

Bandarawela 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 02 April 2018 and the report of the Auditor General had been submitted to the Mayor of the Council on 28 September 2018.

1.2 Adverse Opinion

In my opinion because of significance of matters described in Paragraphs 1.3, 3.4(e) and 3.6 of this report, the Financial Statements do not give a false view of the financial position of the Bandarawela 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 Statements

1.3.1 Accounting Deficiencies

- a) Plant and machinery Account balance had been overstated by Rs.241,540 as at 31 December in the year under review.
- b) Although Stamp Fees Income for the year under review amounted to Rs.3,600,000, it was accounted as Rs.17,480,695 as such income had been overstating by Rs.13,880,695.
- c) Although Court Fines Income amounted to Rs.300,000 for the year under review, it was accounted as Rs.116,772 as such the court fine income had been understated by Rs.183,228.
- d) Although the library books purchased during in the year under review amounted to Rs.307,253, it was accounted as Rs.247,506 as such the library book balance had been understated by Rs.59,747.
- e) Value of Land and Building amounting to Rs.804,564 had not been accounted in the year under review.
- f) Although the opening balance of the Miscellaneous Deposits amounted to Rs.8,478,100, it was bought forward as Rs.8,118,138 as such deposits had been understated by Rs.359,962.

- g) Although the arrears of water bills as at 31 December in the year under review amounted to Rs.5,659,295, it was accounted as Rs.56,592,995 as such the Current Assets had been overstated by Rs.50,933,700.
- h) Receivable Fixed Deposit interest as at 31 December amounting to Rs. 1,062,500 had not been accounted as such the Current Assets had been understated by that amount.
- i) Although the Opening balance of the Accumulated Fund Account was Rs.87,735,869, it was bought forward as Rs.117,299,233 as such overstating the Accumulated Fund had been overstated by Rs.Rs.29,563,364.
- j) Although the balance of the Accumulated Fund as at 31 December 2017 was Rs.192,764,865, it was shown as Rs.124,045,688 as such the Accumulated Fund under stated by Rs.68,719,177.
- k) Although the arrears of Lease Rent Income of Vishaka Street Vegetable Wholesale Center amounted to Rs.2,794,798, it was accounted as Rs.750,042 as such the Current Assets had been understated by Rs.2,044,756.
- l) Although the Beef Stall Rental Income as at 31 December for the year under review amounted to Rs.3,517,933, it was accounted as Rs.612,443 as such the Income of the year and Current Assets had been under stated by Rs.2,905,490.
- m) Advance payment for the construction of Sivali Road Shopping Complex amounting to Rs.6,163,460 on 11 May 2015 was not shown in the Financial Statements as such the value of Current Assets had been understated by that amount.
- n) Although according to the Stock Ledger as at 31 December in the year under review, the value of stock of General Stores amounted to Rs.3,288,701, it was accounted as Rs.2,231,096 as such the surplus had been understated by Rs.1,057,605.

1.3.2 Unreconciled Accounts

There was a total difference of Rs.12,348,711 between the total balance of 5 a items of the accounts shown in the Financial Statements amounting to Rs.92,939,738 and the balance of corresponding registers and reports.

1.3.3 Accounts Receivable and Payable

a. Accounts Receivable

Accounts receivable as at 31 December of the year under review amounted to Rs.149,273,620 includes Arrears of Miscellaneous Income due from 5 years amounting to Rs.131,578,046,

Arrears of Rates due from 3 years amounting to Rs.8,993,104, and Works receivables due from 03 years amounting to Rs.8,702,470.

b. Accounts Payable

 Accounts payable as at 31 December of the year under review amounted to Rs.17,724,295 includes Creditors due from 3 years amounting to Rs.8,094,615, and Work Creditors amounting to Rs.9,629,680.

1.3.4 Lack of Evidence for Auditing

 Due to the lack of evidence for 2 items amounting to Rs.6,494,862 could not be satisfactorily vouched in audit.

1.3.5 Non-compliances

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

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

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
a. Municipal Councils Act		
i. Section 42		Legal action had not been taken against 54 illegal constructions
ii. Section 218		A detailed report relating to administration for the years 2014 and 2015 was not submitted to the Council and to the Minister within six weeks.
iii. Section 254	36,360,603	Although when Assessment Tax, Tax, Rental, Fee, Income Tax, or Fine was paid to the Council such was to be credited to the Council Fund, however ever action to credit to the fund was not done.

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|-----|--|---------|--|
| b. | Section 4.1 of Chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka | | Quarters had been provided for 3 officers who possess a house within a certain limit or had been using quarters for more than 5 years, |
| c. | Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | |
| i. | F.R 571 | 344,837 | Action had not been taken for 19 lapse deposits. |
| ii. | F.R 751 | 47,480 | Although Stock Ledgers should be maintained for receiving and issuing of goods, the Stock Ledger and stores ledger had not been calculated and updated properly. |
| d. | Circular No.30/2016 dated 29 December 2016 of Secretary to the Ministry of Public Administration and Management. | | Fuel consumption tests for 29 vehicles belonging to the Council had not been done. |
| e. | Circular No.PFD/ASD/02/Veh-circular-2015 dated 10 July 2015 of the Secretary to the Ministry of the Finance | | Actions had not been taken to dispose 5 unusable vehicles of the Council. |
| f. | Public Financial Circular No.PF/437 dated 18 September 2009 | 33,960 | Insurance had been obtained through an insurance agent for 3 vehicles of the Council. |
| g. | Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government. | | Assessments for Assessment Limit 1 to 9 of the Councils had not been assessed per five years and the Assessment Tax had been collected for the year under review as according to the assessment of 2007. |

02. Financial Review

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.93,183,576 as compared to the corresponding surplus over recurrent expenditure for the preceding year amounted to Rs.39,383,629.

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 is stated below.

Source of Income	2017				2016			
	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31 December	Estimated Income	Billed Income	Collected Income	Arrears Income as at 31 December
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
(i) Assessment and Tax	26,405,000	26,405,000	21,163,827	12,561,003	25,605,986	25,605,986	19,459,086	11,877,312
(ii) Rent	33,032,000	33,032,000	22,965,516	28,147,202	29,821,000	29,821,000	23,355,791	16,579,366
(iii) Permit Cost	7,810,000	7,810,000	7,957,957	(147,957)	8,700,000	8,700,000	8,577,852	122,148
(iv) Other Income	19,019,000	19,019,000	25,551,453	(4,199,645)	153,774,000	153,774,000	127,634,693	39,639,191
Total	86,266,000	86,266,000	77,638,753	36,360,603	217,900,986	179,027,422	179,027,422	67,618,017

2.2.2 Performance of Revenue Collection

Total Billed Revenue collected as at 31 December 2017 was Rs.86.2 million while revenue collected in the year amounted to Rs. 77.6 million, However the Collected Revenue for the year ended amounted to Rs 36.3 million and in comparison to the preceding year there was 46 per cent decrease in arrears of revenue.

2.2.3 Rates and Taxes

Arrears in Water Bill Revenue

Arrears that were used to the Council by Bandarawela Pradeshiya Sabhawa in the year 2013, had not been recovered from 10 water supplies amounting to Rs.163,042 and water consumption bills of amounting to Rs.565,929 as according to Thanthiriya Water Scheme even up to 31 December 2017.

2.2.4 Court Fines and Stamp Fees

Court Fines and Stamp Fees to be collected from the Chief Secretary of the Provincial Council and other Authorities as at 31 December 2017 were amounted to Rs.65,000 and Rs.6,820,000 respectively.

03. Operational Review

3.1 Performance

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

a. Action Plan

An action plan had not been prepared for the year under review.

b. Delay in performing of Activities

Delays of fulfilment of the following activities were observed.

Task	Estimated Cost	Date of Agreement	Amount of Advance paid	Period of delay as at 31.12.2017
	Rs.		Rs.	
(i) Wholesale Market BLOCK-01	128,309,769	09.09.2014	22,179,396 (Payment of advance part payment)	38 months
(ii) Other works -03 (Sewage System)	33,456,186	26.08.2014	3,929,215	18 months
(iii) Constructoin of the Reservoir	10,033,680	27.08.2014	4,108,704 (parts payment i,ii)	22 months
(iv) Construction of Seewali Road Shopping Complex	42,823,373	09.04.2015	6,163,160	08 months

c. Sustainable Development Goals

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

3.2 Management Inefficiencies

The following were observed.

- a. The milometer of 8 vehicles were not in working condition.
- b. Transport allowances, overtime and holiday pay amounting to Rs.381,902 had been paid to the Public Health Inspector without submission a proper statement of the work done during the year 2017.

3.3 Human Resource Management

a) Vacancies and Excess of carder

There were 48 vacancies and 07 excess of the cadre as at 31 December of the year under review.

b) Staff Loans

Actions had not been taken to recover an amount of Rs.43,215 due from 4 employees who were not in service even up to 31 December of the year under review.

3.4 Operational Inefficiency

- a) Assessment of Rates of the Council was not done after the year 2007 and only a part of shop rental was assessed in the year 2017.
- b) There was a shortage of Rs.40,880 in the stock ledgers and the physical balances of 2 items of goods and an excess of Rs.6,600 in 2 items of goods when comparing ledgers and the physical balance.
- c) A dishonored cheque register had not been maintained to recover the dishonored cheque.
- d) Eight court cases filed against the Council by external parties were not resolved up to 31 December 2017.
- e) An amount of Rs.36,380,475 had been paid to contractors as advances for 04 works started in the years 2014 and 2015 and it was unable to recover retrieve the said amounts the

contractors have abandoned their respective contracts. The council had failed to take action against those contractors.

3.5 Asset Management

----- Documentation of Assets -----

- a) When doing a sample check of physical verification balance and the Stock Ledger balance there was a difference of Rs. 47,480 in 4 stock items as at 31 December 2017.
- b) According to the Financial Regulation 752, details of every purchase of item should be confirmed by a stock register voucher, and although receiving and issuing of goods should be sorted according to transactions and documented in the stock registers, 14 goods amounting to Rs.188,737 were not recorded in the stock ledger.

3.5.1 Assets Not Taken Back

Actions had not been taken to taken back a laptop computer belongs to the Council which was issued to an external party as per the stock verification done in 2015.

3.5.2 Idle Assets

Action had not been taken to dispose 6 vehicles that were removed from running.

3.5.3 Lack of Reading Books in the Library

There were 150 library books valued at Rs.37,793 issued from the library of which period of returning were over.

3.5.4 Not Implementing the Recommendations of Annual Board of Survey

Any action had not been taken by the Council about the shortage of items coming from the years 2012, 2013, 2014, and 2015 as recommended by the Board of Survey in year 2016.

3.5.5 Utilization of Vehicles

A Cab received from the Project to Develop Transport Services in Local Authorities amounting to Rs.6,390,000 on 19 February 2015 had met with an accident in 09 April 2015 after travelling 9,311 km. The following matters were observed.

- a) Action had not been taken according to the Financial Regulations 104(2), 104(3), 104(4), and 105(2).

- b) Although 2 years had passed up to the year under review action not been taken to get reimbursement of insurance or repairing the vehicle.
- c) Although Rs.4,184,490 is to be spent for the cost of repairs, action had not been taken to recover the said amount from the parties responsible.
- d) The said cab was parked at a personal garage in Colombo from March 2015 to up to date of this report.
- e) Parties responsible for accident had not been identified.

3.6 Apparent Irregularities

- a) A cheque amounting to Rs. 4 million received from a contractor as compensation due to the damage to a road belonging to the Council had not been accounted and had not been deposited in a bank during the valid period and had expired and as such it was unable to recover the Rs 4 million from the contractor.
- b) Proper investigation had not been conducted regarding a displaced first payment bill of a road construction amounting to Rs.4,492,086.

3.7 Procurement

3.7.1 Procurement Plan

A Procurement Plan had not been prepared for the year under review.

3.7.2 Purchase of Compactor

A compactor had been purchased for a sum of Rs.9.5 million in this regard following were observed.

- a) Provision had not been made by the Council from the annual budget before purchasing the compactor.
- b) The compactor had been purchased against the recommendations of the Technical Evaluation Committee.
- c) Different values were shown when comparing bid security obtained in terms of the Guideline No.5.3.3 of the Procurement Guidelines relating to Procurement Committee Report, Procurement Notices, and True Bid Registers.

3.7.3 Contract Administration

The following were observed.

- a) Although the Mayor of the Council had requested to the Provincial Board of Ministers to appoint a Procurement Committee and a Technical Evaluation Committee, as it was not done, a contract

valued at Rs.434,469,751 had been offered on 10 September 2014 to a contractor by the procurement committee.

- b) i. Although constructions exceeding Rs.200 million should be implemented under Procurement Committee of the Board of Ministers in terms of Sections 228 and 229 of the Municipal Council Act and the Section 2:14:1 of the Procurement Guidelines of Democratic Socialist Republic of Sri Lanka, the contract of the wholesale market had been split up and tendered by the Council.
- ii. Although the estimated amount of the Block I Project under this contract was Rs.128,309,770 an agreement had been entered with a private contract party on 10 September 2014 for a sum of Rs. 88,634,140 an advance of Rs. 22,179.397 had been paid. But only cutting the foundation had been done up to August 2018.
- iii. In terms of the Section 7.9.2 of the Procurement Guide Line of the Sri Lanka Democratic Socialist Republic when bid compared with the engineers estimate if it is less than that a reasonable evaluation should be done it had not been complied relating to the Block I Project. .
- iv. Although according to the contract of the block 1 work should be completed by 09 September 2015 almost a delay of 3 years passed up to August 2018 and the work was abandoned.

b) Preparation of the Sewage System (block 3)

The estimated and agreed value of the wholesale market drainage system including block 04, 06, 07 was Rs.33,456,186 and the Council had come to agreement to pay an amount of Rs.80,507,769 to a private company to build on 26 August 2014 to be finished the works on 19 September 2015 However, the construction was not completed even up to date and an advance of Rs.3,929,215 had been paid.

c) Construction of the Lake

The Contracted Amount and Engineering Estimate of the lake near the Bandarawela wholesale market was amounting to Rs.10,033,680 and the Council had come to an agreement on 27 August 2014 with a private company and agreed to be completed on 26 August 2015 but the construction had not been completed even up to date and an advance of Rs.4,108,704 had been paid to the company.

d) The wholesale market project No.3,4,6 and 7 had not been commenced was as at August 2018.

e) Seewali Road Shopping Complex

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- f) The Council had entered into a contract for Rs.30,815,863 with a contractor on 09 April 2015 for the construction of Seewali Road Shopping Complex and the following were revealed in audit.
 - i. An advance of 20 per cent amounting to Rs.6,163,172 had been paid on 08 May 2015.

- ii. Although the work was to be completed by 31 December 2015 it was not completed up to date.
- iii. Action had not been taken to cancel the contract and recover the advance according to the performance bond.
- iv. Action had not been taken to recover the damage caused to the quarters of the Council due to the construction of the dam of the construction of Seewali road.

04. Accountability and Good Governance

4.1 Budgetary Control

It was observed that there were considerable variation in the budget revenue and expenditure prepared by the Council 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.

05. System and Control

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

System -----	Weaknesses -----
a. Accounting	The opening balances were not reconciled.
b. Debtors and Creditors	<ul style="list-style-type: none"> i. Debtors and Creditors balances were not settled. ii. Not obtaining the conformation of Debtors and creditors iii. Not calling Arrears of revenue.
c. Revenue Administration	<ul style="list-style-type: none"> i. Weaknesses in collection of arrears of revenue. ii. Not taking action to collect rates on the new assessment.
d. Current Assets	<ul style="list-style-type: none"> i. Land and building not been assessed properly. ii. Fixed Asset Registers not updated properly.
e. Stock Administration	<ul style="list-style-type: none"> i. Not maintaining the stock registers correctly. ii. Non- reconciliation of physical stocks balances and stock registers.
f. Contract Administration	Not Completing the contracts within the contracted period.