

1. Financial Statements

1.1 Disclaimer Opinion

The audit of the financial statements of the Kalmunai Municipal Council including the financial statements for the year ended 31 December 2022 comprising the Balance Sheet as at 31 December 2022, Income and Expenditure Account, Cash Flow Statement for the year and 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 National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

I do not express an opinion on the financial statements of the Kalmunai Municipal Council. Because of the significance of the matters described in paragraph 1.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer Opinion

I expressed disclaimer 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.

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 Practicals, 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 Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for 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 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 on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendations
(a) An amount of Rs.2,991,047 payable in respect of employees' provident fund and employees' trust fund for the month of December of the year under review had not been shown in the financial statements as liabilities.	EPF and ETF will be adjusted in future.	Steps should be taken to disclose the balance as liabilities.
(b) An amount of Rs 3,909,502 was not shown in the financial statements for vehicle repair expenses, overtime, purchases of newspapers and purchases of vehicle spares due at the end of the financial year.	Steps will be taken to include them in the financial statements as requested in future.	-Do-
(c) The amount of 07 items had been donated by the Local Government Department to the Council in the year 2021 and 2022 amounting to Rs.303,104 had not been shown in the financial statements.	Steps have been taken to absorb the value of goods received as a donation in the financial statements.	Steps should be taken to show in the financial statements the value of the goods received during the year.

1.6.2 Documentary Evidences not made available for Audit

	Subject	Amount Rs.	Unsubscribed Audit evidences	Comments of the Council	Recommendation	
(a)	(i) Land and Building	701,271,237	Deed	Steps have been taken to obtain information in this regard. These will be reported once completed.	Actions should be taken to obtain information very quickly and maintain appropriate records properly.	
	(ii) Machinery and Equipments		Fixed Assets Register			
	(iii) Motor Vehicles					
	(iv) Furniture & Fitting					
	(v) Office Equipments					
	(vi) Roads					Road Inventory
	(vii) Recievable Income					List of Outstanding balance and periodic analysis
	(viii) Advance Payement					Advance Register
	(ix) Unsettled Supply of Electricity Payment					Register
(b)	Refundable Deposit Balances	32,954,838	Detailed classified list and periodic analysis	Analysis of deposits is currently being submitted for audit.	Action should be taken to submit a detailed classified analysis report and its periodic analysis.	
(c)	(i) Trade License Fee	637,798,571	Detailed classified list and Control Accounts	This is due to the defects in the software used in the municipal council. Steps have now been taken to rectify it.	-Do-	
	(ii) Solid Waste Fee					
	(iii) Rent					
	(iv) Rate and Taxes					
	(v) Other Income					
	(vi) Advertisement Fee					
	(vii) Slaughter House Fee					

(d)	(i) Electricity storage goods	}	59,560,540	-Do-	Steps will be taken to rectify the differences.	-Do-
	(ii) Employee Loan					
	(iii) Recievable Income					
	(iv) Refundable Deposit					
	(v) Payable Tipping Fees					
	(vi) Consolidated Fund (Municipal Fund)					

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-compliance	Comments of the Council	Recommendation
(a) Chapter 252 of the Municipal Councils Ordinance of 155 Section	No action has been taken to assess the rent amount for the 587 shops located in the Kalmunai Public Market building block owned by the Municipal Council from time to time.	Rents for some shops have been increased and new contracts have been entered into. Contracts have been renewed for other shops and steps have been taken to increase the rent.	Steps should be taken to periodically assess the amount of rent charged to the shops as per the Ordinance.
(b) Eastern Province Chief Secretary's letter No. EP/01/CMA/ Cabinet.Memo/007 dated 10.07.2020	Although the immovable assets under the jurisdiction of the Municipal Council had to be assessed once in 05 years for assessment of income tax, income tax assessments were carried out based on total income tax units of 46,303 assessed in 2011-2012.	Now the application for fresh assessment has been submitted and the data has been sent. The General Assembly should have done that assessment in previous years.	As per the letter steps are taken for valuation of fixed assets once in 05 years.

- (c) Eastern Province Security bond amounting to In this regard, According to the Financial Circular Rs.107,500 has not been instructions have been circular, steps No. PT/03/2021 received by the Municipal given to all the officers should be taken to dated August 16, Council from 10 officials who regarding financial issue the security 2021 were responsible for the assets. bond from the appropriate authorities. duties like money, warehouse goods, government trusts and cheques signing.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2022 amounted to Rs.59,202,514 as compared with the excess of revenue over recurrent expenditure amounted to Rs.5,123,295 in the preceding year

2.2 Revenue Administration

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

Information 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.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue Billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	51,730,000	168,405,120	25,401,677	143,003,442	297,110,000	130,490,677	14,748,476	115,742,203
ii. Rent	24,754,000	81,586,027	26,982,674	54,603,351	30,444,000	64,823,698	12,286,390	52,537,308
iii. Income License	28,310,000	8,283,618	8,283,618	-	28,305,000	7,635,000	7,635,000	-
iv. Fees Other	67,765,000	14,483,818	14,483,818	-	54,160,000	39,000,000	39,000,000	-
revenue								
Total	<u>172,559,000</u>	<u>272,758,583</u>	<u>75,151,787</u>	<u>197,606,793</u>	<u>410,019,000</u>	<u>241,949,375</u>	<u>73,669,866</u>	<u>168,279,511</u>

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

Audit Observations	Comments of the Council	Recommendations
(a) An amount of Rs. 75,151,787 was seen as tax income collected in the total tax income of Rs. 272,758,583 to be received in the review year. This was found to be 27 percent of the disposable income and it shows the weakness of the municipal council's revenue management.	Due to the corona virus and economic problem in the country there were massive difficulty in tax collection, less revenue was collected. It will be collected in the future.	Steps should be taken to recover the outstanding income as soon as possible.

(b) **Rent**

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|------|--|---|---|
| (i) | The municipal council had not taken action to pay the amount of Rs 19,050,885 due from 587 tenants for renting out the shops located in the Kalmunai Public Market building block for more than 5 years. | Letters are sent 3 times a year and balances are cleared by the Revenue Inspector. Now balances are less. | -Do- |
| (ii) | The Municipal Council had not taken action to receive the outstanding amount of Rs. 1,450,000 due from the council regarding the lease of 02 shop rooms for the state bus stand to the Sri Lanka Transport Board for more than 05 years. | A decision has been taken to take legal action against these shops. Arrangements have been made to receive these balances through this. | -Do- |
| (c) | In the review year, the estimate amount of solid waste tax was Rs. 7,200,000, of which only Rs. 4,441,373 was collected. Also, the detailed list and records related to this had not been submitted for audit. | Due to the economic crisis of the country, it was very difficult to collect tax from the general public, so less income could be collected. | Steps should be taken to maintain the ledgers properly and recover the revenue. |

3. Operational Review

3.1 Identified Losses

Audit Observation

The computerized revenue system used by the Kalmunai Municipal Council since 2020 January 01, for revenue collection is not purchased without following the formal procurement process and due to the lack of internal control and internal audit, the daily collected revenue has not been fully deposited in the council accounts and collected from 9 revenue sources, amounting to Rs. 18,094,795, had been defrauded.

Comment of the Council

As the case is ongoing, it is not possible to submit the documents related to the incident to the Municipal Council for audit until the decision is made.

Recommendation

The said software should be procured from a recognized company and engage responsible qualified officials to maintain proper records and take disciplinary action against the parties responsible for the fraud and take steps to recover the loss from them.

3.2 Management Inefficiencies

Audit Observations

- (a) A fixed deposit amounting to 32 million rupees was deposited in the Rural Development Bank from December 10, 2018 to December 10, 2019 at an interest rate of 12.5 percent, but the

Comments of the Council

This is the period of the council and as per the Mayors letter to Chief Secretary it was deposited. The file has been handed over to the present

Recommendations

Steps should be taken to deposit the said amount according to the prevailing interest rate.

deposit was not renewed until the end of the year 2022 without the decision of the council. However, the market interest rate in 2022 was seen at 20 percent to 24 percent. Due to this, there was a loss of interest income of Rs 2,400,000 in the year under review.

- (b) In connection with the lease of Kalmunai Public Market and Fish Market in 2021, the lessee had prepared and submitted a fake bond for Rs. 5,600,000 from the Cooperative Rural Bank. As the loss occurred due to non-verification by the Municipal Council, through the Mayor's letter No. KMC/Mayor/Gen/Let dated 2022 February 22, until the cheques of Rural Cooperative Bank are received the personal cheques of the General Manager was submitted as substitute, 04 cheques of total amount of Rs. 2,000,000. As these cheques were not deposited it remained as post-dated cheques.
- A committee has been appointed by the Chief Secretary and the data has been taken. Once the response is received, legal action will be taken and all dues will be recovered.
- Action should be taken from all the parties who were obstructing the rent.

3.3 Operational Inefficiencies

Audit Observations	Comments of the Council	Recommendations
<p>(a) Agreement had not been made between the municipal council and the private meat shop owner, the amount of Rs. 4,059,000 slaughter house fee collected at the rate of Rs. 500 per animal in 2021 and 2022 has not been confirmed and no action had been taken to settle the slaughter house fee for 42,417 animals during the period from 2016 to 2020 in the areas under the municipal council. As a result, an income of Rs. 21,208,500 was lost.</p>	<p>No answer given.</p>	<p>A proper agreement should be made and action should be taken to recover the slaughter house fee.</p>
<p>(b) According to the information obtained for the audit, although the private slaughter house owner is collecting Rs 1,500 per animal as income, even though the necessary human and physical resources are available to maintain the slaughter house, the Municipal Council had not taken any</p>	<p>A decision to evaluate and complete the construction of the slaughter house is expected in the next year's budget.</p>	<p>Actions should be taken to quickly set up a slaughter house with the available staff in the council and collect the income in a formal manner.</p>

action and only Rs 500 is being received from private individuals. This results in an average income loss of Rs 8,000,000 annually.

3.4 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) For more than 10 years, no action had been taken by the municipal council to repair and rent the 15 shops in the Kalmunai Public Market building block and the 153 shops temporarily set up at the back.	Due to non-cooperation of the people in the temporary shop, the rectification could not be done.	Steps should be taken to repair the shops and provide them on rent..
(b) The council-owned people's hall, bus stand's upstairs shops, Nappittimunnai public market's upstairs shops, Periya Neelavanai Solid Waste Management Center and machinery were lying unused for more than 10 years.	Preliminary decisions regarding the use of assets are made and then steps are taken to use and repair the same.	Action should be taken to utilize the assets very quickly.

3.5 Procurement Management

Audit Observation	Comment of the Council	Recommendation
(a) In the year under review, an amount of Rs. 2,264,500 was spent for vehicle maintenance and washing station reconstruction and the purchase of related equipment, but so far no action had been taken to maintain the vehicles using the said station.	The main circuit breaker for this is 3 phase power supply. Currently, steps are being taken to convert it into a 3-phase connection.	Actions should be taken to maintain the vehicles using the said station very quickly.
(b) During the period from 2020 to 2022, the Municipal Council had purchased electronic software and equipment for revenue collection at a cost of Rs 1,071,100 from a supplier(Syntech). However, prior to the selection of the said provider, the Technical Evaluation Committee has not been appointed in accordance with Section 2.6 of the Procurement Guideline and previous experience of the supplier , trade license and Commercial Registration are disregarded selections were made and results were obtained.	It was the fault of the former administration for not paying attention to the technical assessment committee and other matters pointed out by them. Currently, a fraud case is going on in the court in this regard.	As per procurement guidelines, technical evaluation committee should be appointed and suppliers should be selected with suppliers previous experience and business credentials.

3.6 Vehicle Utilization

	Audit Observation	Comment of the Council	Recommendation
(a)	Although 23 vehicles have been fitted with GPS equipment at a cost of Rs 455,295 in 2020 to implement a vehicle monitoring system with a view to improving fuel economy of vehicles in use by the Municipal Council, increasing the efficiency of employees and speeding up sanitation operations. This vehicle monitoring system was found to be non-functional within six months of its inception due to non-action to achieve the expected results.	Last year 2020, the GPS device was installed and was found to be non-functional within a period of six months. It could not be edited and reused. The particular period was intense covid infection and unusual environment.	Action should be taken to carry out appropriate counseling, guidelines and continuous monitoring to achieve the expected results.
(b)	Action had not been taken by the council to repair and re-use the 13 vehicles owned by the Municipal Council or transfer them to other departments in a suitable manner.	A committee is formed and action is taken to rectify and reuse or dispose of	Action should be taken to repair and reuse or transfer to other departments.

4. Accountability and Good Governance

4.1 Audit Management and Committee Meeting

Audit Observation	Comment of the Council	Recommendation
According to the circular of the DMA/2009(1) dated June 09, 2009 regarding the Internal Audit Guideline, Audit and Management Committees had not been established by the Municipal Council and no committee meetings had been conducted.	After the resolution of the council, full attention was paid to this matter and now all the activities are done through the management committee resolution.	According to the circular, Audit and Management Committees should be formed and committee meetings should be conducted.