

Jaffna Municipal Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Jaffna 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 performance, statement of changes in equity, cashflow statement for the year then ended 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 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 Jaffna 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

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 Urban Council's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the Urban 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 Urban Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council;
- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Urban 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 include specific provisions for following requirements.

- 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.
- 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 Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) The completed work of 09 buildings owned by the council with cost of Rs.48,756,330 had not been accounted under fixed assets.	That valuation work is in progress.	Accounts should be properly prepared.
(b) The value of 58 vehicles, 7,341 library books received as donations and 3403 library books purchased for Rs.1,041,890 had not been accounted for.	It will be shown in the financial statements of the year 2023.	-do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
There was a difference of 647,883 between the water charges shown in the main ledger of the year under review and water charges brought to the financial statement.	Action had been taken to rectify.	Appropriate action should be taken to correct the difference.

1.7 Non-compliances

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

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.	Non-compliances	Comment of the Council	Recommendation
Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	Refundable tender and miscellaneous deposits exceeding 02 years of Rs.6,884,107 had not been settled.	It will be settled in the year 2023.	Actions should be taken according to the Financial Regulations.

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 2022 amounted to Rs. 333,243,645 as compared with the excess of revenue over recurrent expenditure amounted to Rs.272,824,761 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Council, information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	83,307,232	103,721,112	81,043,388	163,748,515	78,177,486	106,880,895	84,150,616	140,874,328
Rent	363,631,300	161,774,184	161,752,354	21,676,693	280,526,898	112,475,593	105,338,686	21,649,863
License Fees	25,842,000	29,901,290	30,322,058	398,000	24,332,000	25,849,019	29,322,712	818,767
Other revenue	948,781,442	331,904,879	227,145,922	11,377,825	849,855,966	257,205,492	242,725,370	6,307,101
	<u>1,421,561,974</u>	<u>627,301,465</u>	<u>500,263,722</u>	<u>197,201,033</u>	<u>1,232,892,350</u>	<u>502,410,999</u>	<u>461,537,384</u>	<u>169,650,059</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comment of the Council	Recommendation
<p>(a) Rates and Taxes There was a rates and tax arrears balance of 163,748,515 for the period between 01 and 05 years.</p>	That collection had been done through revenue collection officers and mobile services.	Effective steps should be taken to recover the arrears.
<p>(b) Rent</p>		
<p>(i) 233 stalls which have been leased for a long period of time are being run by persons who are not their owners.</p>	Appropriate action is being taken.	The relevant contractual terms should be followed.
<p>(ii) 41 stalls located in the Gurunagar market complex had not been given rent for a period of 06 years from the year 2016, thus the council had lost its due income.</p>	Tender had been called in 2016, but no one took the lease. The reason was the lack of sufficient facilities to maintain the stalls.	Tender should be called immediately after completion of necessary facilities.
<p>(iii) Long-term lease agreements related to 122 stalls which have to be renewed once in 05 years or 03 years had not been renewed.</p>	Action is being taken to renew.	Action should be taken as per agreements.

3. Operating Review

3.1 Identified losses

Audit Observation	Comment of the Council	Recommendation
17 shops belonging to the council, a market and 02 advertising radio services had lost an income of had lost an income of Rs.12,245,171 due to non-calling for bids in the year under review.	No one offered to take the rent.	Necessary measures should be taken to utilize it for the respective purposes.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
Advances of Rs.6,983,066 given to the contractors for the period between 05 and 27 years had not been recovered up to now.	Action is being taken to settle.	Advances should be settled promptly.

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) No action had been taken to repair and utilize or dispose 53 unused vehicles for the period between 01 and 10 years.	The Provincial Mechanical Engineer had been requested to inspect them.	Assets should not be left unused.
(b) 19 vehicles which were decided to be disposed of according to the Public Finance Circular No. 02/2015 dated 01 January 2015 had been further retained from the past 02 to 04 years.	Action will be taken within a month.	Action should be taken as per the circular.
(c) Ownership of 25 vehicles received as donation had not been taken over.	Action is being taken to obtain ownership.	Action should be taken to obtain ownership to the council.
(d) Contrary to the paragraph 1.1 of Public Finance Circular No. 2016/01 dated 30 December 2015, markets and cultural pavilions had been constructed at a cost of Rs.36,604,935 in 45 lands that did not belong to the council.	-do-	The ownership of assets should be settled immediately.
(e) 02 halls constructed in the year 2017 on the upper floor of the modern mall had not been used up to now.	Bids had been called, but no one came forward to take the rent.	Appropriate measures should be taken to utilize them for the respective purposes.

3.4 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
(a) In addition to the approved carder, 10 health labourers and 8 maids had been appointed by the council in 2014, but the necessary approval had not been obtained from the Director General of Management Services during the last 8 years.	That requests had been submitted on 16 February 2023.	Action should be taken as per laws and rules.

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| (b) | The outstanding loan balance of Rs.1,438,147 for the period between 01 and 05 years due from 154 retired, deceased and dismissed officers had not been recovered as per Chapter XXIV of the Establishment Code. | Action had been taken to settle. | Immediate action should be taken to settle outstanding loan balances. |
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4. Accountability and Good Governance

Environmental Issue

Audit Observation	Comment of the Council	Recommendation
The fertilizer production machine had not been used for the last 6 months due to the non-obtainment of environmental permits for the solid waste disposal site and quality assurance for the fertilizer produced by the council.	Appropriate action is being taken on this matter.	Actions should be taken to obtain environmental permits and quality certificates and arrangements should be made to use the relevant machine.