Kalmunai Municipal Council - 2024
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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kalmunai Municipal Council including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, 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 Council Ordinance (Chapter 252) and Sub-section 10 (1) of the 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 Kalmunai Municipal Council as at 31 December 2024, 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 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) 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 sales value of capital assets sold at auction in 2022 amounting to Rs.200,420 had been deducted from the fixed assets without calculating the cost thereof.	Once the information is received, steps will be taken to deduct the cost in the future.	Action should be taken to correct the accounts.
(b)	The Natpitimunei Children's Park, constructed under the President's Special Project at a cost of Rs.4,806,654 in the year under review, had not been accounted for under fixed assets.	Steps will be taken to include it in the next financial year.	-Do-
(c)	Interest income of Rs. 3,500,663 on fixed deposits and savings deposits was included in the fixed assets account during the year under review.	Steps have been taken to transfer the interest income included in fixed assets to the cash account.	-Do-

1.6.2 Lack of Written Evidences for Audit

	Audit Observation	Comments of the Council	Recommendation
(a)	According to the financial statements of the Municipal Council for the year 2024, evidence to verify 09 accounting items totaling Rs.635,312,683 had not been submitted to the audit.	Steps will be taken to correct this in the next financial year.	Steps should be taken to obtain information promptly and maintain the required ledger accounts.
(b)	According to the financial statements, the balance of refundable deposits as at 31 December 2024 is amounted to Rs. 33,710,767. A detailed classification list and age analysis had not been maintained for this balance.	The detailed list for the amount indicated as the refundable deposit balances are maintained in the office.	A detailed report confirming the deposit balance must be submitted.

1.7 Non-compliance

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

	Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Chapter 252 of the Municipal Council Ordinance			
	(i) Section 155	Steps had not been taken to timely assess the rental value of the 588 stalls located in the Kalmunai Public Market Building Complex and collect rent.	Steps will be taken to assess and sign new agreements in the future.	Steps should be taken to periodically assess the shops rent in accordance with the Ordinance.
	(ii) Section 230	Steps had not been taken to assess the buildings and lands of government institutions within the Municipal Council area and levy property taxes.	All institutions except religious places have been assessed. Steps will be taken to recover outstanding amounts in the future.	According to the ordinance, steps should be taken to assess the buildings and lands of government institutions and collect property taxes.
	(iii)Section 247(c)	Professional license fees had not been collected from public notary services and medical treatment centers within the Municipal Council area.	That the steps will be taken to collect in the future.	Steps should be taken to collect professional license fees from professional centers within the council area in accordance with the ordinance.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571(1),(2),(3)	Deposits of Rs.4,622,507, which were over two years, had not been provided to the relevant parties or taken as income.	Action will be taken in this regard.	In accordance with monetary regulations, overdue deposits that have exceeded two years should be repaid to the relevant parties or transferred to revenue.

(c)	Paragraph 2 (iv) of Public Administration Circular No. 09/2009 dated 16 April 2009	Although it was stated that holiday pay and overtime allowances should be paid based on fingerprint machine records to verify attendance, a sum of Rs.331,756 had been paid without complying with this.	Steps will be taken to check fingerprint machine records from now on.	Payments should be made after checking as per the circular.
(d)	Eastern Province Circular No. PT/03/2021 dated 16 August 2021	The Municipal Council had not received security deposits of Rs.107,500 from 10 officers in charge of cash, stores goods, government revenue collections and signing cheques.	Steps will be taken to obtain security deposits in the future.	Steps should be taken to obtain security deposits from the relevant officers as per the circular.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Council for the year ended 31 December 2024 amounted to Rs.54,384,690 compared to the excess of income over recurrent expenditure amounted to Rs.57,284,725 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 submitted, Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

	2024				2023			
Source of Revenue	**Estimated enuRev**	**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 Taxes	73,600,000	281,930,057	22,226,082	259,703,975	198,100,000	249,180,580	20,905,649	228,274,930
Rent	48,945,000	98,713,230	30,893,656	67,819,574	35,325,000	85,384,959	23,774,376	61,610,583
License Fee	21,410,000	8,409,300	8,409,300	-	19,972,500	8,416,456	8,416,456	-
Other Revenue	194,195,000	153,311,320	149,680,878	14,658,540	18,170,000	11,121,953	11,121,953	-
Total	**338,150,000**	**542,363,907**	**211,209,916**	**342,182,089**	**271,567,500**	**354,103,948**	**64,218,434**	**289,885,513**

2.2.2 Performance in Collecting Revenue

The following are observations made on the performance in collecting revenue.

	Audit Observation	Comments of the Council	Recommendation
(a)	The council had not updated the property tax collection on time and had based it on the estimate of the year 2012. Also, a minimum number of revenue inspectors had been deployed for tax collection, but as they were not given revenue collection targets, the arrears of revenue had continued to increase significantly.	Steps will be taken to assess in the future.	Steps should be taken to assess and increase income.
(b)	Eleven people had been operating their businesses in the public market stall area, but the council had not taken any action to date to confirm the ownership and existence of the land relating to that premises.	Proper measures will be taken in the future.	Steps must be taken to confirm the ownership and existence of that land.
(c)	Although an agreement had been made to obtain an approved bank guarantee of 80 percent of the lease value of the leased assets, due to failure to do so, an amount of Rs.24,005,798 remained outstanding.	Proper measures have been taken to correct such errors in the future.	Steps should be taken to promptly recover arrears of revenue.
(d)	No legal action has been taken to date regarding the fake Cooperative Rural Bank guarantee of Rs. 5,600,000 provided for the lease agreements of the Kalmunai Public Market and Fish Market in 2021.	That it has been decided to take legal action.	Legal action should be taken.
(**e**)	**Slaughterhouses**		
(i)	Due to the lack of own animal slaughterhouses to the council, the council lost Rs.24,265,000 in revenue due to the slaughter of 9,706 animals in private slaughterhouses in the year under review alone.	Steps will be taken to construct the slaughterhouse belonging to the Municipal Council.	Steps should be taken to construct animal slaughterhouses.
(ii)	In terms of Sections 145(1) and (2) of the Municipal Council Ordinance, no legal action had been taken to prohibit unauthorized private slaughterhouses, and environmental permits had not been obtained from the Central Environmental Authority.	Steps have been taken to ban private slaughterhouses and steps have also been taken to obtain licenses from the Central Environmental Authority.	The slaughterhouses should be operated with the necessary permits and steps must also be taken to obtain environmental permits.

(f)	**Communication tower rental** Although **33** communication towers had been installed in the council area, no revenue had been collected from the service providers. This had resulted in a loss of approximately Rs.200,000 in rental income annually.	That the steps will be taken to recover the money in the future.	Steps should be taken to recover revenue from communication towers.
(g)	**Billboard Charges** The arrears of revenue for billboards had not been calculated in detail for each year and the Municipal Council had not maintained details of new billboards, existing billboards and abandoned billboards in the area.	-Do-	Steps should be taken to maintain records and properly collect revenue.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Council Ordinance are shown below.

3.1 Identified Lossess

Audit Observation	Comments of the Council	Recommendation
According to the audit report of the Eastern Provincial Internal Audit Unit, the Metropolitan Council had frauded Rs. 18,094,795 collected from 09 revenue sources in the year 2020 without depositing it. However, the Metropolitan Council had not taken any further action regarding this.	Since a case is pending at the Kalmunai Magistrate's Court regarding the financial fraud that occurred in the financial section of the Municipal Council, action will be taken through the courts.	Disciplinary action should be taken against the parties who facilitated the fraud, and further action should be taken in accordance with the court decision.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Steps had not been taken to utilize the current account balance of Rs.3,729,844, which had been dormant for more than 05 years, in sources of income generation.	Steps are being taken to transfer the balances of 04 bank accounts, those have been inactive for a long time, to the council's main account.	Steps should be taken to invest the remaining funds in income-generating sources.
(b)	The Council had not displayed any state emblem on the vehicles used by staff officers. This had created opportunities for misuse of the vehicles.	Steps have been taken to use government emblem.	Steps should be taken to paint the government logo on all vehicles owned by the council.

(c)	The software application, which was installed in 2023 at a cost of Rs. 150,000 to improve the availability of the council's services online, has not been in any operational state so far, but it was renewed during the year under review at a cost of Rs. 150,000.	Since the general public does not have enough awareness regarding this software application, they come directly and avail our service. Therefore, this application was not used.	Steps should be taken to aware the public about this software and provide services efficiently.

3.3 Idle/ Uner Utilized Assets

Audit Observation	Comments of the Council	Recommendation
A grinding machine for producing organic fertilizer was purchased on June 17, 2022 for Rs. 734,867 with the aim of expanding the Periyanilawanai Fertilizer Production Center under the council area, but it had not been used.	Steps are being taken to make it usable.	Steps should be taken to use that machine.

3.4 Assets Management

	Audit Observation	Comments of the Council	Recommendation
(a)	The value of 91 lands, buildings and vehicles owned and used by the council during the year under review had not been revalued and their actual value had not been recorded in the accounts.	Currently, basic steps are being taken to revalue everything.	Steps should be taken to revalue and reflect the actual value in the financial statements.
(b)	14 unusable vehicles owned by the council remained unsafe without any action being taken to repair or auction them off.	A separate committee will be established for this purpose, a survey of special items will be conducted and steps will be taken to repair or sell them.	Urgent steps should be taken to repair or auction the vehicles.
(c)	Steps had not been taken to transfer the ownership of 30 vehicles currently in use by the council to the name of the Municipal Council.	Action will be taken to transfer the ownership of the vehicles.	Steps should be taken to transfer ownership of the vehicles to the council.

3.5 Procurement Management

	Audit Observation	Comments of the Council	Recommendation
(a)	The Municipal Council had not prepared a proper procurement plan in accordance with Guideline 4.2.1 of the National Procurement Guidelines and the Circular No. 128 of the National Budget Department dated 24 March 2006.	That the Municipal Council will prepare and submit a proper procurement plan.	Steps should be taken to prepare the procurement plan in accordance with the circular.

	Audit Observation	Comments of the Council	Recommendation
(b)	18 Air Conditioners (AC) valued at Rs.4,982,373 had been purchased from a private company and kept in the stores. The procurement process had not been followed for those purchases.	Although there were issues with the procurement committee's decision regarding the purchase of these air conditioners, it has now been corrected.	Steps should be taken to make purchases in accordance with the procurement guidelines and document them in the inventory, and steps should be taken to use that equipment promptly.

3.6 Defects in Contract Administration

	Audit Observation	Comments of the Council	Recommendation
(a)	**Construction of Kalmunai Beach Park** 15.20 cubic meters of earth filling and compaction was estimated for 28 items, but only 3.16 cubic meters were completed. As a result, the field inspection revealed that the land area was not leveled and was not compacted.	It had been decided to apply sea soil to the surface. Due to the lack of soil, alternative measures had been taken.	According to the assessment report, measures should be taken to meet the prescribed standards. Appropriate action should be taken regarding deficiencies.
(b) (i)	It was observed that although a sum of Rs.766,244 had been paid to Roller for filling and compacting the soil of the children's park constructed in Natpittimunei, the relevant filling and compacting of the soil had not been carried out.	When making payments per section, the relevant payment was made after reducing the composition of the soil.	**-Do-**
(ii)	A sum of Rs.1,943,000 had been paid for the supply and installation of play equipment for BOQ items 02 and 03, and the equipment had been placed in a nearby school premises without any solution as the public had rejected it as substandard.	The sports equipment was purchased from a company with **30** years of experience and a **3-**year warranty.	Steps should be taken to purchase quality and long-lasting equipment and appropriate action should be taken regarding irregularities.

3.7 Human Resource Management

	Audit Observation	Comments of the Council	Recommendation
(a)	The operations of the Municipal Council remained inefficient due to the failure to recruit permanent officers for the key	Although this matter has been explained to the Local Government Commissioner	Steps should be taken to appoint appropriate staff and make the

	positions of the Council, namely the Commissioner, Medical Officer, Legal Officer, Technical Officer (Special), Translator, Fire Fighting Mechanical Officer, Public Health Inspector and Revenue Inspector Officer.	several times, no effective action has been taken to date.	activities of the council efficient.
(b)	The loan balance of Rs. 360,159 due from five officers had not been recovered from the relevant persons or guarantors.	That the steps will be taken to identify the relevant individuals and guarantors and recover the money.	Steps should be taken to recover the loan balance from the relevant persons or guarantors.
(c)	Although the position of Vehicle Mechanical Technical Officer had been approved, as he had not been appointed to date, it had not been possible to obtain recommendations for the urgent repair of 14 vehicles that were undriveable in the council, and the recommendation process had been followed by the building engineer, who was not involved in vehicle repairs.	Steps have been taken to request the Eastern Provincial Chief Secretary to prepare documents for the appointment of a Vehicle Mechanical Technical Officer.	Steps should be taken to appoint appropriate staff and streamline the functions of the council.
(d)	It was observed that the shop rental income of Rs. 23,967,812 remained in arrears during the year under review and that out of the 9 approved revenue inspector posts, only 3 of them had been appointed to date.	That the staff has been requested and assigned.	Steps should be taken to recruit staff for vacant positions and to promptly recover the revenue that is due.

4. Accountability and Good Governance

4.1 Submission of the Financial Statements

Audit Observation	Comments of the Council	Recommendation
Although the financial statements were required to be submitted for audit within 03 months of the end of each financial year in terms of Section 15 (1) of the National Audit Act, No. 19 of 2018, the submission of the financial statements for the year under review was delayed until 08 May 2025.	It will be prepared and submitted within the due date in the future.	Steps should be taken to submit financial statements on time, in accordance with the National Audit Act.

4.2 Internal Audit

Audit Observation	Comments of the Council	Recommendation
Internal audit had not given recommendations to promote institutional operational processes and enhance performance in accordance with Section 40 of the National Audit Act No. 19 of 2018.	That an Internal Audit Committee has been established for the proceding year and that an internal audit plan has also been prepared.	Internal audits should be conducted and recommendations should be made to improve the operations of the council and to enhance its performance.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
No steps had been taken to identify development objectives and establish indicators for measurement, and the necessary financial provisions had not been made to achieve the sustainable development goals in the budget plan for the year under review.	That the funds allocated by the Council for the above activities in the budget plan were allocated in a manner that included sustainable development objectives.	Steps should be taken to establish indicators and make budgetary provisions so that the targets can be achieved as per the circular.