

Bataloa Municiple Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Bataloa Municiple Council including the financial statements for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020, Income and Expenditure Account, Cash Flow Statement for the year 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 the Municipal Councils Ordinance (Chapter 252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Bataloa Municiple Council as at 31 December 2020, and of its financial performance for the year then ended in accordance with generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion 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 Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha 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.
- (b) The financial statements presented includes all the recommendations made by me in the previous as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(i) Apart from land and buildings, other assets costing Rs.267,903,824 are used daily by the company but the depreciation and accumulated depreciation allocation for that was not shown in the financial statements.	Depreciation is done after its value is assessed.	Financial statements should be prepared accurately.
(ii) Although the cumulative cost of machinery, vehicles, Furniture and equipment and library books is given as Rs.267,903,824, the cost of assets disposed of through auctions had not been removed.	The value of all items will be shown.	Financial statements should be prepared accurately.
(iii) The cost of books worth Rs.1,475,000 lost in the Tsunami of the year 2004 had been removed from the accounts of the year under review without the approval for write-off.	Actions will be taken in such a way that such errors do not occur in the future.	Formal approval must be obtained to remove values included in the financial statements.
(iv) Out of Rs.61,692,603 stamp duty on immovable property transferes by dowries and gifts in the council area in 2018, 2019 and the years under review, 1% fees or Rs.616,926 payable to the Eastern Provincial Treasury and Rs.170,900 payable to the District Land Registrar General were not shown in the financial statements.	This time, as per your instructions, everything has been disclosed in the financial statements.	Financial statements should be prepared accurately.
(v) A sum of Rs.13,000,000 had been accounted for as expenses in the general store account, but in the accumulated fund account the same value was shown as Rs.14,428,072.	Actions will be taken in such a way that such errors do not occur in the future.	Financial statements should be prepared accurately.

(vi)	The creditor balance of the council was stated as Rs.89,370,199 at the beginning of the year under review, but at the end of the year it was disclosed in the financial statements as a zero balance. But at the end of the year under review the value of outstanding creditors was Rs.25,986,899.	Such errors will not occur in the future.	Financial statements should be prepared accurately.
(vii)	The Batticaloa Manmune North Divisional Secretariat had given the Municipal Council Rs.12,534,735 to pay for contract works, but the amount was not disclosed under financial activities in the cash flow statement.	Such errors will not occur in the future.	Financial statements should be prepared accurately.
(viii)	The value of the contribution made by the government towards capital expenditure was not reflected in the financial statements.	These will also be accounted for in the future.	Financial statements should be prepared accurately.
(ix)	A sum of Rs.33,410,387 due from the District Secretariat and Divisional Secretariats and other local government institutions for the year 2019 and the year under review were not shown in the financial statements.	Such errors will not occur in the future.	Financial statements should be prepared accurately.
(x)	The value of the water bowser and the four-wheeled tractor of Rs.6,860,650 missing in the year 2003 were not removed from the accounts and were continuously shown as assets in the financial statements.	This will be write-off this year after taking your advice.	Financial statements should be prepared accurately.
(xi)	A sum of Rs. 31,514,139 of contributions payable to the pension department according to the last year's financial statements, were not disclosed as liabilities in the financial statements.	This will be disclosed in the financial statements in the following year and arrangements will also be made to settle in installements.	Financial statements should be prepared accurately.
(xii)	According to the memorandum of understanding between the Batticaloa Municipal Commissioner and the Manmune North Divisional Secretary in the year 2020, for the works performed by the Batticaloa Municipal Council in the year under review, the shortfall receipts amounting to Rs.5,615,613 were not disclosed in the financial statements.	Such errors will not occur in the future.	Financial statements should be prepared accurately.

- (xiii) During the year under review, charges receivable on income of tourist resorts amounting to Rs.4,409,641 were not disclosed in the financial statements. were not disclosed as assets in the financial statements. Financial statements should be prepared accurately.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs.117,648,379 as compared with excess of revenue over recurrent expenditure amounted to Rs.77,381,609 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
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(a) The biogas system constructed at a cost of Rs.1,778,000 in the Kottei Munei market area was constructed in September 2018 but had not generated any revenue by the end of the year under review.	Actions will be taken to generate income.	Steps should be taken to generate income through the project.
(b) The Council had not collected Rs.2,986,815 in arrears of tax not exceeding 1 percent of the total turnover to be collected from hotels, restaurants and tourist resorts engaged in the tourism industry for the periods of 2016, 2017 and 2019.	Letters were sent to recover the arrears, but they were not paid.	Actions should be taken to recover the arrears.