

## **Jaffna Municipal Council - 2023**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Jaffna Municipal Council for the year ended 31 December 2023 comprising the balance sheet as at 31 December 2023 and income and expenditure account 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 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 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 Jaffna Municipal Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **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 Principles 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 include specific provisions for following requirements.

- 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.
- The financial statements presented includes all the recommendations made by me in the previous year except for observation 1.6.1 (f) of my report 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

	<b>Audit Observations</b>	<b>Comment of the Councils</b>	<b>Recommendations</b>
(a)	13 capital works valued at Rs.67,440,028 carried out in the year under review and previous years had not been capitalized.	It had not been capitalized due to lack of title deeds of land and buildings.	Accounts should be prepared correctly.
(b)	Estimated cost of Rs.82,895,410 related to 19 unfinished constructions had been accounted as creditors.	Actions will be taken to implement the related works in this year.	-Do-
(c)	At the end of the year under review, 23 lands and 62 vehicles owned by the council had not been valued and accounted for.	The assets will be valued and accounted for and removed the cost from the assets.	Assets should be valued and accounted for.
(d)	Arrears dues from 16 advertisement boards amounting to Rs. 487,500 had not been shown in the financial statements.	Action will be taken to account in the year 2024.	Accounts should be prepared correctly.
(e)	In the year under review, a sum of Rs.14,761,961 received under the Local Development Support Project had not been adjusted under development reserves in the	-Do-	Financial statements should be prepared accurately.

financial statements, thus the revenue surplus had been understated by that amount.

- (f) Machineries, 10 electric oil sprayers, 7,341 library books totalling Rs. 5,464,800 received as donations and 2,025 library books purchased for Rs. 1,041,890 had not been accounted for. -Do- -Do-

## 1.7 Non-compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.	Non-compliances	Comment of the Councils	Recommendations
Financial Regulations 571(1), (2) and (3) of the Democratic Socialist Republic of Sri Lanka	Lapsed deposits exceeding 02 years of Rs.3,962,259 had not been settled.	Action has been taken to settle in this year.	Actions should be taken according to the Financial Regulations.

## 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 2023 amounted to Rs.418,843,362 as compared with the excess of revenue over recurrent expenditure amounted to Rs.333,243,645 in the preceding year.

### 2.2 Revenue Administration

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

According to the information presented by the Council, 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	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	98,573,826	68,896,902	87,000,775	145,644,642	83,307,232	103,721,112	81,043,388	163,748,515
Rent	183,340,128	100,899,682	103,765,019	18,811,356	363,631,300	161,774,184	161,752,354	21,676,693
License Fees	28,398,000	22,870,236	23,083,236	185,000	25,842,000	29,901,290	30,322,058	398,000
Other revenue	378,925,622	295,789,760	298,451,832	8,715,753	948,781,442	331,904,879	227,145,922	11,377,825
<b>Total</b>	<b><u>689,237,576</u></b>	<b><u>488,456,580</u></b>	<b><u>512,300,862</u></b>	<b><u>173,356,751</u></b>	<b><u>1,421,561,974</u></b>	<b><u>627,301,465</u></b>	<b><u>500,263,722</u></b>	<b><u>197,201,033</u></b>

## 2.2.2 Performance in Revenue Collection

Audit Observations	Comment of the Councils	Recommendations
<p><b>(a) Rates and Taxes</b></p> <p>There was an assessment tax balance of 145,644,642 for the period between 01 and 05 years.</p>	<p>Actions have been taken to recover through revenue collection officers and mobile services.</p>	<p>Actions should be taken to recover the arrears of revenue promptly.</p>
<p><b>(b) Rent</b></p> <p>As at the end of the year under review, there were arrears of shop rent of Rs.11,094,069 and market lease of Rs.7,719,669. Out of that, rent balance of Rs. 47,340 and lease balance of Rs. 7,719,669 has existed for more than 05 years.</p>	<p>Legal action is being taken to recover.</p>	<p>-Do-</p>
<p><b>(c) License Fees</b></p> <p>Annual license fees of Rs. 1,955,000 had not been recovered for 06 telecommunication towers.</p>	<p>Action will be taken to recover after receiving the legal advisor's report.</p>	<p>-Do-</p>
<p><b>(d) Other Revenue</b></p> <p>As at the end of the year under review, the outstanding balance of water charges was Rs.1,426,533. Out of that, Rs.364,089 outstanding for more than 05 years was due from 65 customers.</p>	<p>Actions have been taken to recover through notification letters and mobile services.</p>	<p>Actions should be taken to recover the arrears of revenue.</p>

(e) **Court Fines**

Court fines due on 31 December 2023 from the Chief Secretary of the Provincial Council and other authorities amounted to Rs.5,010,696.

Actions have been taken to recover in this year.

Actions should be taken to recover the dues immediately.

**3. Operating Review**

**3.1 Management Inefficiencies**

<b>Audit Observations</b>	<b>Comment of the Councils</b>	<b>Recommendations</b>
(a) No actions had been taken to utilize a sum of Rs. 373,562,914 which was lying idle in the general reserve account for more than 05 years, for the relevant purposes.	Actions will be taken to utilize it for future development work schemes.	Funds should be used for specific purposes.
(b) No actions had been taken to recover 30 advances totalling Rs. 6,883,066 paid to the contractors for the period between 05 and 27 years, even as at the end of the year under review.	Actions are being taken to settle.	Actions should be taken to settle advances immediately.
(c) The lease agreements of 160 shops had not been renewed for more than 03 years to 11 years and rents were being recovered.	Agreements are being renewed.	Actions should be taken to renew agreements.
(d) Due to non-rental of 12 meat stalls, 04 supermarkets, a market and an advertising radio service, revenue loss of Rs. 5,487,857 had incurred.	Bids were invited but no one came forward to take the rent.	Appropriate action should be taken to provide rent.

**3.2 Assets Management**

<b>Audit Observations</b>	<b>Comment of the Councils</b>	<b>Recommendations</b>
(a) Between 01 and 10 years, 55 vehicles that were not in use had not been repaired and used or disposed of.	Actions have been taken to remove the vehicle from the asset and to repair them.	Assets should not be left unused.

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|-----|--|---|--|
| (b) | The ownership of 22 lands which were being used by the council and 26 vehicles received as donations had not been transferred to the council.  | Ownership cannot be acquired due to non-available of relevant documents.      | Actions should be taken to acquire the ownership to the council.         |
| (c) | Markets and cultural pavilions had been constructed at a cost of Rs.16,635,383 during the year under review on lands not owned by the council in contrary to the paragraph 1.1 of Finance Commission Circular No. 2016/01 of 30 December 2015. | Letters have been sent to the council regarding the takeover.                 | The ownership of the assets should be settled immediately.               |
| (d) | No action has been taken to repair and use 41 shops in Gurunagar market shopping complex for the last 07 years.  | The shops had not been repaired due to lack of proper facilities to run them. | Assets should not be left unused.  |
| (e) | Two halls built in the year 2017 on the upper floor of the modern mall had not been used till now.   | Bids were invited but no one came forward to take the rent.                   | Effective actions should be taken to utilize them for intended purposes. |

### 3.3 Human Resources Management

<b>Audit Observations</b>	<b>Comment of the Councils</b>	<b>Recommendations</b>
(a) As at the last date of the year under review, there were 398 vacancies in 46 posts.	Requests have been submitted to the relevant parties.	Appropriate action should be taken regarding staff vacancies.
(b) In addition to the approved carder, 10 health labourers and 8 maids had been appointed by the council in 2014, but the necessary approval had not been obtained from the Director General of Management Services during the last 9 years.	Approval had been sought for excess staff but no approval had been received till now.	Effective actions should be taken as per laws and rules.
(c) Effective actions had not been taken by the Council to recover the outstanding loan balance of Rs.1,915,467 for the period between 01 and 05 years due from 163 retired, deceased and officers who were vacated their post as per Chapter XXIV of the Establishment Code.	Action has been taken to settle.	Action should be taken to settle outstanding loan balances.

#### **4. Accountability and Good Governance**

##### **4.1 Budgetary Control**

###### **Audit Observation**

Due to the fact that there were variations from 14 per cent to 51 per cent in 05 revenue items, from 17 per cent to 37 per cent in 05 expenditure items and 47 per cent in one capital expenditure items when comparing the estimated revenue and expenditure with the actual revenue and expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool.

###### **Comment of the Council**

Action has been taken from the year 2024.

###### **Recommendation**

Needs should be identified and the budget should be prepared carefully.

##### **4.2 Sustainable Development**

###### **Audit Observation**

According to the Sustainable Development Act No. 19 of 2017, targets for the year 2023 had not been established.

###### **Comment of the Council**

It will be rectified in the future.

###### **Recommendation**

Action should be taken as per the provisions of the Act.