

Badulla Municipal Council - 2023

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 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations ,Cash Flow Statement the year ending on that date, and notes to the financial statements, including a summary of significant accounting policies 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 2023 , 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

- 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 fixed deposit interest receivable relating to the year under review had been understated by Rs.3,531,996.	That fixed deposit interest receipts will be adjusted to the income and expenditure account as per the maturity date.	Accounts should be prepared correctly.
(b) The value of Rs. 6,800,000 of the sports club building which had been demolished last year had not been removed from the accounts.	Measures will be taken to remove from non-current assets when preparing the 2024 accounts.	-do-
(c) An amount of Rs.27,093,067 in respect of 09 industries whose work had not been completed and not presented for payment during the year under review had been shown in the creditors in the statement of financial position.	It had been difficult to complete the work due to bad weather and the extension of time to 31 December had been approved.	-do-
(d) Income support of Rs.33,448,817 for which parties that should be payable had not been identified, had been stated in the statements of financial position.	Measures will be taken to adjust from the 2024 to the income and expenditure account and to adjust the deficit of previous years at the year 2024 account.	-do-
(e) An amount of Rs.983,006 had been credited in excess to the accumulated fund while correcting the mistake of understating the outstanding stamp duty in the previous year.	Measures will be taken to correct by the 2024 final account.	Accounts should be prepared correctly.

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| (f) | An amount of Rs.9,872,386, which is the arrears of tax paid to the railway headquarters in relation to the previous years, had been accounted as an expense in the year under review. | Measures will be taken to adjust payments of arrears to the Accumulated Fund in due course. | -do- |
| (g) | An amount of Rs. 4,261,603, which is the outstanding electricity bill value in relation to previous years, had been accounted for as an expense in the year under review. | -do- | -do- |

1.6.2 Lack of Evidence for Audit

Audit Observation

Comments of the Council

Recommendation

Dishonoured cheques amounting to Rs.1,892,710 since 03 years had been shown under current assets without verification.

Measures will be taken to resolve the information relating to value and inform the audit.

The dishonoured cheque balances should be settled promptly in the financial statements.

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

Section 180 of the (Chapter 252) of the Municipal Council Ordinance

02 public toilets had been given to the wives of two employees at a bid of Rs.9,723,000 during the year under review.

Preliminary investigations regarding the offer of relevant tenders are being carried out by Local Government Department.

Actions should be taken according to the provisions of the Municipal councils Ordinance.

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 amounted to Rs. 31,680,800 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 40,985,192 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Municipal Commissioner, 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	<u>2023</u>				<u>2022</u>			
	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.
(i) Rates and Taxes	24,260,000	17,334,936	17,152,036	182,900	24,960,000	13,732,830	7,595,197	6,137,633
(ii) Rent	53,370,600	65,078,357	59,850,473	5,227,884	54,318,701	54,439,651	47,963,609	6,476,042
(iii) License fee and Services	20,395,000	20,333,356	19,403,331	930,025	19,122,500	18,736,414	17,376,264	1,360,150
(iv) Other	6,500,000	10,094,160	10,094,160	0	18,348,000	15,755,208	12,235,655	3,519,553
Total	<u>104,525,600</u>	<u>112,840,809</u>	<u>106,500,000</u>	<u>6,340,809</u>	<u>116,749,201</u>	<u>102,664,103</u>	<u>85,170,725</u>	<u>17,493,378</u>

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) Arrears of rates amounting to Rs.17,436,125, arrears of shop rents amounting to Rs.2,745,130 and arrears of tender fish shop rents amounting to Rs.68,020 had not been recovered for which the period of arrears had not been specifically identified.	As at 31 December, Rs.846,912.64 out of the arrears of rate balance amounting to Rs.18,283,037.91, Rs.647,110 out of the arrears of shop rent balance amounting to Rs.3,392,240/- and Rs. 103,543/- out of arrears of fish market rent balance amounting to Rs.171,563/- had been recovered as at 31.03.2024.	Arrears of revenue should be recovered.
(b) The stamp duty amounting to Rs.51,433,762 due as at 31 December of the year under review had not been collected.	An amount of Rs.9,594,100/- out of the outstanding stamp revenue has been received as at 31.03.2024.	Arrears of stamp duty should be collected immediately.

(c) An agreement had been reached into for a period of 05 years from 05 December 2014 to 04 December 2019 to enter the CTB buses at the Badulla Central Bus Station belonging to the Municipal Council. Accordingly, the revenue of Rs.2,177,500 due to be collected had not been recovered even at the end of the year under review.	The necessary measures had been taken to recover the amount due to the Municipal Council.	Arrears should be recovered promptly.
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2.3 Surcharges

Audit Observation

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. 3,235,000 had not been collected even by 31 December of the year under review.

Comments of the Council

A case has been filed in the Magistrate's Court.

Recommendation

Court decisions should be followed.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

Rs. 541,496 had been paid from the council fund without identifying the private electricity consumption related to the period from 25 January 2010 to 05 October 2011.

Comments of the Council

Measures had been taken to collect the arrears of electricity bills from the council workers from December 2023.

Recommendation

Payments should be made in accordance with Financial Regulations.

3.2 Operational Inefficiencies

Audit Observation

No measures had been taken to extend time or complete construction work and give compliance certificate for 479 development permits that have exceeded their validity period.

Comments of the Council

The applicant had been informed to obtain compliance after construction is completed.

Recommendation

The conditions of the development permit should be followed up.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) The ownership of 02 ambulances, 02 double cabs, a water bowser, a rescue vehicle, a cab, a compactor, a tipper lorry and 02 tractors, used by the Badulla Municipal Council, registered in favor of other entities had not been taken over by the Municipal Council.	Measures are being taken to get transferred the registration of vehicles to the Municipal Council.	Ownership of vehicles should be settled and accounted for.
(b) 02 motorcycles belonging to the Municipal Council had not been physically submitted for audit.	Measures will be taken to inform the audit department about the 02 motorcycles.	The responsible parties should be identified and the losses should be recovered.