears of Rs.2,229,222 for the Rest House as at 31 December 2022. Based on the decision made after the finalization of this case, further action will be taken regarding these arrears.	Arrears should be collected promptly.
(b) Even though the Vavuniya Urban Council had spent a total of Rs.7,230,939 for the Vavuniya Kulam Tourist Centre to develop the tourism industry, steps had not been taken to utilize it even by the date of this report,	A case is currently being heard against the lessee in the District Court. Once the decision is received, a decision will be made regarding the release of the tourist centre for use based on the verdict.	Appropriate measures should be taken for the utilization of the property owned by the Council.

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| (c) | Although it had been decided that the revisions to be made for communication towers during the period of 2021-2022 revealed at the planning committee meeting of the Urban Development Authority should be made and it had to be resubmitted, the Chairman had granted building permits in contrary to that.  | Building licenses were granted on the instructions and justifications of Mr. E. Gauthaman, who served as the chairman of the Council.   | Arrangements should be made to issue licenses with the approval of the committee.         |
| (d) | The Urban Council had not taken any action up to date to obtain land title deeds for 28 lands owned by the Urban Council.   | The Urban Council is taking action to obtain orders to transfer the land in extent of 16.17 hectares owned by the Council.  | The ownership of the property should be confirmed.  |
| (e) | The Vavuniya Urban Council had deposited Rs. 1,136,507 in a fixed deposit, which was to be paid as a part of an amount to the contractor for the paving and tarring of the Thirunavatkulam internal road in the year 2017, and the Council had not taken steps to complete the work, for which the provision was made and make it available for public use. | The contractor failed to complete the work within the contract period and the technical officer refused to make payments for the part of the completed work, and therefore, the contract was terminated by the Urban Council on 24 January 2018. The contractor, who had not accepted this, has filed a case. It has been decided to terminate the relevant fixed deposit and take further action after receiving the decision of the legal case. | Contract work should be completed within the stipulated time and payments should be made. |

#### 4. Accountability and Good Governance

##### 4.1 Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Estimates on revenue and expenses had not been prepared for the period ended 18 March 2023. As a result, it was not possible to compare variations in revenue and expenditure with actual revenue and expenditure for the relevant period.	Since steps had to be taken to implement the Vavuniya Urban Council as the Vavuniya Municipal Council after obtaining instructions from the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, the Secretary of the Vavuniya Urban Council was assigned duties to function as the Secretary of the Vavuniya Municipal Council until such notices were received.	The budget should be prepared and the work of the council should be carried out accordingly.