

Bandarawela Municipal Council

Budulla District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2016 had been submitted to Audit on 31 March 2017 while Financial Statements relating to the preceding year had been submitted on 05 April 2016. The Auditor General's Report relating to the year 2016 was sent to the Commissioner of the Municipal Council on 07 September 2017.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Bandarawela Municipal Council as at 31 December 2016, its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The balance of construction creditors had been overstated by Rs.3,428,180 in the financial statements as at 31 December of the year under review.
- (b) The discount of Rs.260,134 given for 03 division of rates and taxes during the year under review had not been accounted for.
- (c) The warrant fee of Rs.125,984 recovered from 03 division of rates and taxes during the year under review had not been accounted for.
- (d) The income on rates and taxes for the under review had been overstated by Rs.64,184 .
- (e) The current assets as at 31 December of the year under review had been understated by Rs.594,306 through understating the security deposits of employees by similar amount.
- (f) The inventory items valued of Rs.70,519 which should be shown under Current Assets had been shown under Fixed Assets.
- (g) The arrears income of Entertainment Taxes amounting to Rs.153,152 for the year under review had not been accounted for.
- (h) Interest received on bank deposits of Key Money recovered from FGJ trade stalls which granted on lease basis as at 31 December of the year under review had been overstated in the financial statements by Rs.816,976.
- (i) Key money (Trade) receivable as at 31 December of the year from rented out trade stalls amounting Rs.532,784 had been omitted from the financial statements.

- (j) Three hundred garbage cans with the capacity of 20 liters valued at Rs. 82,860 received from the Department of Local Government during the year 2014 had not been accounted for as a closing stocks.
- (k) Interest payable to Local Loans and Development Fund amounting to Rs.260,385 had not been accounted for.
- (l) Income from court fines for the year under review had been understated by Rs.213,124 in the financial statements.
- (m) Revenue from water charges for the year under review had been understated by Rs.133,179 in the financial statements.
- (n) Receivable water charges as at 31 December of the year under review had been understated by Rs.260,824 in the financial statements.
- (o) Receivable income on leased out the market relating to previous year amounting to Rs.1,291,751 had been treated as income for the year under review.
- (p) Rest House Management Fee for the year under review had been overstated by Rs.1,633,500 in the financial statements.
- (q) Stamps duty for the year under review had been overstated by Rs. 1,147,437 in the financial statements.
- (r) Fixed Deposit of Rs.59,968 for the year under review had not been included in the financial statements.
- (s) A sum of Rs.4,000,000 received from a private contractor due to damages made to Sewali Road had not been accounted as income for the year under review.

1.3.2 **Un-reconciled Control Accounts**

A difference of Rs.685,679 was observed between the balances of 03 items of accounts shown in the financial statements and corresponding balances shown in the relevant schedules.

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.98,104,798 while the value of Accounts payable as at that date amounted to Rs.75,889,806.

1.3.4 **Lack of Evidences for Audit**

- (a) Three items of assets to the value of Rs.47,296,082 and 02 items of liabilities valued at Rs.58,815,233 could not be satisfactorily vouched /verified in audit.

- (b) The name list of the beneficiaries relating to distribution of 400 garbage bins valued at Rs.110,400 which received from Ministry of Provincial Councils and Local Government had not been submitted to audit.

1.3.5 Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations	Non-compliance
(a) Municipal Councils Ordinance	
(i) Section 42	Action had not been taken in respect of 34 unauthorized constructions.
(ii) Section 218	Detailed reports on Council Administration relating to the years 2014 and 2015 had not been submitted to Minister concerned.
(iii) Section 247 (a) and (b)	Trade License for the year 2016 had not been obtained by 23 trade stalls and the attention of the Council in this regard had not been made.
(iv) Section 230 (1)	Rates and taxes up to the year under review relating to Divisions No. 1 to 9 of the authorized areas of the Council had been recovered based on the assessments made in the year 2007.
(b) Section 23 (a) of National Environment Act No. 47 of 1980 amended by Acts No. 53 of 2000 and 56 of 1988	Trade License only had been issued to 09 businesses without being issued Environment Licenses which should be obtained by such business.
(c) Employee Trust Fund Act No. 46 of 1980	A surcharge of Rs.61,311 had been paid on the payment of contributions made in 30 instances during the years from 2004 to 2011 to the Employee Trust Fund.
(d) Guideline 2.14.1 of the Government Procurement Guidelines.	Although the procurements which exceeded Rs.200 million should be authorized by the Cabinet Appointed Procurement Committee, procurement worth Rs.434,469,751 had been awarded by the Council by divided into several components.
(e) Section 23 (a) of National Environment Act No. 47 of 1980 amended by Acts No. 53 of 2000 and 56 of 1988	Environmental Licenses for the year 2016 had not been obtained for the Slaughters, Compost Units and Crematoriums

(f) Financial Regulations (F.R.) of the
Government of the Democratic
Socialist Republic of Sri Lanka

(i) F.R. 168,177(1) and 185

A receipt had not been issued in respect of a cheque worth Rs.4,000,000 received on 27 March 2017 and it had not been accounted too for. Further, this income had been lost to the Council due dishonored the cheque since failed deposit in the bank.

(ii) F.R. 571

Action had not been taken in respect of lapsed deposits of Rs.3,618,949 which exceeded for over 02 years as at 31 December 2016.

(g) Establishment Code of the
Democratic Socialist Republic of Sri
Lanka

(i) Section 1.6 and 4 of Chapter
XXIV

Actions had not been taken to recover the staff loans aggregating Rs.1,358,309 recoverable from 20 officers.

(ii) Chapter XIX

Paragraphs 4.1 and 6.1.1

Government quarters had been provided to officers who obtained property loans and 04 officers who occupied such quarters for more than 05 years.

Section 4.2

Quarters had not been allocated based on the name order included in the waiting list and other factors.

(h) Circular No. PFD/ASD/02/Vehicle
2015 of 10 July 2015 issued by the
Secretary to the Ministry of Finance.

Action had not been taken to dispose 09 unserviceable and condemned vehicles belong to the Council.

(i) Public Administration Circular No.
41/90 of 10 Octobers 1990

Fuel testing on 27 vehicles belong to the Council had not been conducted.

(j) Pension Circular No. 4/2010 of 25
May 2010

Although the contribution to the Employees Provident Fund (EPF) on behalf of 07 employees who recruited on contract basis during the year under review and 11 employees being deployed on casual basis was paid, action had not been taken to obtain "B" cards and EPF numbers.

(k) By-law No. 541/17 Dated 20 January
1989

An income of Rs. 594,000 had been lost to the Council due to not issue the parking licenses to 198 vehicles out of registered vehicles in the year 2016.

- (l) Circular No. SEC/2015/05 of 06 July 2015 issued by the Commissioner General of Inland Revenue Pay As You Earn Tax relating to 04 officers had been remitted to the Department of Inland Revenue by understating Rs.19,080.

1.3.6 Un-identified Transactions

It was unable to confirmed the transactions valued at Rs.550,964 during the course of examination of ledger accounts of the year under review.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess revenue over recurrent expenditure for the year ended 31 December 2016 amounted to Rs. 39,383,629 and the corresponding excess revenue over recurrent expenditure for the preceding year was amounted to Rs.43,001,739.

2.2 Revenue Administration

2.2.1 Performance of Revenue Collection

The outstanding income to be receivable to the Fund of the Council as at 31 December 2016 was amounting to Rs. 54,367,288 and out of invoiced income for the year under review, an amount of Rs.10,892,776 or 27 per cent had been outstanding as at 31 December 2016.

2.2.2 Lease Rent

- (a) Total outstanding stall lease rental as at 31 December 2016 was Rs.4,684,192 and action had not been taken to recover lease rental of Rs.3,926,648 relating to 174 stalls which remained outstanding between the period ranging 06 months to 75 months.
- (b) Two hundred and thirty nine trade stalls belong to the Bandarawella Municipal Council by 10 November 2016 had been given to the external parties to carry out the business activities without entering into agreements and without renewing the agreements after laps of valid period. Although monthly rental is being recovered based on the assessment of year 2012 year, action had not been taken to update the monthly rental.
- (c) Arrears rental of Rs.93,383,468 relating to the year 2016 had not been recovered from 18 persons who obtained the Copiyawatta land belong to the Bandarawela Municipal Council on lease basis.

2.2.3 Revenue on Water Bills

The following matters are observed in this connection.

- (a) The arrears water bills to be recovered from the water customers as at 31 December 2016 was Rs.5,043,412. Although out of that Rs.2,230,499 relating to previous years, a proper procedure had not been implemented to recover those arrears water charges.

(b) A loss of Rs. 225,858 had been incurred in supplying water to the customers by purchasing the water on bulk basis from the National Water Supply and Drainage Board during the period of January to September 2016.

(c) Water Meters for 1646 water consumers had not been affixed.

2.2.4 **Court Fines and Stamps Duties**

Stamp duty receivable as at 31 December 2016 amounting to Rs. 1,492,248 had not been recovered.

3. **Operational Review**

3.1 **Management Inefficiencies**

(a) Intersect on property loan amounting to Rs.32,579 which paid out from the Council Fund on behalf of an officer attached to the private staff of a Member of Parliament had not been got reimbursed from the Ministry of Parliament Affairs in terms of Section 185(2)(h) of the Municipal Ordinance.

(b) A JCB loader Machine along with No. ZA-4922 had been deployed for the construction works by spending 191.10 liter of fuel valued at Rs.18,155 without certified by the officer using vehicle and proper approval according to Financial Regulation 1645(b) of the Government of the Democratic Socialist Republic of Sri Lanka and proper approval with regard to those 09 contracts of the Municipal Council after preparing estimates had not been obtained.

(c) Although Milo Meters of 06 vehicles belonging to the Council were out of service in the year 2016, 10,050 liters of fuel valued at Rs.954,750 had been utilized during the year 2016 by approximately stating the distance ran by those vehicles.

3.2 **Idle / Under-utilized Assets**

Although a cab, lorry and hand tractor owned to the Municipal Council were being idled, action had not been taken to repair and reuse those vehicles.

3.3. **Identified Losses**

(a) Legal cases had been filed by then Bandarawella Pradeshiy Sabha before converting as Municipal Council against 02 persons for the purpose of recovering the arrears rental from two trade stalls belonging to then Bandarawella Pradeshiy Sabha. Although those persons was agreed to pay Rs.398,970 as arrears rental to the Municipal Council on 08 November 2012, a sum of Rs. 210,940 only had been recovered (excluding tax) from them without being considered the above agreed amount and such a loss of Rs.188,030 sustained to the Council.

(b) A shortage of 119 bags and 1177 bags of compost fertilizer valued at Rs.29,750 and Rs.58,850 respectively with the weight of 25 kg and 5 kg respectively was observed in audit.

3.4 **Constructs Administration**

- (a) In the year 2013, the Bandarawlla Municipal Council had entered into agreements with the Nwaloka Construction Company, Wejewardana Company, Lakjaya Company and Argo Chemical Company for the construction of a whole sales market, pond and the town to the value of Rs.88,634,140, for three construction works valued at Rs.131,317,317, for the construction of Block 1, 2 ,3, 4 ,5,6,7 valued at Rs.10,033,686 and Rs.33,456,186 respectively. The following observations are made in this connection.
- (i) Although these construction works should be completed within one year commencing from 2014, the works had not been completed even up to the year under review.
 - (ii) Sums of Rs.17,726,828 and Rs.4,106,483 had been paid to the Nwaloka Company and Lakjaya Company respectively as advance.
 - (iii) A proper procedure had not been followed to select the persons in order to provide the trade stalls in the whole sale market.
 - (iv) Although a sum of Rs.317,700,000 should be recovered from the trade stall holders since 2014, out of that Rs.242,415,231 or only 76 per cent had not been recovered even to date.
- (b) The contract work for the construction shopping complex in Sivali Road valued at Rs.30,815,862 had been offered to the Nuvan Construction Company on 02 April 2015. The following observations are made in this connection.
- (i) This shopping complex had not been completed to date.
 - (ii) Although according to the tender notice a sum of Rs.46,175,093 should be recovered from 25 business men on behalf of trade stalls, the outstanding amount was Rs.25,991,140 and it was 56 per cent of the amount that should be recovered.
 - (iii) It was planned to construct the proposed shopping complex in a forest land belongs to the Road Development Authority.
 - (iv) A sum of Rs. 1,312,000 had been paid to the University of Peradeniya for re-estimate this work due to an earth slip occurred in this place during the year 2016.
 - (v) An official residence belongs to the Municipal Council and Seveli Road had been completely destroyed when cutting the Dam with a height of 40 feet for the purpose of construction this shopping complex and this loss had not been recovered from the responsible parties.

3.5 **Solid Waste Management**

- (a) Although 12 employees were deploying in the Compost Yard, action had not been taken to provide antibacterial drugs and medical testing and treatment to them. It was observed that most of the employees are suffering from injuries and rash in their bodies.

- (b) A large amount of garbage which could not be used for the manufacturing compost had been kept in the compost yard while a large amount of polythene is also kept in the garbage collecting area. It was further observed that the parapet wall constructed around the garbage dumping area was cracked and there is a risk for slipping out the garbage.
- (c) The surrounding environment of the compost yard was in unclean condition due to bad smell spread out from the garbage collecting area and kept the waste water in the compost yard.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

The Budget had not been made use of as an effective control tool in the management of revenue and expenditure of the year under review.

4.2 **Annual Procurement Plan**

An Annual Procurement Plan for the year under review had not been prepared and implemented.

4.3 **Internal Audit**

An adequate internal audit had not been carried out for the year 2016.

4.4 **Implementation of Audit and Management Committee**

Only three audit and Management Committee meetings had been conducted during the year under review.

5. **Systems and Controls**

Special attention of the Council is needed in respect of following areas of controls.

- (a) Accounting
- (b) Debtors and Creditors
- (c) Control over Contracts
- (d) Revenue
- (e) Stock Control