

Kalmunai Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalmunai Municipal Council including the financial statements for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021, 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 accompanying financial statements give a true and fair view of the Balance sheet of the Kalmunai Municipal Council as at 31 December 2021, and of its Income and Expenditure Account and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

Based on the matters described in paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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 year 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 Defficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The solid waste disposal fee of Rs.2,046,823 payable to Karaitivu Pradeshiya Sabha during the period 2011 – 2015, was not shown in the financial statements.	Corrective action will be taken in the accounts of the next financial year.	Financial statements should be prepared accurately.
(b) The works completed during the year under review, costing Rs.8,893,624 have not been capitalized.		
(c) Meet stall rental income of Rs.2,249,000 for the year under review was shown as Rs.3,985,000 in the financial statements.		
(d) Stamp duties receivable amounting to Rs.50,116,068 and court fines amounting to Rs.4,530,551 were not disclosed in the financial statements.		
(e) The value of the road handed over in the year under review by the Divisional Secretariat at a cost of Rs.1,280,500 was not accounted for.		

- (f) The fish market lease revenue collected in the year under review was Rs.6,115,000 but in the financial statements it was stated as Rs.10,000. The rest will be rechecked and corrected. - Do -

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.1,518,335 of other Sundry Creditors between balance as per financial statements and balance as per ledger.	The books will be corrected and the accounts will be corrected in the next financial year.	Correct values should be entered in the financial statements.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs.5,123,295 as compared with the excess of revenue over recurrent expenditure amounted to Rs.4,368,372 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
There were Rs.691,098 in 03 bank accounts as at 31 December of the year under review and arrangements were not made to utilize them during the year.	Action will be taken to utilize or transferr to income.	Action should be taken to utiliz or transferr to general account.

2.3 Revenue Administration

Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes The arrears of rates and taxes at the beginning of the year were Rs.83,127,000, of which the recovered amount during the year were Rs.10,000,000, and there was a balance of Rs.73,127,000 which was due from 01 to 20 years.	Due to the bad situation in the country and employee vacancies, the rates and taxes could not be collected within the stipulated period. .	Revenue should be recovered promptly.

(b) **Rent**

- (i) Action has not been taken for more than 05 years by the Municipal Council to recover Rs.11,046,198 from 588 tenant owners for renting shop rooms located in Kalmunai Public Market building complex, Due to the bad situation in the country, it was not possible to collect within the specified time frame . - Do -
- (ii) Rent receivable up to 31 December of the year under review from leases on tenders was Rs.27,805,368 and Out of which Rs.25,836,299 have not been collected by the Municipal Council for more than 10 years. Due to the bad situation in the country, it was not possible to collect within the specified time frame - Do -
- (iii) 02 stalls located at the government bus stand were rented to the Sri Lanka Transport Board and the Municipal Council had not taken steps to collect the outstanding rent of Rs.1,070,000 due from the said board for over 4 years. Steps have been taken to recover. - Do -

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
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(a) In terms of section 247 (e) of the Municipal Council Ordinance (Chapter 252), arrangements were not made to collect one percent fee of Rs.671,800 on the sales value of Rs.67,180,000 from 91 immovable properties sold in the council area and due to this, the council had lost an income which should have received.	Action will be taken to recover in the future.	According to the Municipal Council Ordinance, one percent fee should be levied on the sale value of immovable property.
(b) A sum of Rs.825,500 had been collected from 315 customers in the divisions under the jurisdiction of	Steps are being taken to restore the dug-out roads.	Steps should be taken to restore the dug roads.

the Municipal Council in the year under review in order to restore the roads dug by the National Water Supply and Drainage Board to provide water connections, but 165 of these roads had not been renovated by the Municipal Council by the date of the audit.

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| (c) | Actions were not taken to assess and account for the total value of 99 land and vehicles owned and used by the council. | The related work is currently being done. | Assessing and accounting should be expedited. |
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3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) The Municipal Council had not taken steps Even up to the date of audit, to distribute “K” forms to the owners to collect property tax for 3,421 property units located in 07 villages of the Municipal Council area. Aso, problems have arisen in the collection of property tax from the property owners who have transferred property and there has been a delay in collecting them within the prescribed time frame, due to the failure of the Municipal Council to take action to formally include the names of 3,495 property owners in the property tax register who transferred property in the 23 Divisions of the Municipal Council.	Due to the bad situation in the country and employee vacancies, it could not be collected within the specified time frame.	Action should be taken to issue “K” forms. Steps should be taken to formalize an efficient system to include the names of the owners of the transferred property in the property tax register.
(b) Although, in accordance with Section 9 of the agreement entered into by the Municipal Council regarding the rental of stalls in Kalmunai Public Market, if the stalls are closed for more than one month continuously, the reasons for that must be notified to the mayor or commissioner or an authorized officer of the Municipal Council and approval should be obtained, 55 shops on the	Action will be taken in future.	The terms of the agreement should be followed.

upper floor of the council were continuously closed without doing so.

3.3 Assets Management

Audit Observation

No action was taken by the Municipal Council for more than 10 years to renovate and rent out 15 stalls located in Kalmunai Public Market building complex and 153 stalls which were built temporarily after.

Comments of the Council

Action will be taken to renovate and rent it out.

Recommendation

Action should be taken to renovate and rent it out.