

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 2024 comprising the balance sheet as at 31 December 2024, 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 in sub-section 10(1) 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 2024, 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

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 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 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.

- 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 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 Observations	Comments of the Council	Recommendations
(a) The salary reimbursement grants a sum of Rs. 146,423,574 for the year under review, had been overstated in the financial statements due to double entry.	Adjustments will be made in the 2025 final accounts.	Action should be taken to correct the double entry of salary reimbursement in the financial statements.
(b) Withdrawn amount of Rs.81,110,705 from saving account and fixed deposits had been overstated in financial statement, due to it was recorded as interest income.	- Do -	Action should be taken to correct the fixed deposits are recorded as interest income.
(c) Interest income of Rs. 32,459,717 of 23 fixed deposits for the year under review, had been understated in the financial statements, due to not being recorded as income.	- Do -	Action should be taken to show the interest income for the year, as income in the financial statements.
(d) The total amount of Rs. 800,000 destroyed PABX system, furniture and other assets due to fire in Deputy Commissioner's office in 2023, had not been deducted from assets in the financial statements.	- Do -	Action should be taken to remove the value of the disposed assets, from the financial statements.

- | | | |
|--|--|--|
| <p>(e) 224 books a sum of Rs. 97,436 donated to the 06 libraries of the Council, were not shown as assets in the financial statements, during the year under review.</p> | <p>Action have now been taken to show books as assets in the financial statements.</p> | <p>Immediate action should be taken to disclose donated books as assets in the financial statements.</p> |
|--|--|--|

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-compliances	Comments of the Council	Recommendations
(a)	Municipal Council Ordinance No.29 of 1947 (Chapter 252)			
(i)	Section 230(1)	Although, the Council must take action to assess and change the rates, action had not been taken after 2018.	Immediate actions are being taken to obtain the revaluation of the property.	Provisions of the act should be followed.
(ii)	Section 25 of part II of Motor Traffic Act 1951	Vehicle annual revenue license had not been received for council's vehicle, during the year under review.	Action is being taken to obtain the 04 vehicles and 10 vehicles after the repair.	Action should be taken to obtain the revenue license for vehicles.
(b)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial Regulation 571 (1), (2) & (3)	Action had not been taken to repay to relevant persons or change as income the 341 no. of deposits a sum of Rs. 62,408,070 which were lapsed over two years.	Action have been taken to bring the deposits into the income, lapsed over 02 years.	Immediate action should be taken to return the lapsed deposits to the relevant person or bring into the income.
(c)	Public Administration Circular No. 08/2014 dated 26 December 2014.	Action has not been taken to insurance the 19 vehicles using by the Council.	Action will be taken to renew the insurance, when vehicles are repaired.	Action should be taken to insurance, to protect the vehicles.

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 2024 amounted to Rs.367,821,346 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 178,416,550 in the preceding year.

2.2 Revenue Administration

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

The details 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	2024				2023			
		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	44,500,000	45,228,900	40,768,200	58,733,200	41,025,000	44,423,700	34,795,400	54,272,500
ii.	Rent Income	22,700,000	13,096,100	13,791,500	6,476,600	15,300,000	16,492,100	19,945,100	7,172,000
iii.	License Fees	22,000,000	28,876,000	28,468,500	3,771,600	18,700,000	26,697,400	25,400,200	3,364,100
iv.	Other revenue	93,435,000	229,903,100	229,903,100	---	111,682,000	80,319,100	94,114,300	---
	Total	182,635,000	317,104,400	312,931,300	68,981,400	186,707,000	167,932,300	174,255,000	64,808,600

2.2.2 Performance of Revenue Collection

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

Audit Observations	Comments of the Council	Recommendations
(a) Rate and Taxes		
Assessment tax a sum of Rs. 58,030,225 was to be recovered from 42,700 properties during the year under review. Hence, age analysis had not been submitted, according to the assessment tax software. Hence, assessment tax recovered from 42,700 properties in 20 wards within administrative area of the Council, is in a huge arrears of 82 percent in more than 08 wards.	Action had been taken to recover the assessment tax arrears by mobile service, final notice and installment basis.	Immediate action should be taken to recover the assessment tax arrears.

(b) Rent

- | | | |
|--|--|--|
| (i) Council. had not taken action to recover the receivable rent income a sum of Rs. 1,436,530 from 26 shops in out side and inside of the market and lease income a sum of Rs. 1,270,170 from 09 chicken meat stalls, beef meat stalls and vehicle parking. | Action has been taken to recover the shop rent arrears, by revenue inspectors. | Immediate action should be taken to collect the long-term rent arrears. |
| (ii) Council had not taken action to recover the long-term rent arrears amounting to Rs. 281,740 by renting Council's official quarters. | Actions have been taken to collecting the documents and identify the arrears, within due time. | Immediate action should be taken to collect the long-term quarter's rent arrears of the official quarters. |

(c) Trade License Fee

- | | | |
|--|--|---|
| (i) Council had not taken regularate action to receive the trade license income from traders and loosed the income of Rs.2,146,400 | Action is being taken to recover trade license fees. | Immediate action should be taken to collect the trade license arrears. |
| (ii) In terms of section 247 (c) of the Municipal Council Ordinance (Chapter 252), trade license fee arrears amount of Rs. 429,500 from 22 Telecommunication towers during the period from 2020 to end of the year under review, had not been recovered. | Action is being taken to recover arrears. | Immediate action should be taken to collect the trade license arrears of the tele-communication towers. |
| (iii) Advertising charges a sum of Rs. 1,625,200 had not been recovered, till end of the year under review. | Action is being taken to recover advertising charge arrears. | Immediate action should be taken to collect the advertising charge arrears. |

(d) Stamp Duties

- | | | |
|--|--------------------------------------|--|
| In terms of section 2(1) stamp duty exchange statute No.06 of 2010 of Eastern Province, Council had not taken action to recover the stamp duty arrears amount of 28,711,400 for 484 entries. | Action will be taken in future year. | Actions should be taken to collect the stamp duty arrears. |
|--|--------------------------------------|--|

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) Council had not taken action to legally acquire the 107 lands belongs to the Council and to get survey plans for the 88 lands.	Action is being taken to obtain the documents for the properties of the Municipal Council.	Immediate action should be taken to legally acquire the lands and to obtain the survey plans.
(b) 50 no. of public complaints had not been solved out of 193 received, during the year under review, which had been received for street, lands and boundary wall issues.	Field visits will be conducted by the field officer regarding the particular complaints and actions are being taken.	Immediate action should be taken to solve the public complaints.
(c) Public market at Karuveppankerny, had been established at a cost of Rs. 2,639,099 in 2022. Which had not been utilized until the end of the year under review.	Regulative activities are being taken to function the market by changing public demandable place.	Action should be taken to lease the public market.
(d) Council had not taken action to assess the value of 19 acres, 01 root and 03 perch of 37 lands received by subdivision during the period from 1990 to end of the year under review.	Municipal Council is being taken action to assess the value of the subdivision lands.	Immediate action should be taken to assess the value of the subdivision lands.

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
Council had not taken action to repair or reutilize or disposal the 15 vehicles belong to the Council, over 10 years and 05 vehicles repaired during the year under review.	Action will be taken to repair or dispose the unusable vehicle, by obtaining mechanical engineer reports.	Action should be taken to repair and reutilize the vehicles.

3.3 Human Resources Management

Audit Observations	Comments of the Council	Recommendations
(a) Employee Vacancies Public services were weak due to the lack of action taken to fill 44 staff vacancies approved by the Management Service Department at the end of the year under review.	Request had been sent to Deputy Chief Secretary, to fill up the vacancies.	Action should be taken to fill up the staff vacancies.

(b) Employee Loan

- | | | |
|---|--|--|
| <p>(i) Council had not taken action to recover the vacated staff loan arrears of Rs Rs.378,957 from particular employees or guarantors.</p> <p>(ii) Action had not been taken to recover the long term outstanding loan amount of Rs. 64,768 from 04 employees, it was provided without considering the recoverable service period.</p> | <p>It was delayed due to lack of evidence and financial inability of the vacated staffs.</p> <p>Actions are being taken to recover the loan arrears from pension, gratuity and children of the employee.</p> | <p>Actions should be taken to recover the staff loans arrears.</p> <p>- Do -</p> |
|---|--|--|

4. Accountability and Good Governance

4.1 Environmental issues

Audit Observations	Comments of the Council	Recommendations
(a) As per the National Environmental Protection Act No. 47 of 1980 and Act No. 56 of 2000 as amended, action had not been taken to obtain the environmental protection license to Thirupperuthurai solid waste centers and Night soil plant, till the end of the review year.	Court had ordered in 2023, to stop the tipping the decomposable waste at solid waste centers and delayed in analyzing the deficiencies of night soil plant. Action will be taken to obtain the environmental protection license.	Action should be taken to obtain environmental protection licenses for solid waste centers and night soil plant.
(b) As per the extraordinary gazette no. 2264/18 dated 27 January 2022 and listed institution under division “C” of National Environment Act No. 47 of 1980, Council had not taken action to obtain environmental protection license for the 40 institutions and to renew for the 07 industries.	Reminders are being sent to trade industries to obtain and renew the environmental protection license.	Immediate action should be taken to obtain and renew the environmental protection licenses.