

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Batticaloa Municipal Council including the financial statements for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022, Income and Expenditure Account, Cash Flow Statement for the year, 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 presented in 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 Batticaloa 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 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 recommendations made by me in the previous year, 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) Eleven thousand eight hundred and seventy eight numbers of books valued at Rs. 10,015,508 received for public libraries during the year under review had not been accounted.	That will be shown as an asset in this financial year.	Library books should be shown as an asset in the financial statements.
(b) The outstanding business tax from the telephone communication towers of Rs. 302,500 as at the last date of the year under review had not been disclosed in the financial statements.	That will be done in the future.	Arrears should be disclosed in the financial statements.

### 1.7 Non- Compliances

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

Following observations are related to non-compliances with Laws, Rules, Regulations and Management decisions etc.

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka – 571	Lapsed deposits of Rs. 3,115,424 had not been disposed.	That the necessary actions have been made.	Necessary actions should be made to refund the deposit or transfer it to income.
(b)	Section 37 (a) of the Municipal Councils Ordinance (Chapter 252)	Although the approval of the Minister should be obtained before the construction of memorial monuments or statues, the prior approval of the Minister had not been obtained for 05 statues that were built in the council area.	That the actions are being taken to get approval in the near future.	It should be done according to the Ordinance.

## **2. Financial Review**

### **2.1 Financial Result**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 156,875,725 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 153,674,005 in the preceding year.

### **2.2 Revenue Administration**

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

The details 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 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
i. Rates and Taxes	41,000,000	46,577,956	36,727,599	44,644,197	36,000,000	42,796,971	31,311,721	34,793,840
ii. Rent Income	27,250,100	24,475,385	23,566,524	16,492,094	6,050,000	10,466,896	5,796,715	15,583,233
iii. License Fees	16,511,000	23,152,047	23,740,059	2,066,751	15,000,000	13,491,807	12,220,807	1,654,762
iv. Other revenue	159,827,000	253,065,050	239,269,827	13,795,223	18,000,000	18,068,228	18,068,228	-
<b>Total</b>	<b>244,588,100</b>	<b>347,270,438</b>	<b>323,304,009</b>	<b>76,998,265</b>	<b>75,050,000</b>	<b>84,823,902</b>	<b>67,397,471</b>	<b>52,031,835</b>

### 2.2.2 Revenue Collection Performance

Following are observations on the performance of all revenue collections of the council.

Audit Observation	Comment of the Council	Recommendation
<p><b>(a) License Fees</b></p> <p>As per Section 247 (c) of the Municipal Council Ordinance, Outstanding amount of Rs. 302,500 from 05 telephone transmission towers had not been recovered.</p>	Legal action will be taken in this regard.	Actions should be made to collect license fees for telephone transmission towers.
<p><b>(b) Stamp Duty</b></p> <p>(i) The stamp duty amounting to Rs. 63,253,640 should have been received from the Chief Secretary of the Provincial Council and other officials on 31 December 2022.</p> <p>(ii) The stamp duty amounting to Rs. 30,177,650 related to the last 5 years up to the last day of the reviewed year had not been made to recover due to mismatch of stamp duty schedule and absence of deposit documents in the bank.</p>	<p>That letters have been sent to the Provincial Revenue Department for collection of stamp duty.</p> <p>That letters have been sent to recover outstanding stamp duty.</p>	<p>Actions should be taken to recover outstanding stamp duty.</p> <p>- Do -</p>

**(c) Other Revenue**

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| (i) The Karuvappankeni Public Market, which was built by the council at a cost of Rs. 2,639,099 had not been leased till the end of the year under review. | That has been done now.   | Actions should be made to lease Karuvappankeni public market. |
| (ii) 09 out of the 12 shops built in the Kalladi Children's Park owned by the council, had not been leased in the year under review.                       | That the tender applications for the respective shops have not been received yet. | Actions should be made to lease the shops.                    |

**3. Operational Review**

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) While plotting and selling the land available in the Municipal Council jurisdiction, fence boundaries had been marked for only 16 of the 41 lands received by the council. Necessary actions had not been made to fix the name boards as "owned by the Municipal Council" on other lands which were identified as council lands.	That the land will be identified and fence boundaries will be marked.	It should be made known to the public that the land belongs to the Sabha.
(b) Although, according to Section 4.2 of Chapter 4 of the Manual for Public Health Inspectors issued by the Ministry of Health, even though a report should be obtained from the Medical Officer of Health regarding the ventilation and toilet facilities when giving building approval in the relevant Medical Officer of Health Division, construction applications had been approved without obtaining a report from the Medical Officer of Health for the last 5 years.	That the actions have been made to participate the medical officer of health in the planning committee meetings in the future.	Actions should be taken as per the circular.

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| (c) | While plotting and selling the land available in the Municipal Council jurisdiction, the ex-commissioner had been transferred five plots of land of 97 perches assigned to the council, to his and his wife's name between year 2003 and 2006. Although it was mentioned in the last year's audit report, the council had not been done the necessary actions. | Council has been informed by letters that the Bribery and Corruption Commission has been dealt with this matter. | Lands owned by the council should be taken over in the name of the council and this should be reported to the disciplinary officer. |
| (d) | The value of the 14000 liter diesel tank and diesel pump had not been shown in the financial statements as an asset.   | That it will be shown as an asset in future financial statements.  | Assets should be shown in the financial statements.   |
| (e) | Even though, 190 books were missing from Kalladi Public Library, their value had not been assessed and removed from the financial statements.  | That the necessary actions will be made.   | The fair value of assets should be disclosed in the accounts.   |

### 3.2 Assets Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Revenue licenses had not been obtained for the year under review for 50 vehicles including tractors and bowers owned by the council.	That the necessary actions will be made in the future.	Actions should be made to obtain revenue licenses annually.
(b) The ownership of the 18 vehicles that had been donated to the council from other government institutions, had not been transferred to the council.	That necessary actions are being made to correct the documents and to take the ownership.	Actions should be made to take over the vehicle as an asset of the council.
(c) Even though, 54 assets were identified as assets of the council in the year under review, the documents proving their ownership had not been with the council.	That the necessary actions will be made in the future.	Actions should be taken to take over the ownership.

### 3.3 Human Resources Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<p>(a) <b>Employee Vacancies and Excess</b> There were 164 vacancies and 09 excess in 33 posts of approved staff in the Department of Management Services.</p>	<p>That information has been submitted to the Additional Chief Secretary regarding staff details in time.</p>	<p>Actions should be made to fill up employee vacancies and regularize excess.</p>
<p>(b) <b>Employee Loans</b> A sum of Rs. 594,147 outstanding employee loans had not been recovered from deceased, retired and other employee as at 31 December of the year under review.</p>	<p>That this has been done.</p>	<p>Actions should be taken to recover outstanding employee loans.</p>

## 4. Accountability and Good Governance

### 4.1 Environmental issues

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<p>(i) As per the National Environmental Protection Act No. 47 of 1980, as amended by Act No. 56 of 2000, an Environmental Protection License for the Tirupperumthurai Solid Waste Facility had not been obtained till the end of the year under review.</p>	<p>That the actions are being taken to obtain the environmental protection permits promptly.</p>	<p>Actions should be taken to issue the environmental protection license.</p>
<p>(b) No. BMC/com/Gen/Sec.2022 and letter dated 20 June 2022, the Commissioner had sent a request for an environmental assessment report to the National Engineering Research and Development center (NERD) regarding the crematorium at the Kalliyankadu Cemetery, but it had not been received by the council till the end of the year under review. .</p>	<p>That the chimneys and chambers are constructed in a manner that does not harm the environment.</p>	<p>Actions should be made to obtain an environmental assessment report regarding the impacts of the project.</p>