

Badulla Municipal Council - 2020

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 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and significant accounting policies and other explanatory 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 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 accompanying financial statements give a true and fair view of the financial position of Badulla Municipal Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

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 Principles, 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 preparing 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 Requirements

Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Municipal Council are consistent with the preceding year.
- In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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<p>(a) Although the stamp fee revenue of the year under review had been Rs.16,047,518, it had been understated by Rs. 1,790,526 .as Rs 14,256,992in the Statement of .Financial Operations</p>	<p>It has been mentioned that It would be rectified in the next year.</p>	<p>Accounts should be correctly prepared.</p>
<p>(b) Although the court fine revenue of the year under review had been Rs.12,881,244, it had been overstated by Rs. 3,583,180 .as Rs 16,464,424in the Statement of .Financial Operations</p>		
<p>(c) As the balance of the Compost Money Account amounting to Rs. 2,685,851 as at 31 December of the year under review had not been debited to the main cash book and had been debited to the accumulated fund, accumulated fund and cash balance have been understated by that amount.</p>		

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| (d) | Although it should be debited the creditors Rs. 6,159,558 to remove the value from the accounts for rectifying the error in accounting for the construction materials which had been ordered in the previous year and in the year under review but had not been received, it had been debited the accumulated fund. As a result of that, accumulated fund account had been understated and creditors had been overstated by that amount. | It has been mentioned that It would be rectified in the next year. | Accounts should be correctly prepared. |
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1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Required documents regarding to an account item total amount of Rs.792,430,977 had not been submitted for the audit.	It has been mentioned that actions would be taken to obtain transfer orders, title deeds and plans.	Evidences confirming account balances in the financial statements should be submitted.

2 Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the council for the year ended 31 December of the year under review amounting to Rs. 22,795,151 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs ,35,820,463 and a decline of Rs.13,025,312 in the Financial result has been observed.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
Arrears of entertainment tax, shop rents, construction fees, sub leases, leasing of lands, advertisement board charges and bus parking charges amounting to Rs. 16,695,783 that had elapsed more than a year had not been recovered even in the year under review	It has been mentioned that arrears of revenue had not been able to collect due to Corona pandemic.	Arrears of other revenue should be collected.

2.2.2 Surcharges

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
Rs.3,754,000 related with 03 surcharges, which had been imposed by the Auditor General in the year 1994, 2004 and 2007 in accordance with the section 226(1) of the Municipal Councils Ordinance, had not been collected even as at 31 December of the year under review.	It has been mentioned that Rs.81,000 had been already collected and actions would be taken to collect the rest in the future.	Surcharges should be collected.

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 Councils Ordinance are shown below.

3.1 Operational Inefficiencies

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
Arrears of revenue amounting to Rs.2,177,500 related with 87,100 receipts, which had been issued by the Badulla Municipal Council to the Badulla Regional Office of the Sri Lanka Transport Board to collect charges from the buses entering the bus station from the period from 2014 to 2019, had not been collected.	It has been mentioned that a complaint had been filed with the Special Crime Investigation Division of Badulla Police Station.	Money due to the council should be collected.