

Badulla Municipal Council
Badulla District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2017 had been submitted for audit on 27 March 2018 and the report Of the Auditor General had been sent to the Mayor on 26 September 2018.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in Paragraph 1.3 of this report, Financial Statements give a true and fair view of the financial position of the Badulla Municipal Council as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statement

1.3.1 Accounting Deficiencies

The following were observed.

- a) Stamp Fees amounting to Rs.19,263,215 to be received in the year under review was understated in the accounts as such current assets had been understated by that amount.
- b) Interest revenue of two fixed deposits amounting to Rs.667,788 had not been accounted as revenue and current assets as at 31 December of the year under review.
- c) Vehicles and Carts amounting to Rs.264,500 were not accounted in the year under review, as such Fixed Assets and Revenue Contribution to Capital Outlay had been understated by that amount.
- d) An amount of Rs.26,328,386 of the balance of Local Loan and Development Fund was understated as such liabilities had been understated in that amount as at 31 December of the year under review.
- e) Value of library books discarded amounting to Rs.39,825 was not adjusted as such Current Assets had been understated by that amount.
- f) The Capital expenditure incurred amounting to Rs,1,618,488 for the construction of a plastic recycling center was not capitalized as such Revenue Contribution to Capital Outlay Account had been understated by that amount.

- g) A plastic compactor machine amounting to Rs.699,333 purchased in the preceding year was not accounted as such Fixed Assets and Revenue Contribution to Capital Outlay had been understated by that amount.
- h) Tax amounting to Rs.112,449 erroneously withhold by the bank had not been accounted as income and receivable.
- i) Staff salary amounting to Rs.35,604,346 paid as at 31 December of the year under review had not been shown as a reimbursable balance from the Department of Local Government.

1.3.2 Unreconciled Accounts

A difference of Rs.123,395,704 was observed when comparing Financial Statements, Schedules, Ledger Accounts and Summaries in the year under review.

1.3.3 Accounts Payable and Receivable

a) Accounts Receivable

At the end of the year under review, accounts payable balance amounting to Rs.48,931,168 includes Arrears of Rate due for 10 years amounting to Rs.22,590,623, Arrears of Miscellaneous Revenue due for 7 years amounting to Rs.24,114,292, and value of 108 dishonored cheques due for 8 years amounting to Rs.2,226,253 and action had not been taken to recover.

b) Accounts Payable

At the end of the year under review, accounts payable balance amounting to Rs.153,206,806 includes Expenditure Creditors due for 5 years amounting to Rs.109,762,352 and Stock Creditors due for 6 years amounting to Rs.43,444,455 and action had not been taken to settled.

1.3.4 Lack of Documentary Evidence for Audit

- a. Due to the lack of information, the total of four items amounting to Rs.803,111,471 could not be satisfactorily vouched/verified in audit.
- b. There were no evidence for the Miscellaneous Donations Account bought forward since a long period of time amounting to Rs. 81,794,682 of the Council.

1.3.5 Non-compliance

1.3.5.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions were shown below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
a.		
i. Municipal Council Ordinance		
i. Section 127(1)		Although 946 building applications were approved from the years 2013 to 30 December 2017, only 187 compliance certificates were issued.
ii. Section 218		A detailed report regarding the administration of the Council for the years 2014, 2015, and 2016 had not been submitted.
iii. Sub-section 229(d)	2,738,864	Expenditure for the Plastic Recycling Project construction was implemented without budget or supplementary provision approvals.
iv. Sub-section 254a(1)	24,146,745	Tax, Miscellaneous Charges and Fines receivable to the Council were not recovered by the Municipal Commissioner.
v. Section 129 and Gazette No. 1778/45 of Democratic Socialist Republic of Sri Lanka dated 17 March 2017		Garbage tax had not been recovered based on weight of the generation of waste from different institutions within the authority area of the Council.
b.		
i. Section No. 10 of the Employee's Provident Fund Act No. 15 of 1958 amended by the Act No. 8 of 1971.	362,392	Surcharge had been paid by the Council Fund due to not paying contributions for the Employee's Provident Fund in time.
ii. Sub-section 6(1)(a) of Public Contract Act No. 3 of 1987	6,905,000	The contract related to the construction of the plastic recycling center had not

			been registered under the Contract Registrar.
	iii.	Section 23(a) of National Environmental Act No.47 of 1980 amended by Acts No.56 of 1988 and No.53 of 2000.	Environmental License for slaughterhouses were not obtained and for 71 businesses which were required to obtain Environmental License, only trade License were obtained.
c.	i.	Section 4 of the Chapter II of Slaughterhouse Ordinance	An approval on the application “d” format of the act should be obtained before slaughtering a cattle but it had not been so done.
	ii	Section 22 of the Chapter III of Slaughterhouse Ordinance	By laws for the slaughterhouse was not passed and Slaughterhouse was not under the supervision of a Supervisor and a Health Inspector.
d.		The Establishment Code of the Democratic Socialist Republic of Sri Lanka.	
	i.	Sections 4.5 and 4.6	252,875 Action had not been taken to reversed loan balances of 12 officers who had left the service or had been interdicted.
	ii.	Chapter XXI of the Establishment Code and Public Administration Circular No.5/2013 dated 22 April 2013 and No 3/2016 dated 29 August 2016.	337,177 Uniform allowance had been given for the Work Inspector/ Technical Officers who does not entitle for uniform and tailoring allowances.
e.		Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
	i.	Financial Regulation 104(4)	996,500 A Chapter report on the damage caused due to an accident to the ambulance on 17 June 2014 was not submitted up to 31 December 2017.
	ii.	Financial Regulation 454	An inventory Register for every office was not maintained.

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| iii. | Financial Regulation 700(5) | 72,324,287 | Agreement copies relating to 79 works were not submitted to the Auditor General. |
| iv. | Financial Regulation 751 | | Details of Goods purchased and issued were not separately recorded in the Stock Register. |
| v. | Financial Regulation 757(2) | 31,650 | Action had not been taken relating to the Inventory defects in the official residence of the Municipal Commissioner. |
| f. | 2006 Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka. | | |
| i. | Guideline 5.4.4 | 1,381,000 | Guarantee period of Advance paid for the construction of the Plastic Waste Recycling Center in year 2017 had expired and Action had not been taken to get a new guarantee within the construction period had not been taken. |
| g. | Gazette No.1778/45 dated 05 October 2012 of the Democratic Socialist Republic of Sri Lanka dated | | Action had not been taken to implement 13 main points stated in the Bylaw enacted relating to the solid waste by the Council. |

2. Financial Reweiv

2.1 Financial Results

According to the Financial Statements presented, surplus of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.7,789,058 and the corresponding surplus of revenue over recurrent expenditure for the preceding year amounted to Rs.30,102,552.

2.2 Revenue Administration

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

The details of the Estimated Income, Billed Income, Collected Income and Arrears of Income for the year under review and the preceding year are stated below.

	<u>2017</u>				<u>2016</u>			
Source of Income	Estimated Income	Billed Income	Collected Income	Arrears as at 31 December	Estimated Income	Billed Income	Collected Income	Arrears at 31 December
	Rs.	Rs	Rs	Rs	Rs	Rs	Rs	Rs
(i) Rates and Taxes	2,051,0000	18,629,247	10,218,117	8,411,129	17,538,000	19,314,691	10,260,870	9,053,821
(ii) Rent	24,833,420	24,920,095	21,900,756	3,019,339	38,960,114	27,359,821	24,094,085	3,265,735
(iii) License Fees	18,260,000	14,315,850	11,391,975	2,923,875	10,360,000	11,460,885	10,749,385	711,500
(iv) Other income	5,111,5000	47,060,996	37,268,594	9,792,402	42,825,000	46,076,184	37,537,547	8,538,637
Total	114,718,420	104,926,188	80,779,442	24,146,745	109,683,114	104,211,581	82,641,887	21,569,693

2.2.2 Performance in Revenue Collection

The total Billed Revenue for the year ended 31 December 2017 amounted to Rs.104.9 million while collected revenue amounted to Rs. 80.7 million. However revenue amounted to Rs 24.1 million had to be collected as at end of the year and in comparison to the preceding year the arrears of revenue collection was increased by 11.9 per cent.

2.2.3 Rates and Taxes

The following was observed.

- Action should be to seize movable property and recover rates of tax payers who were failed to pay rates in terms of the Section 261 of Municipal Council Act, an amount of Rs.13,922,535 had not been recovered due for more than 20 quarters in 15 regions as at to 31 October 2017.
- In terms of the Section 254(1) of the Municipal Council Act and Section 2 the Entertainment Tax Act of No.12 of 1946, Entertainment Tax should be recovered from cinema halls within the area of authority there was an arrears amounting to Rs. 1,614,454 as at 31 December 2017.
- Although according to the Section 230(1) of the Municipal Council Act, Assessment of rate should be done relating to all building within the authority area of the Council but action had not been taken as above for 277 newly constructed building from the year 2011 to 31 December 2017.

2.2.4 Rent

The following was observed.

- a) Although 100 rented shopping stalls were assessed in years 2014 and 2015, rents had not been recovered on new valuation. A revenue of Rs.498,780 was lost to the Council only in the year 2017 due to recovering the rent valuation done in the year 1987.
- b) A rent of Rs.360,000 was lost to the Council due to not renting of 5 trade stalls in 2017, built in Tunnel way of Badulla which had finalized construction were completed as at 31 December 2016.
- c) The Chief Valuer of the Uwa Province had assessed a rent of Rs. 36,000 for the milk bar which is situated in Badulla Senanayake grounds on 20 December 2016, However rent had not been recovered up to 31 December 2017 on the new assessment coming to agreement as at 31 December 2017. Action had not been taken to recover an arrears rent amounting to Rs.620,142 of 17 monthly installments as at 31 December 2017.
- d) Development activities of 04 Suvinitagama shop stalls which were demolished in 2013 had not been undertaken up to 31 December 2017 and was closed down. Action had not been taken to recover rent arrears of 3 stalls amounting to Rs.106,295 from the lessees.

2.2.5 License Fees

Although it was informed to 563 business institution to get their trade license before 31 March 2017 by the Council in terms of the power vested by the Section 247(a),(b) and (c) of the Municipal Council Ordinance they have not obtained trade license up to 31 December 2017 for the year 2017 and action had not been taken to recover those fees.

2.2.6 Court Fines and Stamp Duties

The Court Fines to be receivable from the Chief Secretary of the Council and other authorities up to 31 December 2017 amounted to Rs.13,237,018.

2.2.7 Surcharge

There was a surcharge amounting to Rs.3,835,000 to be recovered as at 31 December 2017 imposed by the years 1994,2004 and 2007 against the offers in terms of the Municipal Council Ordinance.

3. Operational Review

3.1 Performance

It was revealed after the analyzing of the execution of activities of the Council in terms of the Section 4 of the Municipal Council Ordinance such as regulation of health of the general public, common utility services and public road facilities and maintenance of people's prosperity, welfare and development are given below.

a) By-Laws

Although revenue had been collected in terms of the Municipal Council Ordinance No 272, from 724 vehicles such as Three wheelers, Lorries and Vans in 72 parking places, Bylaws had not been enacted.

b) Action Plan

An Action plan for the year under review had not been prepared by the Municipal Council.

c) Solid Waste Management

The following were observed

- i. Water and waste coming from the dumping place entering to Badulu Oya in rainy season coursing threat to environmental and health of the people.
- ii. A programme of recycling of 26,000 metric tons of polythene waste accumulated nearby 2 years by 18 August 2017 had not been stated.
- iii. An amount of Rs.7,618,488 had been spent for the construction of a plastic recycling plant in the year under review, the work had not been completed by 09 December 2017. The objectives expected from the project had not been fulfilled up to September 2018.
- iv. Actions had not been taken to prepare a proper long-term plan for solid waste management.

d) Environmental Problems

The following were observed.

- i. Several permanent unauthorized constructions were observed near the slaughterhouse on the Badulu river bank.

ii. Land Registers had not been maintained in terms of the Sections 35 and 56 of the Municipal Council Ordinance and action had not been taken to prevent the unauthorized unearthing of sand in the Kailagoda Udawalla land by outside parties.

iii. Sustainable Development Goals

Due to the Council not being aware of 2030 agenda of Sustainable Development Goals, the global view of such purposes for long term plan to enhance the living standards and health of the people living in authority area of the Council had not been initiated to 31 December 2017.

3.2 Management Inefficiencies

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- a) Action had not been taken to get settle the damage of Rs.363,420 relating to an accident happened to an ambulance in 17 June 2014.
 - b) A sum of Rs.105,000 had been paid to purchase 15 plaques to private company in 2016 and action had not been taken to settle Rs.55,000 up to the date of report.
 - c) Although executive allowance should be paid for the officers of the Council with an active service period in terms of the Public Administration Circular No.18/2015 of dated 26 June 2015 and No.18/2015(1) dated 13 July 2015, contrary to that an amount of Rs.3,000 had been paid per month to an employee for 19 months from year 2016 to 2017 totaling to Rs.57,000.
 - d) Three bids had been submitted for the restoration of the Municipal Council building in the year 2017 and a loss of Rs.197,831 had been occurred to the Council Fund due to offering the contract to the contractor without equally evaluating the bids.
 - e) A committee for allocation and grading of 15 quarters had not been appointed according to the Guidelines of the Establishment Code and quarters had been allocated for a same group of officers for a long period of time, quarters had been allocated to the officers who were not in the waiting list.
 - f) Due to the disconnection of electricity and water for the Badulla weekly fair and the slaughterhouse an amount of Rs.57,233 had been paid to get the resupply and action had not been taken to recover those amounts from the lessees.

3.3 Improper Transactions

An amount of Rs.8,519,358 not included in the budget in the year under review and an amount of Rs.1,000,000 allocated for the development of the waste disposal site were used for repair the official room of the Mayor and the town hall.

3.4 Vacancies and Excess of Workers

There were 30 vacancies and 122 excess in the approved cadre as at 31 December of the year under review.

3.5 Operational Inefficiencies

Although Rental should be assessed before come to agreement in every 5 years according to Circular No.1980/46 dated 31 December 1980 of the Commissioner of local Government, rent had been recovered based on the valuation done in 1987 for 481 shops, Rent had not been assessed and recovered in terms of the Circular within 30 years.

3.6 Asset Management

3.6.1 Idle/Unutilized Assets

Action had not been taken to use, discarding or repairing of 3 motor bicycle and 9 Tractors amounting to Rs.765,000 which were older than 6 years belonging to the Council.

3.7 Identified Losses

According to the Circular No.06/2016 dated 17 June 2016 of the Finance Ministry, bid amount not repayable when calling tenders was Rs.12,500 due to recovering Rs.2,500 from each institutions for the construction of the parking of Badulla Senanayake ground, there was an under recovery of Rs.50,000.

3.8 Procurement

3.8.1 Procurement Plan

A procurement plan for the year under review had not been prepared by the Council.

3.8.2 Contract Administration

The following were observed

- a) A Procurement committee was not established when building the vehicle parking in the Badulla Senanayake grounds on an estimate of Rs.75,147,363 according to the Section 2.3.1 of Procurement Guidelines and initial environment test, assessment of the impact of the environment, assessment of the impact for the society and a pre planning for the project had not been made.
- b) Although an amount of Rs.1,392,229 estimated by the Badulla District Secretary office had been included for the initial cost and digging and pre-making the ground for the basement vehicle park of Badulla Senanayake grounds, an amount of Rs.3,819,184 had been incurred. The project was abandoned after pre-making the ground using machinery and Labor from the

Sri Lankan army by 02 April 2014. An amount of Rs.326,700 had been paid by the Department of Local Government to a contractor for the same work and an estimate for the total cost had not been prepared.

c) The delay charges for the construction of Badulla Plastic Center amounting to Rs. 158,815 had not been Recovered for the delay. According to Section 8:14:1 of the Procurement Guidelines it was states that the delay charges s should be recovered when construction was delayed beyond the due date without an approval for the extension.

d) Renovation of the Badulla town hall Building

 Although the Renovation of the town hall should be offered to a contractor whose cost for renovation determined by the Technical Evaluation Committee amounted to Rs.23,807,701, the contract offered to an institution which was submitted for an amount of Rs.24,005,531.

4. Accountability and Good Governance

 4.1 Budgetary Control

 It was observed that there were significant variations in the budgeted revenue and expenditure for the year under review with the actual revenue and expenditure and that indicating the budget had not been made used as an effective instrument of management control.

4.2 Internal Audit

 An internal audit for the year 2017 had not been conducted.

4.3 Implementation of Audit and Management Committee

 Audit and management committee had not been held in the year under review.

5. System and Control

 Deficiencies observed during the audit had been informed in the Council time to time and special attention is needed in the following areas of control.

System	Weaknesses
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a. Accounting	i. Not maintaining updated account books and records. ii. Not maintaining updated revenue reports.
b. Assets and properties	i. Not confirming the security of assets.

- c. Stocks
 - i. Not following the stock control procedure.
 - ii. Stock receipts were not maintained.
- d. Creditors and Debtors
 - i. Not preparing schedules.
 - ii. Not maintaining the Registers.
 - iii. Not preparing the Age analyses
- e. Worker Management
 - i. Vacancies were not filled.
 - ii. Not prepared of age analysis.
- f. Projects/Contracts
 - i. Not taking action according to agreement.
 - ii. Not having proper administration for construction .
- g. Solid Waste Management
 - i. Not collecting waste as degradable, non-degradable and others
 - ii. Not having a measure for human waste.
 - iii. Releasing of waste from the slaughterhouse to the rivers.
- h. Procurement
 - i. Not followed the Procurement Regulations.