

Jaffna Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Jaffna Municipal Council for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information was carried out 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 provisions of section 219 of Municipal Council Ordinance (Cap.252) and 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 accompanying financial statements give a true and fair view of the financial position of the Jaffna Municipal Council as at 31 December 2021, 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 Sub 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 skepticism 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Municipal Council 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 had included all recommendations made by me in the previous year except the observation (a) indicated in the paragraph 1.6.1 of this report 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 construction material expenditure on land and land reform was incurred in previous years, it had not been included in the value of land and buildings, thus non-current assets and government revenue subsidy for capital expenditure had been understated by Rs. 153,773,505.	In order to include the value of the land and buildings of our council in the financial statement, the value of these has been submitted to the Department of Valuation for valuation. However, as we are unable to obtain the complete valuation of the assets from the Department of Valuation, the value is not included in the previous and current financial statements.	It should be ensured that the activities are completed in accordance with accounting policies and records are made and that errors should be rectified.
(b) Due to non-capitalization of 03 capital development works worth Rs 7,031,213 carried out through LDSF Fund of the year under review, non-current assets and government revenue subsidy for capital expenditure had been understated in the financial statements.	The land and buildings in the name of our council had not been included in the non-current assets due to non-valuation of their values. This error will be rectified and capital development works carried out will be included in the preparation of final accounts of 2022.	It should be ensured that the activities are completed in accordance with accounting policies and records are made and that errors should be rectified.
(c) Although purchase of 08 item, 18 vehicle repair works and 78 work schemes had not been completed by the council in the year under review, payment vouchers had been prepared therefor and included in the	Steps will be taken to complete the work on time in future.	Entries should be made in the accounts only after the works are completed.

sundry creditors account, thus expenses and current liabilities had been overstated by Rs. 135,021,292 in the financial statements.

- | | | |
|---|---|---|
| <p>(d) A stock of Rs 2,337,669 remained relating to the goods of water work section and electricity section as at 31 December 2021 had not been included in the financial statements in the year under review, thus current assets and revenue surplus had been understated.</p> | <p>So far, a request had been made under vote head and the amount for the items has been fully spent in the current year itself. At present, the goods have been received on advance basis from 01 September 2022 and steps have been taken to add them to the account at the end of the year in a proper manner.</p> | <p>Actions should be taken to include said values in the non-current assets by ensuring timely disclosures are made in accordance with accounting policies.</p> |
| <p>(e) 1378 number of library books purchased through council funds and 647 number of library books purchased in the year under review had not been included in the assets, thus fixed assets and government revenue subsidy for capital expenditure had been understated by Rs. 1,041,890 in financial statements.</p> | <p>Action will be taken to include 1378 and 647 number of library books purchased through the council funds in the assets and show in the financial statements.</p> | <p>Actions should be taken to include the said values in non-current assets by ensuring timely disclosures are made in accordance with accounting principles.</p> |

1.6.2 Non-submission of Documentary Evidence for Audit

Item -----	Amount Rs. -----	Evidence not submitted -----	Comment of the Council -----	Recommendatio n -----
Opening balance of assessment tax	116,183,594	Non- confirmation of periods	Balances cannot be distinguished in the software maintained by the council. It will be developed and disclosed in future.	-- The years to which the value belongs should be disclosed.

1.7 Non-compliances

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

Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Comment of the Council	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 571	Deposits valued at Rs. 22,339,964 more than 02 years had not been settled by the council up to now..	Steps have been taken to rectify the balance amount.	Appropriate action should be taken in respect of said deposits in terms of the provisions of the Financial Regulations expeditiously.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs. 272,824,761 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 160,217,539.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observations	Comments of the Council	Recommendations
(a) Rates and Taxes The values of 40346 number of properties under the purview of the council had not been reassessed for recovery of assessment tax after the year	When the Mayor directly interacted with the Chief Valuer regarding asset revaluation, immediate revaluation was not possible	Meaningful actions should be taken to make efficient revenue collection management and

2010, thus there has been a loss of assessment tax to the council. Also, it was observed that no meaningful actions have been taken to recover the arrears of assessment tax of Rs. 140,874,328 recoverable on lands and constructed houses and buildings comes under the purview of the municipal council.

due to lack of personnel and a large number of assets in the council. It is not possible to trace the property owners of the vacant plots as most of the property owners live in outlying districts and abroad.

recover arrears quickly and meaningful actions should be expedited regarding the said arrears.

(b) Rent

Lease arrears of Rs. 7,201,257 remained without being recovered for more than 05 years.

Legal action has been taken to recover the arrears of lease.

Meaningful actions should be expedited regarding the said arrears.

3. Operational Review

The matters observed in respect of execution of activities that should be executed under Section 4 of the Urban Councils Ordinance such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Identified losses

Audit Observations

Comments of the Council

Recommendations

(a) A fee should be recovered for the licenses issued for the advertisement boards installed under the purview of the municipal council in accordance with Section I of Chapter 4 of the Municipal Council Act. It was observed during the field inspection on 15 March 2022 that the fee had not been recovered for 15 number of advertisement boards installed. This resulted a loss of Rs 1,229,160 in income for the year 2021.

In unrecovered advertisement fee specified by you. first and second notice has been sent to the said advertisers in 2021. Out of that, a sum of Rs. 596,925.00 had been recovered. Details are provided to revenue supervisors for balance recovery and follow-up actions.

Meaningful actions should be taken in accordance with the provisions of said act.

- | | | | |
|-----|--|--|---|
| (b) | Bids had not been called and awarded for market stalls that lease out annually by the council during the period under review, thus the annual loss of income to the council was Rs. 5,076,019. | The council has suffered loss of income as no one has come forward to lease the market meat stalls despite following a continuous bidding procedure on the matter. | Meaningful actions should be taken to utilize the assets of the council to generate income. |
|-----|--|--|---|

3.2 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations	
-----	-----	-----	
(a)	It was observed during the audit that 07 vehicles had been included by the vehicle section in the non-repairable category for a period of more than 02 years during the year under review, but the approval in this regard had not been obtained from the mechanical engineer.	The answer to this query has already been sent to you through our same letter number dated 25 July 2022.	Meaningful actions should be taken quickly in terms of provisions of the circular.
(b)	Even though the documents related to the advances of Rs. 5,358,866 which have not been settled by the Municipal Council over the last five years, have been destroyed, no meaningful action had been taken in this regard., the value of the assets had been overstated due to the fact that they are still being disclosed as assets in the statement of financial position.	A letter was sent to the Honorable Governor on 11 November 2021 for approval to settle the unpaid advances of the council amounting to Rs. 5,358,866 for more than 05 years. By the Governor's letter dated 06 August 2022 some defects have been mentioned and some documents have been requested. Actions are being taken in that regard.	Meaningful actions should be taken in this regard as soon as possible.

3.3 Assets management

Audit Observation	Comment of the Council	Recommendation
-----	-----	-----
(a)	Failure to take over assets Action had not been taken to assess the value of 51 land and buildings owned by the council and disclose them in the financial statements.	No answer given. Effective measures should be taken to assess the value of assets owned by the council and include them in the financial statements.

- | | | | |
|-----|---|------------------|--|
| (b) | The council had not transferred the ownership of 45 lands to the name of the council. | No answer given. | Steps should be taken to transfer the ownership of the lands to the name of the council. |
|-----|---|------------------|--|

3.4 Human Resources Management

Audit Observation -----	Comment of the Council -----	Recommendation -----
<p>Employee Loan No meaningful action had been taken by the council to settle the employee loan arrears of Rs 933,643 relating to distress loan, festival advance and special advance due from 154 officers who were dismissed and salary suspended by the council and retired for over 02 years.</p>	<p>Appropriate action is being taken regarding the said activities.</p>	<p>Steps should be taken to collect the loan arrears in due time.</p>