

Nuwaraeliya Municipal Council - 2013

Nuwaraeliya District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 02 June 2014 while Financial Statements relating to the preceding year had been submitted on 28 February 2013. The Auditor General's Report relating to the year under review was sent to the mayor on 21 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Nuwaraeliya Municipal Council as at 31 December 2013 and its financial performance for the year then ended in accordance with Public Sector Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following matters are observed.

- (a.) While assets belong to the Municipal Council, except the multipurpose building, had not been disclosed in the financial statements in terms of the Public Sector Accounting Standard 07, action had not been taken to account the items of assets purchased during the year under review valued at Rs.1,612,270 as well.
- (b.) A Works Debtors balance of Rs.6,904,300 receivable as at 31 December of the year under review and a Works Creditors balance of Rs.4,599,216 had been omitted in the financial statements.
- (c.) Nine mobile latrines valued at Rs.992,624 and value of furniture and 85 equipment issued to official residences had not been accounted under assets.
- (d.) A stock of general stores valued at Rs.1,350,816 existed in stores as at 31 December of the year under review had not been accounted under current assets and due to that, current assets had been understated to that extent.
- (e.) Although the revenue received by auctioning assets during the year under review was Rs.344,055, it had been credited as Rs.260,453 to the programme revenue. Due to that surplus for the year under review had been understated in a sum of Rs.83,596 in the financial statements.

- (f.) Although the receipt of staff loans and payment of staff loans shown under financial operations in the cash flow statement were Rs.12,069,958 and Rs.16,014,566 respectively, according to the schedules submitted together with the accounts, those values were Rs.11,309,707 and Rs.12,254,316 respectively. Accordingly there was a difference of Rs.760,251 in receipts of loans and a difference of Rs.3,760,250 in payments of loans.
- (g.) The sum of Rs.3,000,000 invested on a fixed deposit in Bank of Ceylon during the year under review had been omitted in the cash flow statement.
- (h.) A variance of Rs.12,334,154 was observed in the revenue on account of cash generated from operational activities shown under receipts, in the cash flow statement.
- (i.) Out of the sum of Rs.995,000 received for various programmes through the Asia Foundation, a sum of Rs.467,000 only had been accounted as revenue of the year and due to that surplus of the year had been understated in a sum of Rs.528,000.
- (j.) A value of Rs.169,758 being the excess provision made for debtors during the preceding year is included in the debtors balance and therefore an overstatement of current assets had been made to that extent as at 31 December of the year under review.
- (k.) Parking Fees Revenue amounting to Rs.35,312 relevant to the preceding year and Rs.2,174 relevant to the year under review been shown under General Deposits.
- (l.) Although the revenue from leasing out the assets of the Council on tenders relevant to the year under review was, Rs.10,848,350, it had been accounted as Rs.8,912,322. Due to that, revenue for the year under review had been understated in a sum of Rs.1,936,028.

1.3.2 Non-reconciled Control Accounts

While the total of balances according to the control accounts relevant to 02 items of accounts had been Rs.19,610,538, total of balances of those according to the subsidiary registers had been Rs.23,095,737 reflecting a difference of Rs.3,485,199.

1.3.3 Accounts Payable

The total of individual balances of Accounts Payable that had exceeded 01 year as at 31 December 2013 had been Rs.31,968,977.

1.3.4 Lack of evidence for audit

- (a.) Seventeen vouchers valued at Rs. 581,127 relevant to the period January to March 2013 had not been furnished to audit.

- (b.) Out of the 193 pairs of shoes purchased having spent a sum of Rs.383,121 for the officers and employees of the Municipal Council, 100 pairs of shoes had been issued to the drivers and supervising labourers of the Health Division. However, registers of signatures were not made available to support acknowledgement of shoes.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

Following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
<p>(a) Municipal Councils Ordinance of 1988 Sub-section 40(1)(f)</p>	<p>While lands belongs to the Municipal Council are possessed by certain unauthorized parties without approval of the Minister in - charge of the subject of Local Government and the President and without lease agreements, assessment reports obtained with regard to these lands had not been updated once in 05 years.</p>
<p>(b) Land Ordinance and paragraph 07 of the President's Circular No. SEI/A/4/34 dated 14 July 1995.</p>	<p>Lease revenue of about Rs. 4,217,687 had been lost to the Municipal Council Fund due to failure in revising the lease money of 03 lands given on commercial basis within the area of Municipal Council Limits by increasing 50%, once in 05 years.</p>
<p>(c) Motor Vehicles Transport Act. (Chapter 203) Section (19) (a) (1)</p>	<p>The colour of a jeep belongs to the Council had been changed having spent a sum of Rs.125,000 without obtaining the approval of the Commissioner of Motor Transport.</p>
<p>(d) Financial Regulations of the Republic of Sri Lanka</p>	
<p>i. 571</p>	<p>Action had not been taken to clear deposits valued at Rs. 4,817,098 that had exceeded 02 two years from the date of deposit.</p>
<p>ii. 751</p>	<p>Office Equipment purchased amounting to Rs. 310,060 for the Community Development Unit had not been taken to Inventory.</p>
<p>iii. 1645(a)</p>	<p>Notes had not been made in log books with regard to 06 accidents.</p>

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| <p>(e) Government Procurement Guidelines
Clause 3.4</p> | <p>It was observed in audit that, only 03 quotations had been obtained for the memorial plaque, name boards, and wall decorating photographs of the new buildings of the Council for which a sum of Rs. 1,612,270 had been spent.</p> |
| <p>(f) Establishments Code Chapter - XXIV
Clause 4.5
Clause 4.6
Clause 12.10</p> | <p>Out of the Festival Advances, Special Advances and Distress Loans amounting to Rs.823,503 granted to 40 officers who were in service of the Municipal Council, it had not been possible to recover a sum of Rs. 823,503 due to various reasons.</p> |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure for the year ended 31 December 2013 amounted to Rs.104,745,298 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.121,868,017.

2.2 Analytical Financial Review

When the surplus for the year under review is compared with the surplus for the preceding year, there had been a diminution of Rs.17,122,720. Although a sum of Rs.100,194,003 had been received as salary reimbursements during the year under review, a sum of Rs.109,101,952 had been paid as salaries and allowances. Accordingly, it was observed that a sum of Rs.8,907,949 is being spent out of the council's revenue for payment of salaries of the council's employees, and it amounts to 4.25 percent of the Council's recurrent income for the salary reimbursements.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Revenue Item	Arrears as at	Recovery	Billings	Recoveries	Arrears as	Arrears as at 31 December 2013	
	01.01.2013	out of arrears as at 01.01.2013	during the year 2013	out of billings during the year	at 01.01.2013	Out of billings during the year	Total Arrears
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Lease Rent	59,941,665	14,857,205	38,687,596	17,396,153	45,084,460	21,291,443	66,375,903
License Fees	27,523,191	4,116,529	22,817,869	13,688,685	23,406,662	9,129,184	32,535,846
Water Charges	1,187,500	693,500	8,120,521	7,694,021	494,000	426,500	920,500
Total	17,697,274	10,714,351	9,173,714	27,265,451	6,982,923	11,908,263	18,891,186
	106,349,630	30,381,585	108,799,700	66,044,310	75,968,045	42,755,390	118,723,435

2.3.2 Rates

- (a.) According to the Budget for the year 2012, estimated revenue under the rates was Rs.42,000,000. Reasons for estimating a lesser amount of Rs.36,000,000 for the year 2013 were not revealed in audit.
- (b.) The refrigerator, the television, and the exercising set distrained due to non-payment of rates in arrears amounting to Rs. 24,299 due as at 09 August 2005 relating to a property in Sri Piyatissapura Road had been returned to the owner, although any payment had not been made by the owner. Rates amounting to Rs.72,606 too were outstanding as at 31 December 2012 from the owner of that property.

2.3.3 Lease Rent

Tax revenue of Rs. 7,567,838 was in arrears as at 31 December 2012 due to improper maintenance of files relating to land belongs to the Council leased out on long term and annual basis, inefficiency of the administration, lack of supervision and failure to take action for recovery after informing the lessees.

2.3.4 License Fees

Although License Fees should be recovered before 31 March of the current year from the entities registered under Tourism Development Act, according to the Bye-laws Gazette Notification of the Council, fees had not been recovered from nine entities registered in the official web site of the Tourism Development Authority and situated in the Nuwaraeliya Municipal Council limit.

2.3.5 Water Charges

While there was a sum of Rs.4,418,317 in the balance of Water Charges in arrears as at the end of the year under review, relevant to 104 water services that had remained unrecovered over a period more than a year after disconnection of water supply, action had not been taken to recover those amounts too.

2.3.6 Publicity Advertisements Boards Charges

Action had not been taken even up to 08 July 2013 to recover the sum of Rs. 1,901,100 due in terms of the by-laws of the Municipal Council from 34 advertisements boards identified by the Revenue Inspectors of the Council at inspection of publicity advertisements boards fixed within the area of authority of the Council.

2.3.7 Boat Service in Gregory Tank

- (a.) A sum of Rs. 901,867 had not been recovered in connection with the Boat Service in Gregory Tank in Nuwaraeliya as at 10 October 2013. At a physical inspection carried out on 14 October 2013, it was observed that more than 14 boats had been engaged in service in excess of the 67 boats from which charges are being recovered by the Council and revenue amounting to Rs.421,575 had lost to the Council annually from those boats. In addition to that, revenue amounting to Rs. 114,975 was outstanding to be recovered relevant to the year 2013 from a boat owner carrying on an unauthorized boat service. Agreements had not been entered into with any of the boat owners.
- (b.) The fees recovered at the rate of Rs. 400 per day amounting to an annual charge of 140,000 during the year 2012 had been increased by five percent and tax had been recovered accordingly for the year 2013, without taking action to recover fees based on the assessment of the Government Valuer as per agreement entered into with the private company carrying out the Surge House Boat Service in the Gregory Tank.

2.3.8 Court Fines and Stamp Fees

Amounts receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2013 are shown below.

	Rs.
Court Fines	41,489
Stamp Fees	10,637,667

Total	10,679,156
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2.3.9 Leasing out Bambarakele Quarry

Following observations are made.

- (a.) Action had not been taken to recover arrears amounting to Rs.630,000 as at 31 December 2013, due as Lease Rent of the quarry belongs to the Council, situated in Bambarakele.
- (b.) Although the leasing out the right to extract natural resources is based on the number of units extracted, an opportunity had been given to the lessee to extract unlimited quantity by leasing out the quarry for an annual lease amount. This is observed in audit as a facility provided for improper use of government resources.
- (c.) While unauthorized constructions had been made without prior permission of the lessor according to conditions in the agreement entered into with the lessee, action had not been taken to vest this quarry to the Municipal Council.
- (d.) In supplying metal to the Municipal Council from the quarry belongs to the Conical situated in Bambarakele, supplies should be done 20 percent less than the average selling price. In spite of this facility, the Municipal Council had purchased stones, metal and stone dust valued at Rs.1,648,950 from outside and institutions during the years 2012 and 2012. Due to that, an approximate loss of Rs. 329,790 had occurred to the Municipal Council Fund during these two years alone.

3. Operating Review

3.1 Performance Evaluation

Progress Reports and Administrative Reports had not been prepared indicating physical and financial performance to ensure that the Annual Action Plan is complied with.

3.2 Management Inefficiencies

An excess of 178 employees were observed due to recruitment of employees on casual, substitute and daily paid basis to certain fields, in excess of the approved cadre of the Municipal Council. A sum of Rs. 6, 715,599 had been spent for payment of salaries for these employees during two months in January and February 2014.

3.3 Operational Inefficiencies

- (a.) While action had not been taken to obtain annual revenue licenses for nine vehicles belong to the Council, out of those, annual revenue licenses had not been obtained from the date of receiving of three vehicles.
- (b.) Although construction of 16 stalls of the Multi-Purpose Council Building had been completed and handed over to the Council on 16 September 2013 having spent a sum of Rs.51,922,189 during the year 2013 by the Municipal Council, it had been kept closed up to 01 June 2014, date of audit.
- (c.) Action had not been taken make use of a sum of Rs. 373,283 out of the sum of Rs.995,000 provided through the Asia Foundation for executing various works of the Council.
- (d.) Legal action had not been taken in terms of Section 23 ‘a’ of the National Environmental Act as amended by Act No.53 of 2000 against individuals who had been carrying on 11 businesses such as residential hotels, visitors lodging houses, garages and grinding mills which should obtain environmental licenses, but had obtained trade licenses relevant to the year 2013 without obtaining the environmental protection licenses.

3.4 Vehicles Control

Following matters are observed.

- (a.) A sum of Rs.274,335 had been spent having provided 2262 liters of fuel during April to December 2013 in excess of the monthly fuel limit of 140 liters decided to provide for official duties of the vehicle allocated to the Municipal Commissioner.
- (b.) The vehicles had been used by Council Members for travel outside the municipal limits to cities like Colombo, Kandy, Negombo, Wellawaya for works not connected with Council duties in 16 instances during September to December 2013.
- (c.) It was revealed that 04 vehicles provided to the Municipal Council for fire extinguishers works under foreign aids are used for day to day duties of the Council as a habit. In certain instances the vehicles of this Fire Extinguish Unit had been utilized in outside duties for more than a day.

3.5 Idle and Under-utilized Assets

- (a.) Out of the 500 Concrete Semi Circles purchased having spent a sum of Rs.2,565,000 as an urgent requirement for expeditious completion of the Road Projects in the area of Authority of the Municipal Council, there had been a stock of 119 units in the stores and 05 units near the production site at the time of physical inspection carried out on 06 June 2013.

- (b.) Two motor cycles and 29 equipment of 07 categories recommended to be auctioned according to the board of survey reports for the year 2011, had not been auctioned or used for any other purpose and had been kept idle even as at 31 March 2014.

3.6 Identified Losses

- (a.) The distress loans totalling Rs. 128,104 paid to two officers who had paid contributions to the Employees Provident Fund had not been recovered at the time of releasing the provident fund to them when they were sent on retirement, although all dues to the Government should have been recovered. Due to that a loss had been occurred to the Municipal Council Fund to that extent.
- (b.) A fine of Rs. 15,619 had been paid due to failure in taking annual revenue licenses for three vehicles belong to the Council during the year 2013.

4. Accountability and Good Governance

4.1 Budgetary Control

- (a.) Although expenditure amounting to Rs.8,401,807 had been incurred in two Expenditure Heads in excess of the approved budgeted provisions for the year under review, a proper approval had not been obtained for that.
- (b.) Revenue recovery percentage of 24 sub items of 06 Revenue Heads budgeted amounting to Rs.8,568,250 had been 0 percent.
- (c.) Revenue amounting to Rs.566,466 had been earned under 03 sub-items of 03 Revenue Heads not budgeted.
- (d.) It had been failed to recover targeted revenue in a range between 71 to 95 percent under 04 sub-items of 03 Revenue Heads in the Budget.
- (e.) According to the Budget prepared for the year under review, when estimated revenue and expenditure compared with the actual revenue and expenditure, variations in a range from 14 to 86 percent in 02 items of revenue and 14 to 93 percent in 08 items of expenditure were observed. Therefore it was observed that the Budget had not been made use as an effective tool of management.

4.2 Audit Queries not replied and un-resolved

Replies had not been furnished to 29 audit queries as at 31 December 2013.

4.3 Procurement Plan

A Procurement Plan had not been prepared with regard to purchases and constructions of the Council.

4.4 Conducting Audit and Management Committee Meetings

Audit and Management Committees had not been established in the Council.

4.5 Internal Audit

An adequate internal audit had not been carried out in the establishment.

5. Systems and Controls

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Special attention of the Sabha is needed in the following areas of controls.

- (a.) Internal Control
- (b.) Revenue Administration
- (c.) Assets Management
- (d.) Debtors and Creditors Control
- (e.) Stock Control