

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Akkaraipattu Municipal Council including the financial statements for the year ended 31 December 2023 comprising the Balance Sheet as at 31 December 2023, 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 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 Akkaraipattu 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

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 Practicals, 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 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 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 all the recommendations made by me in the previous year except the observations mentioned in section 1.6.1 (a) and (c) 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 Observations	Comments of the Council	Recommendations
(a) The discount amounting Rs. 309,326 rupees of Rates and Taxes for the years 2022 and 2023 were not shown in the financial statements.	Steps will be taken to show the tax deductions in the financial statements.	Action should be taken to show the deduction of tax in due time in the financial statements.
(b) Seven Hundred and Thirty Nine books written off and Four Hundred and Thirty Four items auctioned till the end of the year under review have been deducted from the cost of fixed assets amounting to Rs.176,776 and have not been shown in the financial statement.	A deduction will be made in the calculation for the next year.	Actions should be taken to properly account for the cost of assets.
(c) A sum of Rs 1,334,116 goods had been donated by the Local Government Department during the period 2021 to 2023 were not shown as assets in the financial statements.	These deficiencies will be rectified in the financial statements in the coming year.	Steps should be taken to show the value of the donated items 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.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Chapter 252 of the Municipal Councils Ordinance			
(i) 247(d) Section	Action had not been taken by the Municipal Council to identify and assess the undeveloped lands under the jurisdiction of the Municipal Council	Actions will also be taken to identify and collect assesment tax on undeveloped land at the time of submission of K forms.	According to the act, actions should be taken to identify and collect assesment tax on undeveloped land.
(ii) 252 Section	Action had not been taken by the Municipal Council to prohibit the owners from disbursing the money owed by issuing a written notice against the owner of the property who has not paid the property tax amounting to Rs.52,622,490.	Red notices have been sent to taxpayers who have not paid their income tax and action will be taken to collect taxes as per law.	Necessary procedures should be followed for expeditious settlement of the balance due as per law.
(b) No. 48 of 1971 Special Provision relating to Local Government Corporations	In 2011, income tax assessments were made based on 12,960 assets assessed and no action was taken to assess those assets once in 05 years.	A request has been made to the Valuation Department to reassess the assets and once the process is completed, action will be taken to settle the revised income tax.	As per the law, measures are taken for valuation of immovable assets once in 05 years.
(c) Section 571(1)(2)(3) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	The council had not taken appropriate action regarding 86 overdue deposits amounting to Rs. 1,695,738 for more than two years, no action had been taken by the council to return them to the appropriate persons or credited to the revenue.	Action will be taken to recitify in future.	Steps should be taken to follow the procedures regarding lapsed deposits as per the financial regulation.

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 2023 amounted to Rs.32,126,681 as compared with the excess of revenue over recurrent expenditure amounted to Rs.22,325,733 in the preceding year

2.2 Revenue Administration

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

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	2023				2022			
	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.)
Rates and	18,253,530	74,851,791	7,475,946	67,375,845	16,953,530	60,981,177	8,358,686	52,622,490
i. Taxes								
Rent	31,837,148	41,007,058	17,768,544	23,238,514	23,470,608	35,876,692	12,578,997	23,297,695
ii. Income								
License	10,200,000	4,046,200	4,034,000	12,200	5,200,000	3,475,500	3,475,500	-
iii. Fees								
Other	44,015,000	47,158,170	47,158,170	-	41,850,000	82,203,621	82,203,621	-
iv. revenue								
Total	<u>104,305,678</u>	<u>167,063,219</u>	<u>76,436,660</u>	<u>90,626,559</u>	<u>87,474,138</u>	<u>182,536,990</u>	<u>106,616,804</u>	<u>75,920,185</u>

2.2.2 Performance in Revenue Collection

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

Audit Observations	Comments of the Council	Recommendations
(a) The outstanding rate and tax balance at the end of the year under review amounted to Rs 67,375,845 and balance of arrears in relation to the period from 1 to 8 years was Rs. 55,839,877.	Due to lack of revenue inspectors it is not possible to recover the estimated incomes without arrears and steps will be taken to appoint collection officers in future to recover the arrears.	Steps should be taken to recover the outstanding proceeds as soon as possible.

(b) Rent

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| (i) | Action had not been taken to recover the outstanding amount of Rs.13,685,441 from 150 tenants from the year 2012 till the review year. | Legal action has been taken against non-payers of dues and steps have been taken to write off dues of unidentified borrowers. | -Do- |
| (ii) | A total amount of Rs.8,413,702 due from the grant of lease for the period 1992 to 2022 has not been taken till the end of the review year. | -Do- | -Do- |
| (iii) | Although an amount of Rs. 4,250,000 was estimated as rental income from the use of the JCB, Tipper and other machinery, only Rs. 106,000 was earned as income. Also, proper records are not maintained which include issues such as renting out these vehicles and engaging them in day to day activities of the council. Thus, during the audit, the accuracy of the rental income received from the machines, the advance payments due, the usage hours and the amount of fuel used could not be confirmed. | Due to low demand and non-rentals, incomes were seen to be low. Steps have been taken to increase the rental income of vehicles this year. | Steps should be taken to maintain a detailed record of vehicle rental and to utilize the income in such a way that the expenses incurred on the vehicles can be met. |
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(c) Trade License | | | |
| (i) | Although an amount of Rs. 3,330,000 was collected as business license for 739 shops for the year under review, only 189 business establishments were issued annual business license certificates. | The relevant officials have been instructed to issue certificates to those who have paid business license fees. | Steps should be taken to issue permits for the year in a proper manner. |
| (ii) | Municipal Council had not maintained register regarding advertisements. Also, an amount of Rs. 305,250 was collected as payment for 130 advertisement board in the year under review and no action was taken to prepare By-law and obtain permission to fully collect the income of Rs 3,500,000. | Actions have been taken to include the details of advertising fees in the business license fee register and to prepare By-laws and obtain permission in the future. | Steps should be taken to make By-laws and get proper permission to fully collect the income. |

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| (iii) | An amount of Rs 770,657 was found as rent arrears from 2021 to 2023 for the telecommunication towers of Airtel, Mobitel and Dialog, but no action had been taken to collect them. | Instructions have been given to the concerned institutions to settle the balances. | Steps should be taken to collect of the arrears. |
| (d) | In the budget estimate from 2021 to 2023, the amount of Rs. 1,000,000 was estimated as special waste fee income, but the endowment was found in the range of Rs. 74,500 to Rs. 144,500. | In the current year, steps have been taken to collect half of the business license fees as special waste fee. | Assessment of income for special waste fee should be done as accurately as possible, taking into account actual data and past income. |
| (e) | Action had not been taken to collect the stamp duty amounting to Rs.812,550 for the period from 2020 to 2022. | A request has been made in this regard. | Actions should be taken to dispose of disposable income as quickly as possible. |

3. Operational Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
(a) Since a separate income unit was created and no action was taken to collect the income, the amount of Rs. 117,805,679 was estimated as the recurring income in the review year and the total amount of the recovery including the outstanding balance was found to be Rs 59,982,745 and the percentage of collection was 50 percent.	Steps will be taken to establish a separate income unit once the financial crisis is settled.	Urgent action should be taken to initiate a division of income and fully recover the estimated incomes.
(b) The values of 28 land buildings and 60 motor vehicles owned and in use by the Municipal Council were revalued and their true value was not reflected in the financial statements.	Officials have been instructed to speed up the revaluation process of land buildings and vehicles.	Action should be taken to reassess very quickly and reflect the true values in the financial statements.
(c) In 2011, no action had been taken to recover the 02 advances amounting to Rs 106,003, which were given to an employee of Akkaraipattu Pradeshiya Sabha and a community center.	Preliminary steps have been taken to waive the balance.	Prompt action should be taken to recover the advance amount.

(d) An amount of Rs 285,600 as Employee Provident Fund and Rs 26,930 as Employee Trust Fund have not been paid and are being maintained in the refundable deposit account till the end of the financial year and no action has been taken to pay the amount.	Action has been taken to send it to the concerned company in the current year.	Action should be taken to confirm the amount due and pay it with proper permission.
(e) The council is losing an income of Rs. 10,000,000 per year due to the fact that the shop premises are rented out from Rs.1,000 to Rs.5,250 per month based on assessed in 2011 without re-assess rent from time to time.	A request has been made to the Assessing Department for reassessment.	As per the Municipal Council Ordinance, steps should be taken to assess the rent from time to time.
(f) In 2017, the electronic advertising television that was made available to the Municipal Council under the Local Development Strengthening Project was found to be faulty in 2019. Due to lack of action to repair it, the Municipal Council lost an annual income of Rs. 350,000.	Action will be taken to repair in the current year.	Actions should be taken to repair the electronic advertisement television and earn income.
(g) Although the council has seen an amount of Rs. 18,342,000 as current account balance from 2018 to the end of 2023, no action had been taken to invest in sources of income.	Actions have been taken to open a money market or overnight market savings account with the Bank of Ceylon by debiting the remaining reserve fund.	Proceedings to invest additional funds with proper permission in working sources of income or for the operation of the council.

3.2 Assets Management

Audit Observations	Comments of the Council	Recommendations
(a) Three ploughing machines, 08 tailors and 03 motorcycles are found unused from the beginning of 2011 till the end of the year under review and no action had been taken to repair and use them.	Currently, the vehicles are being repairing one by one and auctioning after obtaining approval from the relevant departments.	Action should be taken to repair and reuse the vehicles or sell them at auction.
(b) A sum of Rs 1,345,500 has been collected by the Municipal Council for the reconstruction of the concrete tar and gravel roads cut by 165 beneficiaries to get water connection, but no action has been taken to restore the roads and protect the road.	Steps will be taken to rehabilitate unpaved roads using deposits.	Steps should be taken to reconstruct and protect the road.

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| (c) | For more than 03 years, no action had been taken by the municipal council to repair and rent the 03 fitness equipment found in the gym center. | Steps have been taken to repair the broken equipment found in the gym center. | Valuation report and market value should be taken into consideration before repair the equipment. |
| (d) | In the review year, no action was taken to recover the loss value of 796 books which were not submitted for book census from the owners and to write off the damaged books completely and get new books in their place. | In the current year, steps have been taken to implement the recommendations of the committee of Board of Survey. | A proper investigation should be carried out and appropriate action should be taken regarding the books which are not subject to Board of Survey. |

3.3 Human Resource Management

Audit Observation

The sabha had not taken appropriate measures to recover the outstanding loan balance amounting to Rs. 441,900 from the 15 officers from 2011 to the year under review from these persons or guarantors due to reasons such as dead and vacated their post.

Comment of the Council

A notification has been given by letter to complete the payment of the loan balance. Actions will be taken to write off the outstanding debt balances during the Akkaraipattu Pradeshiya Sabha period.

Recommendation

Steps should be taken to quickly collect the loan amount due from the employees from the appropriate persons or guarantor.

4. Accountability and Good Governance

4.1 Solid waste Management

Audit Observation

When municipal solid waste is delivered to the Addalaichenai solid waste collection station, a fee of Rs 200 per ton of degradable waste and Rs 300 per ton of non-degradable waste is paid. However, due to non-separation of waste, 3,573 tons were treated as unprocessed waste and Rs. 1,072,199 were paid.

Comment of the Council

Due to limited availability of degradable waste, the waste is delivered to Addalaichenai Pradeshiya Sabha and the cost of transportation is high. Even now, despite the people's opposition, the waste that has been collected at the landfill site of our council.

Recommendation

Steps should be taken to ensure proper segregation of waste, to prepare compost and reduce the waste production and cost.

4.2 Environmental Issues

Audit Observation	Comment of the Council	Recommendation
Action had not been taken to obtain an environmental permit for the waste collection center used by the municipal council, the slaughter house till the year under review.	Actions will be taken to obtain environmental permit in the current year.	Action should be taken to obtain the environmental permit.

4.3 Non Provision of Financial Arrangements

Audit Observation	Comment of the Council	Recommendation
Under the Local Government Strengthening Project, 03 cargo containers have been purchased at an amount of Rs 5,910,000, but no action had been taken to provide basic facilities for the use of these shops by the general public.	Although steps have been taken to provide cargo container shops on demand, steps will be taken under the LDSP in 2024 to address the identified deficiencies.	Actions should be taken to meet the demand and provide rent very quickly.

4.4 Failure to Obtain Expected Level of Fulfilment

Audit Observation	Comment of the Council	Recommendation
Public Library in the year 2022 at a cost of Rs.2,848,078 for e-Library under LDSP. Although it was set up, the process was abandoned due to lack of electronic equipment facilities like software saver bar code reader and bar code printer required for its full implementation.	Only infrastructure and computer facilities for e-library were provided under LDSP. Other equipment and software items have to be purchased from the Municipal Council funds.	Action should be taken very quickly to achieve the objective of e-library.