

Kalmunai Municipal Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalmune Municipal Council including the financial statements for the year ended 31 December comprising the balance sheet as at 31 December 2020, Income and Expenditure Account and 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 Kalmune 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 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 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.

- 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.
- 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) The value of 44 lands and 55 vehicles owned and utilized by the Sabha had not been assessed and accounted and the action had not been taken to assess them at the end of the year under review.	The Action is currently being done.	The fair value of assets should be disclosed in the financial statements.
(b) The charges amounted to Rs. 2,046,823 to be paid to Kareithivu Pradeshiya Sabha for solid waste removal during the period of 2011 – 2015 had not disclosed in the financial statements.	Action will be taken to make corrections in future.	The payable financial cost should be disclosed in the financial statements.
(c) The receivables of Rs.308,640 from 6 notice boards that were displayed had not disclosed in the accounts.	Action will be taken to make corrections in future.	Receivable income should be disclosed in the financial statements.
(d) Receivable and advance received advertising fees are respectively Rs. 3,130,575 and Rs. 372,205 had not disclosed in the financial statements.	Action will be taken to make corrections in future.	Received income should be disclosed in the financial statements.

- (e) The value of Rs.1,406,487 of completed work on construction industries in the year of under review had not been capitalized. Action will be taken to make corrections in future. The cost of completed construction should be capitalized.
- (d) The received interest income of Rs. 13,876 from savings deposits had not disclosed in the financial statements. Action will be taken to make corrections in future. Interest income should be disclosed in the financial statements.

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. 4,368,372 as compared with the excess of revenue over expenditure amounted to Rs. 18,437,411 in the preceding year.

2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
Four inactive bank accounts with deposits of Rs.3,729,893, There was no reactivation or transfer to the Sabha's revenue.	Action will be taken to in future.	Documents should be properly updated.

2.3 Revenue Administration

2.3.1 Revenue Collection Performance

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
Rates and Taxes		

As per section 252(1)(b) of the Municipalities Ordinance, the amount of Rs. 91.6 million of rates taxes to be collected from more than a year by the 47,900 of immovable properties and lands in the municipality's jurisdiction, had not been recovered up to end of the year under review and legal action had not been taken against the owners of 14,769 assets in default of assessment payments.	Action had been made to recover non-taxable income.	The taxes should be collected within the specified period.

Rent

- | | | | |
|-----|--|---|--|
| (i) | In the year under review, the outstanding amount of Rs. 4,219,400 of Government bus stand shop, the outstanding amount of Rs. 3,907,615 of Kalmunai market shops, the outstanding amount of Rs.1,735,750 of Consolidated United Square shops, the outstanding of Rs. 613,995 of banana shops and arrears rent amount of Rs. 450,000 of private bus stand and shop premises had not been recovered. | The legal action is being taken against the owners. | Action should be taken to recover the revenue quickly. |
|-----|--|---|--|

License Fees

The receivable amount of Rs. 2,461,100 from 4,453 trading places in the jurisdiction of the Mahanagara Sabha had been recovered in the year under review.	Unable to recover due to bad condition.	Action should be taken to recover the income quickly.
---	---	---

Notice Board Fees

Even though the 870 notice boards were displayed in the sabha area, the amount of Rs. 539,890 had been charged only from 113 notice boards at the end of the year under review.	The relevant income is being charged currently.	Action should be taken to recover the income quickly.
---	---	---

3. Operational Review

3.1 Performance

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Council Ordinance are shown below.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
(a) In the period from 2017 to 2020, the amount of Rs.1,401,715 had been charged to reconstruction of the damage roads at the time of provide the connections to 1,951 beneficiaries by the	The action is currently being done.	The road reconstruction should be done quickly.

National Water Supply and Drainage Board in the Mahanagara Sabha area, but only 250 roads had been reconstruction by the Sabha.

- | | | |
|--|---|---|
| <p>(b) Even though it was informed that the amount of Rs. 124,969 equipment was purchased for students using the Sabha fund and handed over to a school at the date of 30 June 2015, those items had not been handed over to the school at the end of the year under review.</p> | <p>The relevant action is currently being done.</p> | <p>The action should be made to provide equipment to the selected school.</p> |
|--|---|---|

3.3 Defects in Contract Administration

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
<p>Even though the all contract works done by the Municipal Council should have been certified by the Municipal engineer and payment should have been made according to the standard contract documents and contract conditions, the value at Rs. 38,862,954 of 16 contract works had been certified and paid by the technical officer contrary to that.</p>	<p>Currently certified by the engineer.</p>	<p>The payment should be made according to the standard contract documents and terms of agreement.</p>

3.4 Resources Released to Members

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
<p>The shops No. 08 and No. 10 of United Square Trade Complex were leased to two members of the Sabha since March of 2018 contrary to the section 180 of the Municipal Council Ordinance.</p>	<p>The files have been forwarded to the Legal Department for legal action.</p>	<p>The action should be taken according to the Law.</p>