

Badulla Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Badulla Municipal Council including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and 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 which should be read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252) and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared 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 Badulla 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 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 preparing 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

Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- (a) In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Municipal Council are consistent with the preceding year.
- (b) In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Audit Observations on the preparation of Financial Statements Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although at the end of the year equity had been Rs. 1,091,153,344 in accordance with the statement of changes in equity, it had been stated as Rs. 1,089,967,449 in the statement of financial position, and a difference of Rs. 1,185,894 had been observed.	It has been mentioned that It would be rectified in the next year.	Accounts should be correctly prepared.
(b) The double cab worth of Rs. 3,500,000, which had been received as a grant in the preceding year, had not been included in the financial statements.	It has been mentioned that it was not included in the financial statements by mistake and it would be rectified in the future.	Accounts should be correctly prepared

2 Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the council for the year ended 31 December of the year under review amounting to Rs. 41,059,734as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 22,795,151.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
Rates in arrears amounting to Rs 29,589,267 of 353 government institute assessment tax units and 16755 private assessment tax units from the year 2016 had not been recovered even in the year under review.	It has been mentioned that revenue collection had not been done properly due to covid situation.	Arrears of rates should be collected.

2.2.2 Surcharges

Audit Observation	Comments of the Council	Recommendation
Rs. 3,673,000 related with 03 surcharges of 34 parties, which had been imposed by the Auditor General in the year 1994, 2004 and 2007 in accordance with the section 226(1) of the Municipal Councils Ordinance, had not been collected even as at 31 December of the year under review.	It has been mentioned that action would be taken to collect outstanding surcharges.	Surcharges should be collected.

3. Operational Review

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 Councils Ordinance are shown below.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Urban Development Authority had been entered into an agreement on 08 January 2008 with a leaseholder to lease Badulla restaurant for a period from the year 2008 to 01 January 2023 with a condition that a monthly management fee of Rs. 150,000 should be paid to Badulla Municipal Council. As at 31 October 2021, lease holder had not paid arrears of restaurant	It has been mentioned that the case which had been filed in Badulla district court to recover arrears of management fees has been rejected and an appellate case has been filed in Uva provincial civil court.	Revenue of the council should be collected.

charges amounting to Rs. 2,975,280 to municipal council, and municipal council had filed a case in civil appellate court to recover arrears on 23 November 2021.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
----- Action had not been taken to collect the balance of dishonoured cheque account amounting to Rs. 2,148,709 which is coming from the year 2016 and number of cheques related with that unable to find.	----- It has been mentioned that It would be rectified in the year 2022.	----- Dishonoured cheque amounts should be collected promptly.

3.3 Asset Management

Audit Observation	Comments of the Council	Recommendation
----- The insurance company had reimbursed Rs. 996,500 on 29 January 2015 for the repairing expense of Rs. 1,314,750 of the ambulance which had been in an accident on 14 June 2014. As Municipal Council had not paid further Rs. 318,250 to the institute which has repaired the ambulance, that institute had filed a court case against Municipal Council, and Municipal Council had incurred Rs. 96,500 on litigation so far.	----- It has been mentioned that Sri Lanka Insurance Corporation had been called to the conciliation board, but they have not come and a case has been filed because of that.	----- Management should take responsibility of the decision of repairing the vehicle as the agency of the auto manufacturing company has informed that repairing the vehicle was ineffective.