Badulla Municipal Council – 2024

1.1 Qualified Opinion

The audit of the financial statements of Badulla Municipal Council including the financial statements for the year ended 31 December 2024 comprising the Statement of financial position as at 31 December 2024, Statement of Financial Operations , Statement of changes in net assets, Cash Flow Statement and notes to the financial statements including material accounting policy information 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 read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252) and the provisions in sub-section 10(1) of National 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 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

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

National Audit Act, No. 19 of 2018 include 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 of this report 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 court fine income for the year under review was Rs. 1,889,732, while the court fine receivable as at 31 December was Rs.1,601,356 was also under-accounted.	The court fine income for December 2024 could not be accounted for due to a delay and was accounted for in January 2025.	The accounts must be corrected.
(b)	The stamp duty revenue for the year under review was Rs.15,323,680 and the stamp duty receivable as at 31 December had been over-accounted for by Rs. 13,284,110.	-Do-	-Do-
(c)	As at 31st December of the year under review, Fixed deposit interest income receivable Rs.381,783 was also under-accounted in the financial statements.	That the deficit will be adjusted when preparing the final accounts in 2025.	-Do-
(d)	As at 31st December of the year under review,, the warehouse credit balance was overstated by Rs. 161,640.	The balance of the stationery debt for which payment could not be made for goods ordered in 2024 has been included.	-Do-
(e)	As at 31st December of the year under review, the capital aid receivable of Rs. 6,939,438 had not been accounted for in the statement of financial position, and the creditors related to the development of access roads to the Local Government Commissioner's Office had been under-accounted for by Rs. 4,939,652.	It will be done to correct next year.	-Do-

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
No evidence was submitted to verify the value of the returned cheques of Rs. 1,872,710, which were outstanding for more than 3 years and were included under current assets as at 31st December of the year under review.	A committee has been appointed regarding the relevant returned cheques and is working on the relevant cheques.	Proof must be submitted to verify the value of the returned cheques.

1.7 Non- Compliances

Non-compliance with laws, rules, regulations and management decisions

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Local Government Commissioner's Circular No. 1980/46 dated 31st December 1980	Although the Valuation Department had provided a report on the assessed rent for the 91 stalls in the new shopping mall in 2014, the new stall rent of Rs. 5,640,000 had not been collected as at 31st December 2024.	According to the 2015 valuation report, 50 percent of the assessed value has been collected since November 2023, and steps have been taken to collect the full amount from 01st of January 2025.	Property should be appraised on a timely basis and rental income should be collected.

2. Financial review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 105,989,433 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 31,680,800 in the preceding year.

2.2 Revenue Administration

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

The information on estimated revenue, billed revenue, collected revenue and arrears of revenue submitted by the Council Secretary for the year under review and the previous year is shown below.

		2024				2023			
	Source of income	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	42,650,000	37,075,265	33,087,687	20,853,392	24,260,000	17,334,936	17,152,036	18,283,038
(ii)	Rent	61,336,900	76,002,243	68,805,577	14,005,612	53,370,600	65,078,357	59,850,473	12,363,995
(iii)	License fees	21,048,500	20,352,143	19,230,495	2,017,312	20,395,000	20,333,356	19,403,331	1,346,425
(iv)	Other	81,385,000	96,718,223	23,618,314	121,195,427	78,895,000	79,223,515	14,407,139	83,483,625
	Total	**206,420,400**	**230,147,874**	**144,742,073**	**158,071,743**	**176,920,600**	**181,970,164**	**110,812,979**	**115,477,083**

2.2.2 Performance in Revenue Collection

The following are observations regarding the revenue collection performance of the council.

	Audit Observation	Comments of the Council	Recommendation
(a)	As at 01st January of the year under review, the outstanding parking fees in the Council's registered parking lots amounted to Rs. 15,288,292, of which Rs. 13,821,633 had not been collected during the year. This was 88 percent as a percentage.	The owners of parking garages registered under the Badulla Municipal Council have not obtained registration for the years 2021 and 2022 due to the lockdown and fuel crisis during the recent COVID-19 pandemic, and a justification report has been submitted to the Hon. Governor regarding the relevant outstanding balances.	Arrears of revenue must be recovered.
(b)	**Rent**		
	According to the statement of financial position as at 01st January of the year under review, out of the arrears of rent of 12 income balances of Rs. 13,061,371, Rs. 6,808,946 had not been recovered during the year. This was 52 percent as a percentage.	No answers were submitted.	Arrears of rent must be collected.

(c) **Outstanding Inn Management Fees**

Rs. 2,975,280 of outstanding Inn management fees, which had been outstanding for more than 05 years, had not been recovered in the year under review.	Legal procedures have been completed regarding the collection of the relevant money, and the relevant documents have been sent to the Local Government Commissioner to write off the outstanding money.	Arrears of rent must be collected.

2.2.3 Court fines and stamp duty

Audit Observation	Comments of the Council	Recommendation
As at 31st December of the year under review, court fines of Rs. 3,030,259 and stamp duty of Rs. 81,232,384 had not been collected.	A sum of Rs. 17,513,027 has been received as court fine and Rs. 3,231,361 as stamp duty, and all remaining supporting documents have been sent to the Local Government Commissioner.	Arrears of court fines and stamp duty should be collected.

2.3 Surcharge

Audit Observation	Comments of the Council	Recommendation
As per Section 226 (1) of the Municipal Councils Ordinance, Rs. 3,530,000 relating to 02 surcharges imposed by the Auditor General in the years 1994, 2004 and 2007 had not been recovered as on 31st December of the year under review.	A request has been submitted to the Attorney General seeking further advice in this regard.	Surcharges should be levied in accordance with the provisions of the Act.

3. Operational review

3.1 Performing of Functions Enacted by the Act

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 Councils Ordinance are shown bell0w.

Failure to reach expected outcome

	Audit Observation	Comments of the Council	Recommendation
(a)	Proposals had been made to purchase a generator to provide continuous power for night sports matches held at the Vincent Dias Stadium in Badulla, and for this purpose, a 250 KVA generator worth Rs. 19,763,230 was procured from the Local Government Department under the Local Development Support Project (LDSP) during the year under review and handed over to the council. However, income was generated for lighting only for 05 sports events during the year under review.	Due to the defects in the lighting system at the Vincent Dias Stadium, the lighting system cannot be restored. Although the Ministry of Sports had been requested to inspect this system and provide estimates through letter Bama/3/2/1/Public/11/2024 dated 18 November 2025, the prices have not been submitted so far, and the system will be repaired and put into use as soon as possible.	Assets should be used for their intended purpose.
(b)	In the year 2023, Rs. 242,010 was spent on the purchase of 10 units of equipment required for the Panchakarma Unit, and due to the inactivity of the Panchakarma Unit's functions, its equipment remained idle as of December 31 of the year under review.	Urgent action will be taken to ensure the efficient use of the relevant equipment.	Assets should be put to productive use.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The second floor of the new shopping complex had been leased on a long-term lease basis for a period of 25 years from 18th May 2005 to 17th May 2030 with a lessee residing in Badulla. A loss of Rs. 725,640 had been incurred due to the collection of monthly rent of Rs. 39,000 for the initial 05 years up to 31st December of the year under review without complying with conditions 01(a) and 10 of Annexure ‘A’ of the agreement.	From 1st of January 2021, 10 percent has been added to the shop rent and Rs. 42,900 has been charged monthly. Although letters have been submitted from time to time from the Valuation Department from 2023 onwards to obtain valuations, until now, due to the delay in receiving valuation reports, a provisional valuation has been obtained and rent has been charged.	The terms of the lease agreement must be followed.

(b)	Although a long period of 10 to 18 years has passed since the valid contract period of 17 of the 109 shops in the shopping complex, agreements had not been entered into with regard to those shops following an appropriate procedure.	Letters informing tenants whose contracts have expired to enter into new contracts have already been sent, and agreements have been prepared for that purpose and further work is being carried out in this regard.	Valid agreements must be entered into for the stalls.

4. Accountability and Good Governance

Budgetary Control

Audit Observation	**Comments of the Council**	**Recommendation**
When comparing the estimated income and expenditure as per the budget prepared by the Municipal Council for the year under review with the actual income and expenditure for the year, there was a variation of 23 percent to 56 percent in 03 revenue items and 66 percent to 89 percent in 02 expenditure items. Accordingly, the budget had not been used as an effective control instrument.	Efforts are being made to prepare budget estimates realistically in a way that minimizes discrepancies.	The variance between income and expenditure should be minimized.