

**Batticaloa Municipal Council - 2017**  
**Batticaloa District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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The Financial Statements for the year 2017 had been submitted to Audit on 23 March 2018 and the report of the Auditor General had been furnished to the Chairman on 13 September 2018.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters described in Paragraph 1.3 of this report, the financial statements for the year ended 31 December 2017 had been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the financial position of the Batticaloa Municipal Council as at 31 December 2017 and the financial results of its operation and cash flow for the year then ended.

**1.3 Comments on Financial Statements**

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**1.3.1 Accounting Deficiencies**

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Following accounting deficiencies were observed.

- (a) The value of the stock is Rs.52,402,332 at the beginning of the year under review. But a board of survey for the value of the goods has not been conducted and shown in the financial statements. Because of this the existence of the stock is unknown.
- (b) The value of donated and purchased library books in the year under review had been amounted to Rs.15,410, which had not been disclosed in the financial statements.
- (c) The value of a motor cycle and laptop donated by UNOPS Institution during the year under review had not been calculated and disclosed in the financial statements.
- (d) The amount Rs.714,185 shown in the balance sheet as at 31 December 2017 had been adjusted with Fund raising instead of adjusting the accounts.
- (e) Suspense Account

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The debit balance of the Suspense Account as at 31 December 2017 amounted to Rs. 714,185 had been adjusted to the Accumulated Fund without identified and making adjustments to the relevant accounts.

**1.3.2 Non-compliance with Laws, Rules and Regulations**

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Instances of non-compliances with laws, rules, and regulations during the audit were observed below.

**Reference to Laws, Rules, Regulations etc. Non-compliance**

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| (a)   | Financial Regulations of the Democratic Socialist Republic of Sri Lanka. |   |
| (i)   | Financial Regulation 134(2)  | An Internal Audit examination programme of financial matters for the year under review had not been prepared.   |
| (ii)  | Financial Regulation 571   | The balance Rs.1,092,730 of miscellaneous deposits were found in 2013 and 2014. But no action had been taken to settle it or transfer it to income.   |
| (iii) | Financial Regulation 756   | A Survey had not been conducted by a Board of Survey since several years in respect of Library books.   |
| (iv)  | Financial Regulation 1645 and 1646                                       | The Daily Running Charts with the Monthly Performance Summaries of the Sabha's vehicles must be submitted to the Auditor General on 15 <sup>th</sup> of the following month, but the daily running Charts with the Monthly Performance Summaries of Sabha's vehicles had not been submitted to the Auditor General. |
| (b)   | Public Administration Circular No.41/90 dated 10 October 1990            | A fuel consumption test for vehicles had not been carried out by the Sabha.   |

**2. Financial Review**

**2.1 Financial Results**

According to the Financial Statements presented, the excess of Revenue over Recurrent Expenditure for the year ended 31 December 2017 had amounted to Rs. 74,268,918. Compared to this, the excess of Revenue over Recurrent Expenditure for the previous year amounted to Rs. 105,689,284 thus indicating deterioration of Rs. 31,420,366 in the financial results.

**2.2 Financial Control**

According to the Financial Regulation 371 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka., the sub imprest must be settled immediately upon completion of the fund provided for. But no action had been taken to settle the Rs.607,972 advance payment to multiple persons and companies on 5 occasions in 2013, 2014 and 2016.

## 2.3 Revenue Management

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Following observations are made.

(a) Rates and Taxes

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Rs.25,469,851 to be levied by the Sabha as a property tax from the year 2008 till the end of the year under review. But this amount includes taxes on tsunami affected territory, taxes for charity organizations, taxes for the territory occupied by the state, dual records and taxes for municipal properties.

(b) Recovery of Rent

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Rs.10,190,688 rent and allied income was to be levied in 2016. But the income to be levied in 2017 was Rs.16,359,604. This increase reflects a decline in income collection.

## 3 Operational Review

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### 3.1 Performance Review

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(a) Sustainable Development Goals

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According to resolutions at the 2015 Sustainable Development conference chaired by the Head of States of United Nations, no action had been taken to develop measurable indicators for the development Agenda to be achieved by the Sabha by 2030.

(b) Work-in-progress

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Rs.74,752,383 had been spent on public library construction work from 2011 to 2013, with the estimated cost of Rs.227 million. Construction of the building had been stopped halfway through and the council had not taken any action to complete the construction work by the end of the year under review. And if the building is not completed in 4 or 5 years, there is a possibility that its stability will be lost.

(c) Solid Waste Management

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Although "Thirupperunthurai" is being used to bury the solid waste by the sabha. The land has not been legally acquired. Also sewage waste is being dumped in Thirupperunthurai without the approval of the Central Environmental Authority. Thus, it had been observed that the effluent is discharged to environment without being purified.

- (d) Maintaining the welfare and prosperity of the maternal infant

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In accordance with the 2017 report of Batticaloa District Health Service Director, 137 (10.6%) were born under weight of 1290 children born in the Authoritative area of Sabha. Even though Rs.250,000 was allocated in the budget for maternal and child welfare by the Sabha, but the cost of the project had not been met. Further, 109, 136 and 98 under- weight children were born in 2014, 2015 and 2016 respectively. But no provision had been allocated in the Budget for the project by the Sabha.

- (e) Passenger Bus-stop

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The Road Development Authority has pointed out that the bus stand to be located in the Kalladi and Vipulannda Music College, 7km away from the A-15 road in Trincomalee – Batticaloa within the Authoritative area of the sabha. But people and bus drivers had to face a lot of problems as the bus station had been located about 6 meters away from the pointed out location.

### 3.2 Management Inefficiency

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Following observations are made

- (a) The loan arrears of 5 dismissed employees and 8 retired employees from 2012 to 2016 were Rs.265,678 and Rs.337,251 respectively. But no action had been taken to collect these from them or from the guarantors.
- (b) **Municipal hostel renovation**  
Even though, minor repairs were found in hostels of the Sabha, no action had been taken to correct them. As well as the Sabha had lost the rental income as it had not rented out all there hostels in March 2015 February 2017 and March 2017. And because the hostels were not corrected and used, there was an increase of mosquitoes. Thus the Sabha was likely to support the proliferation indirectly.
- (c) Rs.1,000,000 received on 31 December 2015 as preparation of report on completion of rehabilitation of Night Soil treatment Plant in Thiruperunthurai, under the Provincial Development Donation Programme from the Governor of the Eastern Province. But Rs.320,000 worth iron gate, electricity and water supply works had not been completed.
- (d) The security fund Rs.3,060,985 for the work completed from 2012 to 2015 had been shown in the deposit account without taking any action to repay the contractor or transfer them to income account.
- (e) **Lease of Vehicle Parking**  
The lease was issued by the Sabha on 1 January 2017 for levy of motor cycle and bicycle protection tax in Mathias Street amounted to Rs. 1,910,999. According to section 5 of the

lease agreement, parking and levying of vehicles on all roads other than Mathias Street is completely prohibited. But in the case of the field survey on 6 October 2017 and to this day, a tax is being collected on vehicles parked on other streets.

- (f) The value of Sabha's lands and buildings had not been assessed and disclosed in the financial statements to date. As a result, it is not possible to estimate the extend of income when renting or leasing the lands and buildings of the Sabha. Thus, annual income cannot be increased.

### **3.3 Assets Management**

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#### **3.3.1 Board of Survey Reports**

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As indicated in the original inspection report, the committee was set up to remove the items that needed to be removed but no action had been taken.

### **3.4 Contract Administration**

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#### **3.4.1 Construction of Night Fair**

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A market building was constructed at a value of Rs.30,950,689 to create a night market opportunity by the Sabha under the NELCIF Project. But no action had been taken to use it to date.

#### **3.4.2 Control over Construction and Maintenance**

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Work sheets had not been prepared for every work undertaken by the Department of Labour through the funds and grants of the sabha. As well as the raw materials provided for each specific job and other cost had not been mentioned.

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

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### **4.1 Budgetary Control**

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15% to 64% discrepancy between the budgeted amount of operating and the actual cost was observed. This it was observed that the budget had not been used as an effective way.

## **5. Systems and Controls**

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Special attention is required in respect of the following items of systems and controls.

### **Controls**

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- (a) Revenue Management
- (b) Budgetary Control
- (c) Accounting
- (d) Control of Fixed Assets
- (e)

### **Items that need special attention**

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- Taking action to recover the Revenue in arrears.
- The relevant issues should be analyzed and taken into consideration when preparing budget.
- The ledgers should be maintained regularly.
- (i) Maintenance of Fixed Assets register.
  - (ii) Taking action regarding the idle assets.
- Assess the value of the stock at stores and the value of the real property and disclose it to the financial statements.