

Badulla Municipal Council - 2022

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 2022 comprising the Statement of financial position as at 31 December 2022, 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 financial statements give a true and fair view of the financial position of the Badulla Municipal Council as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2. Basis for Qualified Opinion

My opinion is qualified based 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 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 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 Municipal Council 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 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 Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The assessment fees of Rs.8,000,000 deposited in the Badulla Divisional Secretariat for the acquisition of the Galkanda Sports Ground in the year under review, had been stated as land and building improvement expenses in the statement of financial operations.	Actions will be taken to correct in this year and to include in land and buildings in the non-current assets.	Accounts should be accurately prepared.
(b) A sum of Rs.318,250 payable to an external party for the repair of the ambulance of the Council in the year 2015, was not accounted for as current liabilities in the statement of financial position.	Actions will be taken to rectify by the final account of the year 2023. Further, if the payment is not made in this year, arrangements will be made to include in the creditor's register as a contingent liability.	-do-
(c) The machinery purchased in the year under review with the provisions of the Regional Development Assistance Project valued at Rs. 706,000 had not been accounted for.	Actions will be taken to rectify through the final account.	-do-
(d) Although the court fine income was Rs.8,533,589 in the year under review, it had been stated in the statement of financial operations as Rs. 8,306,934 and, although the outstanding court fine income as at 31 December the year under review, was Rs.2,193,896, it had been shown in the statement of financial position as Rs.1,967,240.	Actions will be taken to adjust through the year end financial statements.	-do-

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| (e) | Although the stamp duty income of the year under review was Rs.49,000,596, it had been stated as Rs.35,451,725 in the statement of financial operations, and although the outstanding stamp duty income as at 31 December of the year under review was Rs. 34,396,764, it had been stated as Rs. 20,847,893 in the statement of financial position. | -do- | -do- |
| (f) | The provision for creditors amounted to Rs.3,245,495 had been made for an industry whose project had not been commenced as at 31 December of the year under review and an industry for which there was no work completion report. | As the one industry was entered into agreements, it had been included in the creditor's register and that the estimated amount has been included for the industry where the project has not been commenced. | -do- |
| (g) | A settled industrial creditor balance of Rs.1,706,003 had been included in the sundry creditor balance as at 31 December of the year under review. | Actions will be taken to rectify the amount entered as creditors for the two projects by the final account 2023 . | -do- |
| (h) | Although the balance of the property, plant and equipment account as at 31 December of the year under review was Rs.1,030,211,523, the total of contribution from revenue to capital application and miscellaneous donation accounts had been shown as Rs.1,026,781,080 in the statement of financial position. | This is a balance that has been remaining since 2015. That will be rectified by the final account of the year 2023. Actions will be taken to be rectified by the final account of the year 2023. | -do- |

1.6.2 Lack of Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of evidence regarding returned cheques register, date of receipt of cheques, from whom and for what purpose etc. in respect of returned cheques account balance valued at Rs.1,872,710, it could not be satisfactorily vouched in audit.	Since no evidence can be found actions will be taken to be further checked by a committee.	Written Evidences which confirm the account balances shown in the financial statements should be submitted.

1.7 Non - compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation	
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka	Paragraph 4 of Chapter xxiv	The outstanding debt balances to be recovered from 24 employees who had left service and are in arrears from 10 years amounted to Rs. 823,936 had not been recovered even up to end of the year under review.	There are 22 officers who have left the service and their outstanding have been suspended and letters have been sent to the relevant institutions where they have been transferred to recover.	Outstanding employee loans should be collected promptly.
(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka	Financial Regulation 104 (4)	An ambulance belonging to the Badulla Municipal Council met with an accident on 16 June 2014 in Kiriella area. The full report on the accident had also not been submitted for audit even by 31 December of the year under review.	The final report has been forwarded to the Provincial Council by the Local Government Department and that it has been sent in a letter to the local government department due there were defects.	A full report should be submitted within 03 months of the occurrence of accidents as per to the Financial Regulations.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Council was Rs. 40,985,192 for the year ended 31 December and the correspondence revenue that exceeded the previous year's recurrent expenditure was Rs. 41,059,734.

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

The information about the estimated income, billed income, collected income and arrears of income presented by the Mayor for the year under review and the previous year are as follows.

Source of Income	2022				2021			
	Estimated income Rs.	billed income Rs.	Collected Income Rs.	Arrears as at 31 December Rs.	Estimated income Rs.	Estimated income Rs.	Collected Income Rs.	Arrears as at 31 December Rs.
(i) Rates and Taxes	24,960,000	13,732,830	7,595,197	6,137,633	24,960,000	18,202,787	9,981,382	8,221,405
(ii) Rent	54,318,701	54,439,651	47,963,609	6,476,042	54,318,701	30,365,594	27,400,211	2,965,383
(iii) License Fees	19,122,500	18,736,414	17,376,264	1,360,150	23,222,500	15,681,367	14,886,842	794,525
(iv) Others	18,348,000	15,755,208	12,235,655	3,519,553	18,348,000	10,400,480	7,394,074	3,006,406
Total	116,749,201	102,664,103	85,170,725	17,493,378	120,849,201	74,650,228	59,662,509	14,987,719

2.2.2 Performance in Revenue Collection

The observations regarding the revenue collection performance of the Council are as follows.

Audit Observation	Comments of the Council	Recommendation
(a) The rates amounted to Rs.15,214,562, trade stall fee amounted to Rs.1,782,000, shop rent amounted to Rs.1,125,625, shop lease rent amounted to Rs.695,769, underground shop rent amounted to Rs.837,600 and vehicle parking fees amounted to Rs.13,870,215 remaining for more than 2 years had not been collected during the year under review either.	Actions will be taken to collect.	Relevant legal actions should be taken and the arrears should be recovered promptly.
(b) Court fines amounting to Rs.490,901 and stamp duty amounting to Rs.10,995,079 to be collected as at December 31 of the year under review had not been collected.	Out of the court fines receivable in the year under review amounted to Rs. 1,967,241 , a sum of Rs.1,476,339 has been received so far. Out of the stamp duty of Rs.20,847,893, a sum of Rs.9,852,813 has been received.	Outstanding court fines and stamp duty should be collected.

2.2.3 Surcharges

Audit Observation	Comments of the Council	Recommendation
The 03 surcharges imposed by the Auditor General in the years 1994, 2004 and 2007 in accordance with the provisions 226(1) of the Municipal Council Ordinance amounting to Rs.3,754,000 had not collected even by 31 December of the year under review .	Legal actions have been taken to recover the surcharged amount and it is being functioned accordingly.	The surcharges should be recovered promptly.

3. Operational Review

3.1 Performance of Functions Enacted by the Act

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 4 of the Urban Council Ordinance are as follows.

Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
About 15 tons of garbage collected daily in the municipal area had been taken to the garbage yard and used for compost production and around 25 tons of non-biodegradable waste and decomposable waste had been kept for a long time in a limited space in the garbage yard without being used for fertilizer production.	The collected garbage is sorted out. From it, arrangements have been made to sell the recyclable materials of economic value, and the decomposing waste is prepared and sold as compost fertilizer.	The garbage should be disposed of properly and it should be utilized for fertilizers production or to be recycled.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the lease rent should be revised once in 05 years in terms of Local Government Commissioner Circular No. 1980/46 dated 31 December 1980, a number of 697 shops were still being charged the assessed rent based on the year 2015, even by 31 December of the year.	The assessment office has been informed to provide the assessment reports related to the collection of fines and actions have been taken to charge as per assessment reports in respect of shops for which assessment reports have been received.	The lease rent should be revised once in 05 years and the income should be increased.

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| (b) | Even though the approval of the Council had been received for the disposal of 05 vehicles valued at Rs.4,625,000 belonging to the Council, those assets had been included in the property, plant and equipment of the statement of financial position. | Even though the Council Decision regarding vehicle dispose has been received, as all disposes were not over, it has been shown in the property, plant and equipment account by the account 2022 . | Accurate accounts should be prepared. |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation	
(a)	<p>The canteen in the Badulla Senanayake Park had been sub-leased for 25 years from 30 August 2001 at a monthly rent of Rs.5,000. According to the terms of the agreement, although the agreement should be renewed for 05 years, it had not been so done, and a new section had been added adjacent to the shop front to block the road in violation of the terms of the agreement.</p>	<p>An assessment report was requested in the year 2014, and based on the assessment report received in the year 2016, the shop rent has been revised. A field inspection has been conducted on 05 December 2022 and arrangements have been made to obtain a report. According to the report, a new assessment has been applied for and a monthly instalment of Rs.58,500 was received on 26.04.2023. Accordingly, steps have been taken to revise and charge the monthly fee.</p>	<p>Actions should be taken in terms of the regulations of the agreement and actions should be taken against unauthorized constructions.</p>
(b)	<p>The land called "Rideepanawatta" with an extent of of 22 acres, rood 01 perches 05 in Ridipana area, Badulla, had been transferred to the Badulla Municipal Council by a deed of gift dated 29 June 1994 certified by a Notary Public in a manner of irrevocable to the Mayor, Members and Staff of the Badulla Municipal Council. The Former Mayor had amended the ownership of the above land, which had been owned by the Badulla Municipal Council informally, to the position of the Mayor of the Municipal Council and the Attorney of the Land through a rectification deed.</p>	<p>The matters mentioned in respect of the Badulla Rideepana Watta land are confirmed.</p>	<p>The properties belonging to the Municipal Council should be protected.</p>

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) (i) An agreement had been entered into with the Urban Development Authority on 18 January 2008, to lease out the Badulla Rest House building to an outside party for a monthly management fee of Rs.150,000 from 2008 to 2014. The Rest House building had been handed over to the Municipal Council by Gazette No. 1589/20 dated 19 February 2009 of the Democratic Socialist Republic of Sri Lanka, and the arrears of management fees amounted Rs. 2,975,280 to be collected from the year 2012 to the year 2014 had not been recovered even up to 31 December of the year under review.	The judicial actions have been taken for the arrears due from the Rest House building.	The outstanding management fees should be charged.
(ii) The Rest House building with 20 rooms with high commercial value and situated in the heart of Badulla town and it was used to run the Municipal Council office from the year 2017 to June 2020, and although the Municipal Council Office had vacated the building, the Rest House building had remained in idle from June 2020 to December 31 of the year under review without being used it for any revenue generating purpose.	That the Council decisions have been taken on several occasions to turn the building into an income generating path.	The assets belonging to the Council should be used for income generating purposes.
(b) Even though the necessary arrangements should be made for the removal of dilapidated vehicles from government institutions or for the repair of vehicles that can be put into working condition under Financial Regulation 770 (4) of Section (1) Paragraph 13.2 of Public Finance Circular 01/2020, the above measures had not been followed in respect of 08 vehicles valued at Rs.8,570,000 owned by the Council that cannot be identified the time put out from use .	The necessary documents for the disposal of vehicles have been forwarded to the Provincial Council, and HV-80 road alignment has been forwarded for repair works. The jeep of UPKG – 5849 has been given to us by the Provincial Council and letters have been sent to hand it over back to the Provincial Council as it will cost a lot of money to repair .	Actions should be taken in terms of the regulations referred to in respect of vehicles.

**4. Accountability and Good Governance
Environmental Issues**

Audit Observation	Comments of the Council	Recommendation
<p>According to Section 129 (c) of the Municipal Council Ordinance No. 16 of 1947 (Authority 252), the sewage collected in the toilet pit of the Badulla District Secretariat had been arranged to be discharged directly into the drainage system of the Badulla Bandarawela main road. The public passing by the electric light signal system on the main road is suffering from the severe distress, and the Council had not taken any measures to rectify the situation.</p>	<p>The authority to approve the relevant plans for the building is the Urban Development Authority. However, during the discussions held regarding this health issue, the opinion and proposal of the Council was given and it was informed to rectify the disposal of sewage waste.</p>	<p>Sewage waste should be disposed of properly so that the public is not affected.</p>