

Jaffna Municipal Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Jaffna Municipal Council including the financial statements for the year ended 31 December comprising the statement of financial position as at 31 December 2020, 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 Municipal Council Ordinance (Cap.252) and provision 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 Jaffna Municipal Council as at 31 December 2020, 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

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 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 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 Urban 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.

- (a) The financial statements of the Municipal Council presented is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) 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 Observation -----	Comment of the Council -----	Recommendation -----
(a) Although the documents related to advances of Rs.5,358,866 receivables more than 05 years had been destroyed, they were shown as assets in the financial statements without making necessary adjustments.	These advances are outstanding balances from the year 1995. This will be investigated again in the general committee meeting.	Actions should be taken to settle the respective advances promptly.
(b) Non-current assets had been understated by Rs.153,773,505 due to the non-inclusion of land renovation and improvement expenses in the land and buildings account.	After receiving the government valuation of the assets, those values will be adjusted to the financial statements.	Accounts should be prepared in accordance with the principles and policies of accounting.
(c) Expenditure and current liabilities in the financial statements had been overstated by Rs.37,523,196 each due to the adjustment of purchasing street lights that have not been purchased, finishing 13 projects that have not been finished and repairing 09 vehicles that have not been repaired, to the sundry creditor account.	The value was entered in the creditor's account as the goods could not be received before the payment.	- Do -

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
The information about motor vehicles amounting to Rs.167,617,993 which were under fixed assets in the financial statements had not been submitted to the audit.	The valuation details of the assets will be included in future.	Actions should be made to provide the information required for the audit promptly.

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 2020 amounted to Rs.160,217,539 as compared with the excess of revenue over recurrent expenditure amounted to Rs.54,859,571 in the preceding year.

2.2 Revenue Administration

2.2.1 Revenue Collection Performance

Following are the observations regarding the revenue collection performance of the council.

Audit Observation	Comment of the Council	Recommendation
Actions had not been taken to collect Rs.2,493,543 of rent, Rs.7,719,669 of rates, Rs.1,365,001 of business license taxes which were more than 04 years and Rs.12,012,106 of court fine fees which were more than 03 years. And also, necessary actions had not been taken to recover Rs.1,097,077 of water charges and Rs.3,694,000 of stamp duties which were more than 02 years.	Actions will be made to charge in the future.	Revenue collection should be well managed.