

Batticaloa Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Batticaloa Municipal Council including the financial statements for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021, 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 219 of the Municipal Councils Ordinance (Chapter 252) and provisions 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 Batticaloa Municipal Council as at 31 December 2021, 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

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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 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.

1.4 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 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 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 Municipal 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 Observation	Comment of the Council	Recommendation
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(a) The amount of Rs.13,005,946 of salary reimbursement due from the Provincial Council had not been disclosed as receivable in the financial statements as at the end of the year under review.	The salary reimbursement will be disclosed as receivables in the next financial statement.	Receivables should be disclosed in the accounts as assets.
(b) Rs.2,296,382 receivables from the Provincial Council for projects completed in the year under review had not been disclosed as receivables in the financial statements.	The amount of due will be obtained from the Engineering Division of the Provincial Council and will be disclosed in the next financial statement.	Receivables should be disclosed in the accounts as assets.
(c) Public libraries belonging to the council had received books worth Rs.892,680 as donations by the end of the year under review, but they had not been disclosed as assets in the accounts.	Donated books were mistakenly omitted. Actions will be taken to disclose these as assets this year.	Books received as donations should be disclosed in the accounts as assets.

1.7 Non- Compliances

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-compliance	Comments of the Council	Recommendation
Financial Regulations no 571 of the Democratic Socialist Republic of Sri Lanka	Necessary actions had not been taken to pay and settle the deposits of Rs. 3,115,424 which had been presented in the accounts for more than 02 years and deposited for various needs or transferred to income by the end of the year under review.	Various deposits have been transferred to income and the remaining deposits are being either paid to the concerned parties or transferred to income.	Necessary actions should be taken to settle the deposit or transfer to revenue.

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 2021 amounted to Rs.153,674,005 as compared with the excess of revenue over recurrent expenditure amounted to Rs.117,648,379 in the preceding year.

2.2 Revenue Administration

2.2.1 Revenue Collection Performance

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

Audit Observation	Comment of the Council	Recommendation
Arrears of shop rent and lease rent from several years' worth Rs. 4,521,815 had not been recovered by the end of the year under review.	Lawsuits have been filed against defaulters. The lawyer of Municipal Council has handed over the necessary documents to file cases against other lease holders for defaulting on payment.	Legal action should be taken to recover arrears of shop rent and lease rent.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Council Ordinance are shown below.

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The amount of Rs. 02 million had been spent for biogas processing project, but the production and use of biogas had not been formally implemented by the council by the end of the year under review.	The biogas processing project remains unimplemented due to lack of technical facilities for filling the distribution containers.	Effective actions should be taken to implement the biogas processing project.
(b) The amount of Rs.1,480,066 had been spent on the pig rearing project, but the council had not earned any income by the end of the year under review.	Have invited bids in this regard but since no response was received, bids were invited again.	Other actions should be taken to generate revenue from the project.
(c) The sum of Rs.15,939,000 of stamp duty had not been collected at the end of the year under review due to non-compliance of sufficient evidences for immovable properties whose ownership was transferred within the council area in the last 04 years.	Actions will be taken to achieve it promptly.	Actions should be taken to collect the stamp duty within the prescribed period.
(d) The former commissioner had been transferred 05 land with an area of 97 perches to the names of himself and his wife during the period from 2003 to 2006, which had been handed over to the Municipal Council for the sale of private land in the Municipal Council area. This matter was revealed in last year's audit report, but any action had not been taken by the council.	Actions are currently being taken on this matter.	Relevant investigations should be done and actions should be taken to transfer the government property to the name of the council.
(e) The Eastern Provincial Council had given Rs. 10,435,141 under provincial specific development capital grants had been deposited in a bank account in vain for more than 05 years continuously without being utilized for the intended purposes.	It has been sent for the approval of the Commissioner of Local Government with the approval of the council to invest these funds in revenue generating projects.	Actions should be taken as per Financial Regulation no 156 regarding the utilization of the funds for the prescribed purposes.
(f) Actions had not been taken to collect the arrears of lease rent of Rs.	The council has decided to file a lawsuit due to non-	Actions should be taken to recover the arrears or

507,000 due from the period 2013 to 2018 in respect of the vacation homes leased by the council. payment of taxes so far. to prosecute.

3.2 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
(a) According to approved carder by the Department of Management Services, 171 vacancies belonging to 31 categories of posts had not been filled by the Municipal Council.	Requests have been made through the Chief Secretary to the Governor of Eastern Province to take actions to fill all the staff vacancies.	Appropriate actions should be taken to fill up the vacancies.
(b) The council had not taken actions to collect the loan amount of Rs. 557,812 from the relevant persons or guarantors to be collected from the 12 retired, deceased, suspended and transferred employees.	Actions had been taken to recover arrears from retirement gratuity, guarantor, and related departments where the employees were transferred.	Actions should be taken to recover outstanding employee loans from them or guarantors.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comment of the Council	Recommendation
The annual performance report had not been submitted with the financial statements according to subsection 16(2) of the National Audit Act No. 19 of 2018.	The annual performance report will also be presented in the near future.	The annual performance report should also be submitted along with the financial statements.

4.2 Sustainable Development Goals

Audit Observation	Comment of the Council	Recommendation
According to the Sustainable Development Act No. 19 of 2017, the Municipal Council had not been identified the sustainable development goals to be achieved in the year 2030.	Actions will be taken to identify and implement indicators to measure the development agenda to be achieved in the year 2030.	Sustainable development indicators need to be identified and actions should be taken to implement them.