

Badulla Municipal Council

Badulla District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 05 May 2016 while Financial Statements relating to the preceding year had been submitted on 16 September 2015. The Auditor General's Report relating to the year under review was issued to the Municipal Commissioner of the Municipal Council on 28 September 2016.

1.2 Opinion

In view of significance of matters appearing in paragraph 1.3 of this report, my opinion is that the financial statements have not been prepared in accordance with the Generally Accepted Accounting Principles so as to reflect a true and fair view of the financial position of the Badulla Municipal Council as at 31 December 2014 and its financial performance and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.2 Accounting Deficiencies

Following deficiencies are observed.

- (a) Value of 15 lands and 14 buildings had not been assessed and accounted during the year under review.
- (b) Value of 03 motor vehicles amounting to Rs. 3,077,813 received as donations during the year under review had not been accounted as Fixed Assets.
- (c) Fixed deposits interest amounting to Rs. 53,624 relevant to the year under review had been overstated.
- (d) Fixed Deposits Interest amounting to Rs. 272,680 receivable at the end of the year under review had been under stated in the financial statements.
- (e) The value of Fixed Deposits Investments of the year under review had been over stated by Rs. 120,428 in the financial statements.
- (f) Provision for Stamp Fees and Court Fines Receivable relevant to 07 months of the year under review had not been made causing understatement of revenue.

- (g) Revenue for the year under review had been understated in a sum of Rs. 1,813,212 causing understatement of surplus to that extent.
- (h) The surcharge of 10% imposed on stalls rent as at 31 December of the year under review had been understated in a sum of Rs. 381,854 in the accounts.
- (i) Three Staff Loan balances had been understated in a sum of Rs. 142,500 in the accounts.
- (j) Expenditure incurred during the current year amounting to Rs.615,507 relevant to the preceding year had been accounted as expenditure for the current year.
- (k) Work Creditors amounting to Rs. 61,134,480 as at 31 December of the year under review had not been accounted.
- (l) Provision for Creditors had not been made with regard to payments amounting to Rs. 389,177 made during the ensuing year, relevant to the year under review.
- (m) Balance of the Employees Security Investments Account and the balance of the Employees Security Deposits Account had been overstated at the rate of Rs. 15,181 in the financial statements for the year under review.
- (n) Adjustments had not been made in the financial statements with regard to Library Books valued at Rs. 307,338 recommended to be removed through the Board of survey.
- (o) The value of Members Allowance Reimbursements received during the year under review amounting to Rs. 315,000 for the month of December of the preceding year had been accounted as revenue of the current year.
- (p) Provision for Debtors amounting to Rs. 295,000 in respect of Reimbursement of Members Allowance for December of the year under review had not been made.
- (q) Minimum information relating to two years had not been disclosed for the purpose of comparing information, in presentation of accounts for the year under review.

1.3.2 Non-reconciled Control Accounts

Non-reconciliation in a sum of Rs. 288,868,859 was observed between the total of balances amounting to Rs. 553,850,728 relevant to 23 items of accounts shown in the financial statements and the balances shown in relevant subsidiary registers and records.

1.3.3 Accounts Receivable and Payable

According to the financial statements presented, the value of Accounts Receivable as at 31 December of the year under review had been Rs. 69,817,922 while the value of Accounts Payable as at that date amounted to Rs. 129,423,985.

1.3.4 Lack of Evidence for Audit

Eight items of accounts valued at Rs. 57,539,496 could not be satisfactorily vouched in audit due to non-submission of relevant Register of Assets, Books of Saving Deposits, Stock Registers, Schedules, Dishonored Cheques and Employees Files.

1.3.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with Laws, Rules and Regulations etc., observed in audit are shown below.

Reference to Laws, Rules, and Regulations etc.	Non-compliance
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(a) Municipal Councils Ordinance	

(i) Section 127(1) and Section 42	While out of 1075 building applications approved by the Council during the period from the year 2011 to the year 2015, only 141 Certificates of Conformity had been issued. The Council had not taken action to demolish un-authorized buildings in terms of the authorities vested in the Council.
(ii) Section 218	Although the Mayor should prepare a detailed report with regard to his administration during each financial year together with a statement showing the amount of receipts to the Municipal Council Fund and nature and amount of disbursements out of that fund during such year prepared after end of each financial year and having sanctioned by the Council and shall be submitted to the Minister within six months of the date, such

action had not been taken during the past 04 years and the year under review.

(b) Financial Regulations of the
Republic of Sri Lanka 1992
Financial regulation 395 (c)

Bank Reconciliation Statements relevant to two bank accounts for the year under review had not been prepared.

(c) Paragraph 11:14 in the Establishments Code of the Republic of Sri Lanka and F.R. 102

Although loan files should be kept in a safe under the custody of a Staff Officer after granting loans to state officers, 12 loan files valued at Rs. 304,780 in the Municipal Council had been misplaced.

(d) Treasury Circular No.IAI/2002/02 dated 28 November 2002
Management Audit Department Circular No.DMA/2009/02 dated 01 September 2009

A Register of Fixed Assets and a Register of Computer Accessories had not been maintained.

(e) Public Finance Circular No.02/2015 dated 10 July 2015

Action had not been taken for disposal of 20 vehicles, machinery and equipment

(f) Circular No.SEC 2012 /03/ dated 30 July 2012 of the Commissioner General of Inland Revenue

A sum of Rs. 167,849 had been overpaid to the Commissioner General of Inland Revenue due to failure in taking into account the tax paid by the Council in computation of Value Added Tax.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs. 7,883,986 as compared the corresponding excess of revenue over recurrent expenditure for the preceding year according to the financial statement submitted for the preceding year amounted to Rs.33,781,222.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Following matters are observed.

- (a) The progress in recovery of Rates, Entertainment Tax, Rent Revenue and Service Chagares in arrears as at 01 January 2015 had been in a low level up to 34 per cent.
- (b) Although in instances of defaulting payment of Rates, action should be taken to recover Rates in Arrears by seizing movable property in terms of Section 261 of the Municipal Councils Ordinance, in the sample audit checks carried out in Division 12, Rates in arrears had not been recovered for period of more than 23 quarters as at 31 December 2015.
- (c) Although taxes and all revenue due to the Municipal Council should be recovered by the Municipal Commissioner in terms of Section 254(1) of the Municipal Councils Ordinance, a proper course of action had not been taken to recover arrears of revenue amounting to Rs. 35,530,932 as at 31 December 2015.
- (d) Action had not been taken to have a proper coordination with State Institutions in order to recover Rates during the relevant year. Due to that, there were arrears of rates to be recovered from many State Institutions in the area of authority of the Municipal Council.
- (e) There was non-reconciliation in a sum of Rs. 1,282,904 between the balance of Rates in arrears according to computer software records and the balance according to the General Ledger as at 31 December of the year under review.
- (f) Although the annual service charge paid for seven years for the computer software purchased on 01 March 2008 up to now was Rs. 490,000, it had not been operated by the Municipal Council to gain productivity.
- (g) Action had not been taken to issue the Trade License and the Environment Permit for a fuel filling station in operation in the area of authority of the Municipal Council up to 31 December 2015, in terms of the Gazette Notification No. 1895 dated 26 December 2014.

- (h) Trade License had been issued for a sum of Rs. 5,000 without action being taken to recover a License Fee of 1 per cent out of receipts of hotels and lodging houses registered in the Sri Lanka Tourism Development Board.
- (i) In allocating the ground for trading in the Senanayake Ground Road during Sinhala and Hindu New year season of the year 2015, only a Cleaning Charge of Rs. 200 per day had been recovered when compared with that for the preceding year. causing a loss of Rs. 490,446 to he Council.
- (j) Although business activities are carried out in the Senananayake Ground daily by about 50 traders, action had not been taken to recover tax or to remove unauthorized traders.
- (k) Although the Badulla Rest House assigned to the Urban Development Authority had been got transferred back to the Municipal Council on 12 March 2014, it had been kept idle without action being taken to earn revenue up to 31 December 2015.
- (l) Action had not been taken up to 31 December 2015, for the recovery of the Rest House Managing Fee of Rs. 2,975,280 due to be recovered to the Council for the period from June 2012 to March 2014.

2.2.2 Courts Fines and Stamp Fees

Courts Fines amounting to Rs. 1,555,767 and Stamp Fees amounting to Rs. 10,381,452 Receivable, were due to recovered as at 31 December 2015 from the Chief Secretary to the Provincial Council and other authorities.

3. Operational Review

3.1 Management Inefficiencies

Although Interest Income of State Institutions is exempted from the Withholding Tax in terms of Section 133 in Chapter xvi of the Inland Revenue Act No. 10 of 2006, action had not been taken to get interest money amounting to Rs. 80,308 back to the Council withheld by the bank when paying interest relevant to 04 Fixed Deposits belong to the Council.

3.2 Operational Inefficiencies

While schedules in support of dishonored cheques amounting to Rs. 1,883,710 as at 31 December 2015 were not submitted, action in terms of Financial Regulations 189 and 486 had not been taken with regard to cheques not realized and misplaced over a long period.

3.3 Un-economic Transactions

A sum of Rs. 82,229 had been spent by the Council for electricity charges of the Badulla Rest House for the period from March 2014 to July 2015 without revenue being recovered.

4. Good Governance and Accountability

4.1 Budgetary Control

Material variances were observed in comparison of the revenue and expenditure in the budget prepared by the Council for the year under review with the actual revenue and expenditure through by the Sabha and indicating that the Budget had not been made use of as an effective tool of management..

4.2 Annual Procurement Plan

Although an Annual Procurement Plan should be prepared with regard to purchases and constructions of the Council in terms of clause 4:2 in chapter 4 of the Government Procurement Guidelines of 2006, such action had not been taken during the year under review.

4.3 Internal Audit

An internal audit had not been carried out for the year 2015.

4.4 Audit and Management Committee

Audit and Management Committees had not been established during the year under review.

5. Systems and Controls

Special attention is needed in the following areas of controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Stores Management
- (e) Vehicles Control
- (f) Debtors and Creditors Control.