

Bataloa Municipal Council
Bataloa District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial Statements for the year 2018 had been presented for audit on 02 April 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 30 May 2019 and 31 May 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Bataloa Municipal Council as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Accounting Deficiencies	Observation	Comments of the Accounting Officer
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(a) Although the accounts of the Municipal Council had been prepared on an accrual basis, the recoverable stamp duty charges for the year under review had not been calculated and accounted for.	It should follow accrual basis for recoverable.	Recoverable stamp fees for the year under review had been disclosed in the financial statements of the next year.
(b) Up to the end of June 2017 and June 2018, the municipal council had shown stamp fees income of Rs.70,094,691 on specific properties ceased by the council through dowry and donations. A sum of Rs.700,947 or 1 per cent charged as administrative expenses by the Treasury of	It should calculate and accounted correctly.	Even though a sum of Rs. 70,094,691 had been shown as stamp duty, a sum of Rs.700,947 or 1 per cent as administrative expenses charged by the Treasury of the Eastern Province and the amount of Rs. 249,600 paid by the Assistant Land Registrar General of Batticaloa had not been shown as our income and

the Eastern Province and the amount of Rs. 249,600 paid by the Assistant Land Registrar General of Batticaloa has not been shown in the accounts for the year under review.

due to that we were not shown as expenditure. It will be shown as income and expenditure in the next years.

- (c) Although the Municipal Council has calculated the recoverable stamp duty amounting to Rs. 12,363,900 on transfer of property, dowry and donation from Provincial Treasury Departments from April to June of the year under review, Stamp duty in the financial statements was understated by this amount for the year under review.
- Action should be taken to calculate and account correctly.
- Such errors will be correct in the next year.
- (d) Even though the values of Laptop computers and the motor bicycle received from the UNUFS institute had been disclosed in the financial statements of the year 2017, value of these were not assessed and taken to accounts.
- Action should be taken to calculate and account correctly.
- Such errors will be correct in the next year.
- (e) After deducting the Holding Tax amount from the interest income relating to the fixed deposit of Rs.116,649,165 had been shown as income in the financial statement of the year under review. The deducted amount of With Holding Tax had not been calculated and accounted.
- With Action should be taken to calculate and account correctly.
- Such errors will be correct in the next year.
- (f) Out of the recoverable rates and taxes amount of Rs. 55,469,852 a sum of Rs.38,689,131 had not been
- Action should be taken to calculate and account correctly.
- The total amount of fines and discounts received from property owners during the year under review is approximately the same.

recovered but the discounts amounting to Rs. 1,510,960 given to those property owners had been shown in the accounts as discount given to them.

In the coming years, fines will be presented as income; discounts will be present as discounts in the financial accounts.

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| (g) | The assessed value of listed rates and taxed for the year under review had been calculated as Rs. 30,667,275. Due to showing the above amount as Rs. 30,000,000 in the accounts, arrears rate and taxes amount for the year under review had been understated by Rs.667,275. | Action should be taken to calculate and account correctly until obtain approval. | The reason for the underestimation of the estimated value of listed assessment tax from Rs. 667,275 for the year under review is that the municipal property has also been assessed and sent for approval to write off. |
| (h) | Details and assessment amount of the lands and buildings as at end of the year under review had not been accounted by the Municipal Council. | Action should be taken to calculate and account correctly. | Such errors will be correct in the next year. |

1.3.2 Potential liabilities

Audit Observation

Recommendation

Accounting Officer

Amount payable at the end of the year under review and recoverable from external parties was not presented in the accounts as deferred liabilities With regard to the proceedings filed by the Municipal Council and the legal action taken against the Municipal Council by the outsiders as at 31 December 2018.

Deferred liabilities should be calculated and disclosed in the financial statements.

1.3.3 Receivable and Payable Accounts

(a) Receivable Accounts

	Audit Observation	Recommendation	Accounting Officer
(i)	Although the total of arrears rates and Taxes, shop Rentals and Other Income in the Financial Statements is Rs.36,448,190, but 75 per cent of this arrears has been in arrear for continuously more than 10 years. Nevertheless, the documents, books, and evidences relating to that were being presented in the accounts and no action was taken to recover the arrears income or write off from the documents.	Action should be taken to recover arrears receivables.	Much of the rates and taxes and other income that has been in arrear in the financial statements has been recovered and is being deducted from the books.
(ii)	The outstanding assessment tax of Rs. 16,780,720 stated in the financial statements at the end of the year under review is the unadjusted value of the discounted amount of Rs.1,510,959. Accordingly, disclosed value has not been disclosed as actual value.	Action should be taken to calculate and account correctly.	The total amount of fines and discounts received from tax owners during the year under review is approximately the same. Accordingly, the shown arrears amount is nearly correct value.

(b) Payable Accounts

	Audit Observation	Recommendation	Accounting Officer
	Although the expenditure creditors amount of Rs. 28,808,920 shown the financial statements as creditors have been shown in the accounts for over a period of 05 years, action had not been taken to identified or written off.	Action should be taken to settle or write off the payable balances.	The creditor amount shown in the financial statements as creditors are currently being identified and settled.

1.3.4 Lack of Documentary Evidences for Audit

Information not Furnished

The audit could not be satisfactorily verified due to the lack of evidence presented before that for 6 account items amounting to Rs. 195,232,508.

Information not Furnished

Recommendation Comments

The audit could not be satisfactorily verified due to the lack of evidence presented before that for 6 account items amounting to Rs. 195,232,508.

Evidences should be furnished to prove the accounts balances shown in the financial statements.

Necessary actions are being taken to make adjustments after assessing by the special committee for machineries, Motor vehicle and vehicles, inventory items, furniture and fittings and creditors shown in the financial statements.

1.4 Non-Compliances

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliances	Recommendation	Comments of the Accounting Officer
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 41(2)	Four tractors, 02 Garbage Compactors and a mini excavators had been purchased for a sum of	Necessary actions should be taken in terms of Financial	Usually, while purchasing vehicles due to purchase are done with the Municipal Council

Rs.27,981,252 during Regulations. Fund according to the year under review for the purpose of solid waste disposal activities. Even though the approval of the Secretary to the Ministry should be obtained prior to purchase these machineries, machineries had been purchased without obtaining such approval. the Municipal Council Ordinance, approval for that are taken in the Municipal Council Committee Meetings.

(ii) Financial Regulations 571 Action had not been taken to settle after return or transfer to the income regarding the deposits of Rs.5,777,898 which have been submitted in the accounts for more than two years, were deposited for various purposes up to the end of the year under review. Necessary actions should be taken in terms of Financial Regulations. More deposits had been transferred to the revenue in the year 2019.

(b) **Public Administration Circulars**

(i) Paragraph (a) of the Circular No. 21/2013 dated 07 October 2013. Although it is stated that an officer working in an office should be paid holiday allowance to an officer who works not less than eight (08) hours in order to obtain approved Necessary actions should be taken according to the Circular. The holiday payments were made due to less a few seconds of this 04 officers. Steps have been taken to prevent such mistakes.

holiday allowance for working on public holidays and weekends, a sum of Rs.14,849 had been paid as holiday payments to 4 officers holding positions in contrary to the Circular of the Ministry of Public Administration and Home Affairs without completing eight hours of office hours.

- (ii) Paragraph (c) of the Circular No. 21/2013 dated 07 October 2013
- The circular states that if an officer is required to work for more than 2 days per month, the prior approval of the Secretary of the Ministry should be obtained in private. However, 06 officers who work and worked in the Municipal Council had been paid a sum of Rs.348,788 as holiday payments for more than 2 days without prior approval from the Chief Secretary of the Province.
- Necessary actions should be taken according to the Circular.
- Even though the circular states that if an officer is required to work for more than 2 days per month, the prior approval of the Secretary of the Ministry should be obtained in private, according to the circular No. 7/1/2000 of the Ministry of Local Government and Provincial Councils, it has been stated that the officers and field officers can be given five days to perform the essential services of the Local Authorities.

(iii)	Section IA of No. 09/2009 dated 16 April 2009.	The circular states that fingerprints should be verified by the time-based basis for the payment of periodic salaries such as overtime and holiday payments. However, the Municipal Council had paid the holidays payments for 5 officers who had not entered the in and out in the fingerprint machine in 37 holidays.	Necessary actions should be taken according to the Circular.	In the case of the officers, the power outage and in some cases of emergency work were done without fingerprints..
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(c) **Other Circulars**

(i)	Section 5.1 of Budget Circular No. 1/2016 dated 17 March 2016 of Ministry of Finance.	Even though the receipts financed by four tractors, a cabbage compactor and a mini excavator can be purchased directly from the Ministry or the Provincial Council with the Treasury approval, these purchases have been made without obtaining the necessary approvals.	Necessary actions should be taken according to the Circular.	According to the Municipal Council Ordinance, the Chairman was authorized with the approval of the Council and was the Municipal Council funds those vehicles were purchased with the approval of the Council..
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(ii)	2.11.1 Guidelines of Government Procurement Guidelines. 63	Pre-bids meeting should be held with the Procurement Committee and the Technical Evaluation Committee to agree	Actions should be taken according to the Laws, Rules and Regulations.	The purchases were made with the recommendations of the respective committees and with the approval of the
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with the time
Schedule,
Procurement Type
and Bidding
Document Type in the
Goods and Services
procurement process.
Nevertheless, there
were no meetings
held with the
purchase of four
tractors, two garage
compactors and a
mini excavator..

General Assembly.

- (ii) Paragraph 7.1 of Purchasing of goods Necessary As the vehicle
Eastern Province exceeding Rs. 5 actions should purchases have been
Circular be taken made from the
No.PT/04(02)/2018 according to Municipal Council
dated 04 June 2018. and supplying services the Circular. Funds according to
should be done in the Municipal Council Ordinance
accordance with the there are no limits
recommendations of stated in the
the Department ordinance.
Procurement
Committee.
Nevertheless, the
Municipal Council had
appointed the
Regional Procurement
Committee based on
representatives of the
Procurement
Committee and, on
their
recommendation,
purchased four
tractors, two garbage
compactors and a
mini excavator,
contrary to this
circular..

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2018 amounted to Rs. 95,843,811 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 74,268,918.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue and Collected Revenue

Details of estimated revenue, listed revenue, collected revenue and arrears of revenue relating to the year under review and previous year as per the information submitted are shown below.

Revenue Item	2017				2016			
	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) Rates and Taxes	31,500,000	58,757,243	41,232,501	17,524,742	23,800,000	47,230,435	20,541,050	26,689,385
(ii) Rent	22,850,100	28,351,378	12,534,754	15,816,624	28,750,100	30,374,729	14,015,125	16,359,604
(iii) License Fee	11,640,000	13,427,672	10,683,589	2,744,083	11,145,000	13,036,787	10,949,115	2,087,672
(iv) Other Revenue	101,405,000	4,296,569	3,678,961	617,608	89,385,000	4,591,291	3,944,722	646,569

2.2.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Although the assessment should be done on 42,477 properties in 48 Grama Niladhari Divisions in 20 Divisions of the Municipal Council area, Rates and taxes was assessed only on 38,476 real estates.	Action to be taken in accordance with the provisions of the Municipal Council Ordinance.	A committee of 15 field officers is being established and assessed on all of the real estate you have mentioned. Assessment tax will be charged once the valuation is over.
(b) The council must send "K" forms to property owners annually to collect assessment tax. As a result, property owners who pay	Action to be taken in accordance with the provisions of the Municipal Council Ordinance.	It is a normal custom for the council that sending "K" forms to property owners annually for assessment of rates and taxes. However, the lack of revenue

first will be eligible for discounts on rates and taxes. Nevertheless, some of these papers were not distributed and some of these were distributed to property owners after the expiry of the due period had caused property owners to lose their tax discounts.

inspectors is the reason for not sending these forms. are not sent. Currently, arrangements have been made to recover online to settle this.

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| (c) When the property owners fail to pay the taxes on time, they will be penalized. Details of the fines charged during the year under review were not submitted to the audit. | Should be calculate accurately and accounted.. | Due to the absence of such instances in the process of rates and taxes, only the total gross income has been presented treated as discount and penalty charges are same. |
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2.2.3 Other Rates

2.2.3.1 Tax on Tourist Bangalow Income

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
In respect of Income Tax on Tourist Circuit Banglow in the Municipal Council area for the years 2016, 2017 and 2018, the hotels, restaurants or resorts which are being operated in accordance with the Tourism Development Act No.14 of 1968 are registered or situated in an approved or recommended section by the Sri Lanka Tourism Authority, In terms of sub-section 2 of Article 247A of the Municipal Council Ordinance, not more than 1	Action to be taken in accordance with the provisions of the Municipal Council Ordinance.	Steps have also been taken to recover the outstanding balance.

per cent of the revenue should be levied. As per the audit work Taxes amounting to Rs. 1,195,757 should be levied on 04 hotels out of 7 hotels in the Municipal Council area from the year 2016 to the end of December 2018, Nevertheless, only Rs.683,337 had been recovered as at 20 February 2019, arrears amount of Rs.512,390 had not been recovered.

2.2.3.2 Tax on Land Sales

----- Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>Subject to subsection 247E (1) (2) of the Municipal Council Ordinance relating to immovable property exchanged between 2017 and 2018 in the municipal area, 1% of the sale value of properties must be levied. However, as per the audit format, for the period from 2017 to the end of September 2018, the sale of 1949 immovable properties in the Municipal Council area amounted to Rs. 2,249,042,475 and action had not been taken to recover 1 per cent tax of Rs. 22,490,425 even as at the date of audit of 30 January 2019. Accordingly, the Council is being losing approximately Rs. 10 million annually.</p>	<p>Action to be taken in accordance with the provisions of the Municipal Council Ordinance.</p>	<p>According to subsection 247 (1) (2) of the Municipal Council Ordinance relating to immovable property transferred in the Municipal Council area for the years 2017 and 2018, it is stated that only 1% of tax on immovable property sold at auction is taxable.</p>

2.2.4 Court Fines and Stamp Duty

A sum of Rs. 21,582,620 had to receive from the Chief Secretary and all officers as court fines of and stamp duty as at 31 December 2018,

Stamp Duty

The following observations are made regarding the transfer of stamp duty on land transfers in the Municipal Council area for the years 2017 and 2018, collected by the Land Registry of Batticaloa and paid to the Income Tax Department of the Eastern Provincial Treasury.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Even though stamp duty should be recover in terms of Section 03 of the Stamp Duty Amendment Act No. 06 of 2010 of the Eastern Province, action had not been taken to calculate the stamp duty for the period from July to 31 December 2018 by the Municipal Council and to recover from the Registrar General even at the audit date of 31 January 2019.	Action should be taken to calculate the stamp duty by the Municipal Council and recover it from the Registrar General of Lands for the period..	The stamp duty for the period from July to 31 December 2018 has been calculated by the Municipal Council and sent to the Registrar General.
(b) In terms of Appendix 37 of the Finance Act No. 01 of 2008 for the Imposition and Collecting of Taxes and Licenses by the Provincial Revenue Department of the Eastern Province, The transfer of immovable properties in the Municipal Council area the property owners had paid the Stamp Duty totalled to Rs1,551,115 to the Eastern Provincial Inland Revenue Department of additional	The Registrar General had not taken action to collect the Stamp Duty from the Municipal Council in accordance with Appendix 37 of the Monetary Levy Act No. 01 Of 2018 for Imposing and collecting taxes and licenses of the Eastern Provincial Council and to	Steps have been taken to calculate and collect the stamp duty paid to the Department of Inland Revenue, Eastern Province..

Stamp Duty charged by the Department of Inland Revenue of the Eastern Province for the years 2016, 2017 and December 2018. No steps had been taken to calculate and charge the stamp duty.

collect the Registrar General in due course 8.

3. Operating Review

3.1 Performance

In accordance with Section 4 of the Municipal Council Ordinance, the following observations are made regarding the functions to be performed by the Council such as public health, public utility services and public roads, and public health facilities and welfare.

(a) Sub Rules

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Although sub rules are to be implemented in respect of 34 financial matters in terms of Section 272 of the Municipal Council Ordinance, sub rules relating to this special matters had not been prepared even by 31 December 2018.</p>	<p>It should Formulate and implement sub rules according to the provisions of section 272 of the Municipal Council Ordinance.</p>	<p>In terms of section 272 of the Municipal Council Ordinance, sub rules relating to some 34 important matters have been implemented and sent for approval.</p>

(b) Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Although it should be prepared sub rules in accordance with the provisions of Section 272 of the Municipal Council Ordinance and activities</p>	<p>It should Formulate and implement sub rules according to the provisions of section 272 of the Municipal Council</p>	<p>Action has been taken to prepare an annual action plan.</p>

should implement Ordinance. according to that, an annual action plan had been prepared for such matters.

(c) Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The decision of the Sustainable Development Conference of 2015, led by the Heads of States of the United Nations member states, the Council had not establish the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.</p>	<p>Implementation of Functions in accordance with the decision of the Sustainable Development Conference 2015.</p>	<p>Steps have been taken to prepare the Indicators for the development programs agenda to be achieved in 2030.</p>

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) Before purchasing 4 tractors, two garage compactors and mini excavators for the year under review, the requirements, feasibility study and financing for these machines should be considered. Nevertheless, the council had purchased these machines without asking for the request from the machinery using section (Health unit) and the feasibility study.</p>	<p>Should act according to the circulars.</p>	<p>Steps have been taken to implement your recommendations in the coming period.</p>

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| (b) | <p>The Procurement Committee in respect of the Mini Excavator had issued a purchase order to the company following the decision of the Technical Evaluation Committees to buy from the Senok Trade Company who had completed all preliminary details. However, on 26 October 2018, the order was cancelled and considering the Procurement Committee decision taken on 15 November 2018 and the recommendation of the Mechanical Engineer of the Assessment Committee that it was decided to buy from the second bidder, United Motor PLC, and purchased for a sum of Rs. 6,425,652. Completion of decisions thus reflects the lack of effective decisions of the Procurement Committee and the Technical Evaluation Committee.</p> | <p>Should act according to the circulars.</p> | <p>Steps have been taken to implement your recommendations in the coming period.</p> |
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3.3 Operating Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Even though Pre-bids meeting should be held with the Procurement Committee and the Technical Evaluation Committee to agree with the time Schedule, Procurement Type,</p>	<p>Action should be taken according to the Circulars.</p>	<p>No Comments.</p>

Procurement type and Bidding Type according to the Procurement Guidelines 2.11.1 (d) relating to purchase of four tractors, two garage compactors and a mini excavator, such a meeting had not been held.

4. Accountability and Good Governance

4.1 Furnishing Financial Statements

Audit Observation	Recommendation	Comments of the Accounting Officer
Annual Performance Report had not been furnished with the financial statements in terms of sub regulation 16(2) of the Audit Act No. 19 of 2018.	Action should be taken in terms of sub regulation 16(2) of the Audit Act No. 19 of 2018.	Annual Performance Report will be submitted with the financial statements in future years.

4.2 Internal Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
Internal audit activities had not been implemented during the year under review.	Implementing audit activities with a proper planning	Internal audit activities of the Municipal Council had been conducted in the year 2018 slightly. At present one officer had been assigned to do the responsibilities more.

4.3 Audit and Management Committee Meetings

Audit Observation	Recommendation	Comments of the Accounting Officer
----- Audit and Management Committee meetings had not been established and conducted by the Council during the year under review.	----- Implementing audit activities with a proper planning	----- Two audit and management committee meetings had been conducted by the Council during the year 2018.