

Batticaloa Municipal Council

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2019 had been submitted to audit on 19 February 2020 and the summarized Auditor General's Report relating to that financial statements was sent to the Council on 15 July 2020 and the detailed management report was sent on 19 June 2020.

1.2 Adverse Opinion

In my opinion, according to the effect of the matters described in paragraph of basis for adverse opinion of this report, financial statements not give a true and fair view of the financial position of the Batticaloa Municipal Council as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Adverse Opinion

1.3.1 Accounting Deficiencies

Accounting Deficiencies	Recommendation	Comments of the Accounting Officer
(a) The cumulative value of the lands and buildings belonging to the Council had not been brought into the financial statements.	Should be corrected in the future.	valuation for land, buildings and roads have not yet been made in the financial statements. Step by step in the future, these will be evaluated by a committee and included in the financial statements.
(b) Although the cumulative cost of machinery, vehicles, furniture and equipment and library books was stated as Rs. 261,784,806, the cost of the assets removed from the auction was not deducted from this amount and accounted for.	The cost of the disposed assets should be deducted from the cumulative value.	The cost of the auctioned assets cannot be known as these have not been assessed and corrected for some time. In the future, committees will evaluate these and, when auctioned, reduce their costs.
(c) A sum of Rs.31,986,900 was accounted for as payable on 12 occasions when no work / supplies / services / goods were received during the year under review. Of this, Rs.	Should be corrected in the future.	Actions will be taken to prevent this mistake in future.

16,281,020 had been brought forward as payable even after two years.

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| (d) | The purchase price of the Double Cab vehicle and bus was Rs.14,008,572 and although the initial documents state that the purchase was made using council funds, the value was credited to the government grant account for capital expenditure. | This is not the correct method. | Although the cost of the vehicles had been purchased with Rs. 14 million from the council fund, since this belonged to the council, it was debited to the relevant vehicle account and the assets were increased and credited to the government grant account for capital expenditure. |
| (e) | Revenue and expenditure related to projects implemented with the assistance of external institutions amounting to Rs. 33,410,387 had not been identified and presented in the financial statements. | It should be followed in the future. | Funds received from other institutions (other than PSDG, CBG) are not mentioned in the accounts as cash flows as they were given in advance. (Because it will be corrected later) In order to avoid such shortfalls in the future, supplementary estimates will be obtained and the value to be obtained will be shown as debtors in the financial statements. |
| (f) | Stamp duty of Rs. 50,829,200 for immovable property transferred and donations transferred in the year 2019, the 1% fee payable to the Provincial Treasury and the amount of Rs.137,000 due to be paid to the Registrar General of Lands was not calculated and stated in the financial statements. | It should be followed in the future. | This year, the balance is presented in a separate table of accounts and the balance is taken into account. Therefore, steps will be taken to prevent such mistakes in the future. |
| (g) | The value of missing water bowser in 2003 amount of Rs.6,860,650, and the value of the missing four-wheel tractor, were continuously presented as assets in financial statements and without taking action to remove from the accounts. | The value of the lost assets should be removed from the books | Because they do not have proper police records, they cannot be write-off from the books. In the future, on the advice of the Deputy Chief Secretary Finance, action will be taken to write-off. |
| (h) | The cost of the solar generator donated by GIZ in 2018 was Rs. 05 million, and it was not presented in the financial statements as an asset. | Action must be taken to activate. | Work is currently underway to implement this and the total value will be taken into account this year. |

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| (i) | The value of the unused quantity of other materials (wire, cement, stone, tar, polythene) purchased for Rs. 25,353,479 had not been brought to the yearend financial statements. | Store accounts need to be maintained. | These could not be accounted for due to non-maintenance of stores accounts. Even so, the balance materials are with the stores. Such deficiencies will not occur in the future as store accounts are maintained at present. |
| (j) | The missing and destroyed library books were continuously listed as assets in the financial statements, without deduct from the closing stocks. | Must be accurately identified. | The value of missing, destroyed library books has not been removed due to lack of records in recent years (no value) and details are not available. These are currently documented by software and will be corrected in the future. |
| (k) | The stocks of medicines in the Ayurvedic clinic had not been surveyed and brought to the final accounts. | Should be brought to the final accounts. | The stock of medicines in the Ayurvedic clinic was presented by the doctor on a monthly basis but they were not disclosed in the final accounts. This will be revealed by a list in the future. |

1.3.2 Lack of Documentary Evidences

Evidence before each of the following subjects mentioned in the financial statements had not been submitted for audit.

Audit Observation	Recommendations	Comments of the Accounting Officer
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(a) Five subjects of accounts amounting to Rs. 341,832,339 could not be satisfactorily verified during the audit due to non-submission of land deeds, asset documents, and proof for the ownership.	Need to submit the evidences.	Values for all of these will be listed, assessed by a committee and action will be taken to write-off the balance.
(b) Although Rs. 28,808,920 to be paid to the supply creditors had been disclosed in the financial statements for more than five consecutive years, the Council had no information on the relevant suppliers. Therefore, this balance could not be confirmed.	Action needs to be taken to rectify this quickly.	This balance has not been verified for several years and is being adjusted this year.

- (c) Although the stock balance of the warehouse advance account brought forward from the year 2018 onwards was Rs. 57,413,793, the Council did not have details of stocks equal to this value. Therefore, this balance could not be confirmed.
- Inventory details should be submitted
- At present the warehousing board of survey pertaining to 31.12.2019 has been carried out and the total value has been obtained after estimating the cost of most of them. However, since the value of some items has not been assessed, the value of those items will also be assessed and the store account will be reactivated in the year 2020.

1.4 Non-Compliances

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

Reference to Laws, Rules, Regulations and Management Decisions	Audit Observation		Recommendations	Comments of the Accounting Officer
	Amount	Non-compliance		
	Rs.			
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
(i) Financial Regulations 571	3,721,196	Action had not been taken regarding the deposits which have been submitted in the accounts for more than two years.	Must act in accordance with monetary regulations.	Not replied.
(ii) Financial Regulations 1645		Running charts and monthly summaries had not been submitted to the Auditor General.	The correct procedures should be followed.	Not replied.

- (b) 2.11.1(C) Guidelines of Government Procurement Guidelines. Pre-bids meetings was not held when purchasing 04 tractors, 02 garbage compactors and mini excavators. The correct procurement procedures should be followed. Not replied.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2019 amounted to Rs.87,466,270 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs.95,843,811.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue and Collected Revenue

Details of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year as per the information submitted are shown below.

Revenue Item	2019				2018			
	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	31,500,000	58,757,243	41,232,501	17,524,742	23,800,000	47,230,435	20,541,050	26,689,385
Rent	22,850,100	28,351,378	12,534,754	15,816,624	28,750,100	30,374,729	14,015,125	16,359,604
License Fee	11,640,000	13,427,672	10,683,589	2,744,083	11,145,000	13,036,787	10,949,115	2,087,672
Other Revenue	101,405,000	4,296,569	3,678,961	617,608	89,385,000	4,591,291	3,944,722	646,569
Total	167,395,100	104,832,862	68,129,805	36,703,057	153,080,100	95,233,242	49,450,012	45,783,230

2.2.2 Rates and Taxes

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) During the year under review, only 38,476 immovable properties were assessed without assessing on 42,477 fixed properties.	Dual registration should be avoided.	However, out of the number of properties, some properties have been registered twice and some have not been registered under the Municipal Council Ordinance. Therefore, these are being rectified. These shortcomings will be rectified in the future.

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| (b) | Property had not been revalued after 2012 for rates and taxes. | New property reassessments should be made expeditiously. | It is intended to re-evaluate the new rates in the near future. |
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2.2.3. Tax on Tourist Bangalow Income

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Taxes levied on existing hotels in the Municipal Council area had not been calculated and recovered.	Taxes on hotels should be levied properly.	Revenue arrears details of tourist hotels sent by you have been sent to the relevant tourist hotels on 03.09.2019. Action will be taken to charge 1% in future.

2.2.4. Stamp Duty

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
No steps had been taken to calculate and charge the additional stamp duty levied by the Eastern Provincial Inland Revenue Department on direct and mobile services in 2016, 2017 and 2018.	Stamp duty should be charged.	We have sent letters on 22.05.2019 requesting refund of stamp duty on property values charged in addition through mobile services.

3. Performance

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) By-Laws ----- Pursuant to Section 272 of the Municipal Council Ordinance, by-laws had not been prepared for key matters.	Action should be taken to prepare by-laws for key issues.	We will take action to obtain the approval after the meeting of the Provincial Council.

(b) **Action Plan**

Although it should be prepared sub rules in accordance with the provisions of Section 272 of the Municipal Council Ordinance and activities should implement according to that, an annual action plan had been prepared for such matters.

Should be properly prepared and implemented.

Annual Action Plan will be prepared and implemented for all our branches. Further, an annual action plan based on by-laws had not been prepared. Action will be taken to rectify this in the near future.

(c) **Solid Waste Management**

In order to carry out solid waste management in Tiruperumathurai in a more environmentally friendly manner, UNOPS had provided a sum of Rs. 616,090 in 2016 and a Land Cruiser vehicle worth of Rs. 50 million in 2018, but these funds were not used for these purposes and Rs.541,090 was kept in the deposit account. Rs.75,000 had been used for other purposes.

Funds provided for waste management should be used for the relevant purposes

Out of the Rs.616,090 provided by UNOPS, Rs.75,000 was used to set up the Municipal Council website. The remaining Rs. 541,090 is currently used for solid waste activities. At present, the arrears are Rs. 395,494.09.

(d) **Environmental Issues**

The Batticaloa tank has become polluted due to the disposal of sewage collected by the sucker machine, which does not belong to the council, contrary to the approved sanitation system of Tiruperumthurai. The environment is also polluted.

According to the hygiene system, fecal matter should be disposed of.

The disposal site was handed over to us by a Japanese company in accordance with the prescribed technical procedures and we maintain regular reports from the National Water Supply and Sewerage Board in this regard and as per their recommendations.

(e) **Failure to Achieve the Expected Results**

Costs of Rs. 02 million and Rs. 03 million were incurred for biogas production and incineration of hospital waste but failed to achieve the expected results (outcome)

Accurate feasibility study needs to be done.

Biogas production is currently underway, but it has become unworkable. The reason was that we decided to hand it over to the nearest police station and sent letters to them but we did not receive a reply and due to public protests, we were unable to establish this.

3.1 Management Inefficiencies

	Audit Observation	Recommendation	Comments of the Accounting Officer
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(a)	The Medical Waste Incinerator machine amounting of Rs. 2,624,800 purchased by the Municipal Council in December 2014 for incineration of waste in private medical institutions under the financial assistance of the Second Health Program (2nd HSDP) has been idle for the last 04 years up to the date of audit due to non-selection of a suitable location.	Arrangements should be made to use the relevant waste incinerator for the relevant purposes.	Work is now underway. Since the technical consulting engineer was a Chinese national, it was not possible to build it while he was here, so it could not be operated continuously.
(b)	In case of sale of a private land belonging to the Municipal Council area, a portion of it should be transferred to the Municipal Council for public facilities. The former governor had acquired 05 lands of 97-perch worth millions of rupees in the name of his wife and his name during the period 2003-2006. This was revealed in my last audit report but the Council had not taken any action on this.	Urgent investigations should be carried out in this regard.	Since such incidents occurred a few years ago, time is needed to survey this.
(c)	An agreement was signed between the Chairman of the Municipal Council and the CEO of Janathakshan (GTE) Ltd in February 2018 stating that the construction would be completed in February 2018 regarding the Bio Gas Plant with beneficial contents such as biogas production from biodegradable waste, compost manure production, solid waste management at a cost of Rs. 02 million, and although it was signed in February 2018 and the work was completed in September 2018, the production of Bio Gas has not yet been produced.	The production of biogas must be accelerated.	Although it was mentioned that activities of Bio Gas Energy should start production from 19 February 2018, as the first phase of this project 1000 Kg of dung should be collected in the same quality. There is a shortage of dung which delays the collection time. As a result, there are difficulties in taking further action. Although this goal cannot be achieved as stated in this project proposal, we will take appropriate action in the future.
(d)	Pursuant to Sections 185 and 186 of the Municipal Council Ordinance (Cap 252), previously unallocated expenses cannot be met by council funds other than adding unclassified receipts to council	This action is a violation of the relevant Act.	Certain goods, human resources and vehicles were provided in accordance with the provisions of Section 40 (a) of the Municipal Council Ordinance.

funds. However, although the House did not deal with any of the community centres mentioned as advances in 2019, the Municipal Council had submitted No Cash Receipts (MC 47) stating that advances amounting to Rs.12,620,559 made up to the date of the audit to 14 Community Centres in the Council area have been settled.

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| (e) | If there is a surplus in 2 current accounts of the Municipal Council, after deducting expenses from the income, and if the balance had been maintained in a fixed deposit or in an Overnight account with Bank of Ceylon or a Saving Corporation account with People's Bank, the Council could have earned Rs. 6,773,164 for the year 2018 and Rs. 7,126,252 for the year 2109. The Council had lost interest income of Rs. 13,899,416 due to non-identification of the above income sources. | Excess money needs to be invested. | The two current accounts maintained by the Council will be discussed with the Bank on your instructions and will be transferred in the future. |
| (f) | Rs.10,435,141 of Criteria Based Grants provided by the Eastern Provincial Council had been deposited in the current bank account for more than 04 years without being utilized for the relevant purposes. | Money should be invested to reap the benefits. | This value has been utilized for the relevant purpose for the last few years but the reason for such savings may be due to the fact that the work was less than the estimated value or was less due to competitiveness in entering into contracts. However, steps will be taken to avoid such shortfalls in the future and this will be transferred to the Public Deposit Account with the approval of the Council next year and added to the Accumulated Fund. |

3.2 Human Recourse Management

Audit Observation	Recommendation	Comments of the Accounting Officer
No action had been taken regarding 126 vacancies and 13 excess employees.	Vacancies should be filled up expeditiously and approvals for additional staff should be obtained.	Our office sends a report on vacancies and excess in staff to the Commissioner of Local Government in the East,

requesting that officers be appointed to fill the vacancies.

3.3 Identified Losses

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>Eastern Provincial Council has approved the development of Saththurakkondan Ozanam Road at a cost of Rs. 5.25 million with the 2019 Provincial Special Development Grant Foundation (PSDG). However, in the year under review, an advance of Rs.5,070,450 had been settled for the advance account without utilizing for 283m³ of concrete mix. But according to the engineer's report, only 210m³ of concrete had been laid on the road. Based on these documents, an additional amount of Rs.989,541 was shown in the accounts for a 75m³ concrete mix.</p>	<p>Future risks should be followed when making a payment.</p>	<p>Under the PSDG project, advances given for the 283m³ Ready-mix to Ozanam Road had been settled. But according to the engineer's report (Job Sheet) 324m³ was used. Accordingly, the balance has to be paid further.</p>

3.3.1 Idle Assets

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>The 6.125Kw solar generator donated by GIZ to the Municipal Council in the year 2018 had not been used.</p>	<p>It needs to be repaired on time.</p>	<p>I would like to inform you that this solar power generator has been sent back to the relevant company for repair due to malfunction due to lightning and lightning strikes.</p>

3.3.2 Vehicle maintenance

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) Out of the 77 vehicles in the Council, 24 was not in operation. The Council had not taken the necessary steps to make them operational, or to transfer them to other institutions or to remove them.</p>	<p>Non-driving vehicles must be repaired, used, or removed</p>	<p>Out of 77 vehicles, 7 vehicles are ready for sale at auction. 22 vehicles are used occasionally. The rest of the vehicles are fully used.</p>

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| (b) | 48 cars in the Council, in running condition have not been subjected to a fuel test for more than three years. | Fuel combustion should be checked | Fuel testing will be carried out on all vehicles in the future. |
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4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
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Internal audit activities had not been properly implemented during the year under review.	Internal audit work should be streamlined.	There were few internal audits activities carried out during the year under review.

4.2 Audit and Management Committee Meetings

Audit Observation	Recommendation	Comments of the Accounting Officer
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Audit and Management Committee meetings had not been established and conducted by the Council during the year under review.	Four meetings, to be held.	One meeting of the Audit and Management Committee had been held and 03 were scheduled to be held.

4.3 Unresolved Audit Paragraphs

Audit Observation	Recommendation	Comments of the Accounting Officer
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No action had been taken regarding the deficiencies No. 1.6.1(b), 1.6.2, 2.2.2.1, 2.2.2.2 and 3.1 revealed in the Auditor General's Report 2018 on the Municipal Council.	Losses incurred on public tax money should be recovered immediately.	The unresolved audit paragraphs you mentioned will be corrected this year.