

## **Bandarawela Municipal Council - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of Bandarawela Municipal Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations for the year ending on that date, Cash Flow Statement and significant accounting policies and other explanatory information was carried out, under my direction in pursuance of provisions in Article 154(1) of the constitution of the Democratic Socialist Republic of Sri Lanka which should be read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252) and the provisions of the Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to the parliament are appeared in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of Bandarawela Municipal Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Municipal Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Municipal Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable preparing annual and periodic financial statements.

#### 1.4 **Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Municipal Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council.
- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Municipal Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Report on Other Legal Requirements

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Special provisions regarding following requirements are included in National Audit Act, No. 19 of 2018.

- In terms of section 6 (1) d (iii) of National Audit Act, No. 19 of 2018, the financial statements of Municipal Council are consistent with the preceding year.
- In terms of section 6 (1) d (iv) of National Audit Act, No. 19 of 2018, the recommendations made by me on the financial statements of the preceding year had been implemented.

## 1.6 Audit Observations on the preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the Council	Recommendation
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(b) Although the Court Fines and Stamp Fee revenue of the year under review should be Rs.20,958,704, it had been overstated by Rs.4,174,063 as Rs. 25,132,767 in the Statement of Financial Operations.	It has been mentioned that actions would be taken to rectify in the next year.	Accounts should be correctly prepared.
(a) As at 31 December of the year under review, fixed deposit interest receivable amounting to Rs. 960,575 had not been accounted for.		
(c) As Interest amounting to Rs. 3,553,863 which should be paid to the Local Loans and Development Fund for the past years had not been accounted for, accumulated fund had been overstated and creditors had been understated by that amount.		

## 1.7 Non- Compliances

### Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions are as follows.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Section 231 of Municipal Councils Ordinance	Arrears of rates amounting to Rs. 12,478,766 related with 9,214 assessment units as at 31 December of the year under review had not been collected although the rates liable from every occupier or lessee of the all houses, buildings, lands and tenements within the municipality should be collected by the Municipal Council.	It has been mentioned that a program had been implemented to collect the arrears.	Rates in arrears should be collected.

## 2 Financial Review

### 2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the council for the year ended 31 December of the year under review amounting to Rs.19,567,571 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.81,593,369 ,and a decline of Rs. 62,025,798.in the financial result has been observed

### 2.2 Revenue Administration

#### 2.2.2 Performance in Revenue Collection

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Arrears of rest house management fees amounting to Rs. 17,551,588 that had elapsed more than a year had not been recovered even in the year under .review	It has been mentioned that Urban Development Authority had been informed to pay rest house management fees.	Arrears of rest house management fees should be collected.

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| (b) Arrears of water charges amounting to Rs.4,453,336 that had elapsed more than a year had not been recovered .even in the year under review | It has been mentioned that actions have been taken to collect arrears of water charges. | Arrears of water charges should be collected. |
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### 3. Operational Review

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Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the council under Section 4 of the Municipal Councils Ordinance are shown below.

#### 3.1 Operational Inefficiencies

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##### Audit Observation

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Kopiyawaththa, a 42 perch land belonging to the council had been divided into 45 plots and leased to 17 tenants, arrears of rents amounting to Rs.32,846,375 related with that land from the year 2012 to 31 December of the year under review had not been collected.

##### Comments of the Council

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It has been mentioned that legal actions were being taken to collect the arrears of rents.

##### Recommendation

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Arrears of rents should be collected.

#### 3.2 Procurement Management

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##### Audit Observation

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When calling bids in order to lease the right of collecting charges of wholesale market and retail market belonging to Bandarawela Municipal Council for the year 2020, paper advertisements had been posted with a delay until the last 10 days of the year 2019, and calling bids had been limited for 6 days without complying with the provisions of section 6.2.2 of Procurement Guidelines. As bidding forms had been issued after 03 days of that, sufficient time had not been given to complete special conditions that required completing by bidders and, procurement committee had not concerned the requests for obtaining sufficient time, and bidders have been unable to submit their Asset-Equity certificates. As bids of the highest values had been rejected on such minor flaws and accepting the lowest bids, a financial loss of Rs. 8,290,000 had been incurred by Bandarawela Municipal Council.

##### Comments of the Council

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It has been mentioned that sanction of the Governor had been obtained according to section 229 (2) of Municipal Council Ordinance after selecting a bidder, posting paper advertisements with strict conditions in order to prevent obtaining the lease of wholesale market and retail market by same person for a long period.

##### Recommendation

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Property should be leased following proper tender procedures.