

Bandarawela Municipal Council - 2021

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of Bandarawela Municipal Council including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, 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.

I do not express an opinion on the accompanying financial statements of the Municipal Council. Because of the significance of the matters discussed in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

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

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

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)

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

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

(a) 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.

(b) 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

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Although the loan balance as at 31 December of the year under review had been Rs. 40,465,071 as per employee loan register, it had been understated as Rs. 39,162,625 by Rs. 1,302,446.	It has been mentioned that some loan balances of transferred and suspended employees had been unable to include in the financial statements.	Accounts should be correctly prepared.
(b) Although the balance of arrears of rates as at 31 December of the year under review had been Rs. 13,879,382, it had been stated as Rs. 11,664,133 in the statement of financial operations. As Rs. 2,215,249 had been overstated, current assets and accumulated fund had been overstated by that amount.	It has been mentioned that balance of Rs. 13,879,382 would be rectified.	
(c) As recording the opening balances of the year under review, in General Ledger 34 arrears of revenue balances amounting to Rs. 60,832,925 had not been accounted for. As a result of that current assets had been understated and accumulated fund had been overstated by that amount.	It has been mentioned that action would be taken to check and rectified in presenting the financial statements for the year 2022	
(d) As Rs. 153,224 which had been received for 14 revenue accounts in preceding years but relevant to the year under review had not been accounted for as a revenue of the year under review, operational income had been understated and current liabilities had been overstated by that amount.	It has been mentioned that action would be taken to check and rectified in presenting the financial statements for the year 2022	
(e) Although as per the Advance Register as 31 December of the year under review unsettled advance amount had been Rs. 10,793,807, it had been stated Rs. 30,978,836 as Advances under Receivables in the Statement of	It has been mentioned that Rs. 10,793,809 were unsettled advances including constructions as 31 December of the year under review, and Rs.	

<p>Financial Position, Rs. 20,185,029 had been overstated and Accumulated Fund had been understated.</p>	<p>30,978,836 were unsettled advances.</p>	<p>Accounts should be correctly prepared.</p>
<p>(f) Rs. 10,000,000 withdrawn from the current account for development projects in the year under review had been only debited to Advances account instead of recoding double entries. In spite of this, it has been problematic balancing the accounts.</p>	<p>It has been mentioned that action would be taken to rectified with journal entries.</p>	
<p>(g) Although as at 31 December of the year under review as per the corresponding reports arrears of other income had been Rs. 23,510,627, it had been overstated as Rs. 124,569,537 by Rs. 101,058,910 in the statement of financial position. And as a result of that Receivables and accumulated fund had been overstated by that amount.</p>	<p>It has been mentioned that action would be taken to check and rectified in presenting the financial statements for the year 2022.</p>	<p>Accounts should be correctly prepared.</p>
<p>(h) Although the court fines revenue as at 31 December of the year under review had been Rs. 889,270, it had been understated as Rs. 465,213 by Rs. 424,057, and as a result of that current assets and accumulated fund had been understated by that amount.</p>	<p>It has been mentioned that it would be rectified preparing the financial statements of the year 2022 as court fine revenue documents were received late.</p>	
<p>(i) Although the stamp fee revenue as at 31 December of the year under review had been Rs. 10,229,445, it had been understated as Rs. 3,832,117 by Rs. 6,397,328 and as a result of that current assets and accumulated fund had been understated by that amount.</p>	<p>It has been mentioned that amounts had been recorded as per the schedules received at the time of preparing financial statements.</p>	
<p>(j) As Rs. 2,641,286, which has been deposited in a savings account of a government bank by Municipal Council as at 31 December of the year under review, had not been stated under current assets in the statement of financial position, current assets had been understated by that amount.</p>	<p>It has been mentioned that it has been omitted from the financial statements by a mistake and it would be rectified in preparation of financial reports of the year 2022.</p>	
<p>(k) As 07 construction creditor balances of the year under review amounting to Rs. 1,808,345 had not been identified as Creditors, it had been overstated operational revenue and understated current liabilities.</p>	<p>It has been mentioned that it has been omitted from the financial statements by a mistake and it would be rectified in preparation of financial reports of the year 2022.</p>	

1.6.2 Unreconciled Control Accounts and Reports

Audit Observation -----	Comments of the Council -----	Recommendation -----
A difference amounting to Rs. 77,072,525 between 02 account balances in the financial statements as at 31 December of the year under review and relevant corresponding reports had been observed.	It has been mentioned that balances would be presented after relevant adjustments.	Accounts should be correctly prepared.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31 December of the year under review had been Rs. 39 020,666, as compared with the excess of revenue over recurrent expenditure amounted to Rs. 19,567,571 in the preceding year.

2.2 Revenue Administration Performance in Revenue Collection

Audit Observation -----	Comments of the Council -----	Recommendation -----
<p>(a) Arrears of license fees amounting to Rs.479,800 of 15 vehicles and 272,500 of 25 lorry fees from the year 2019 had not been collected even in the year under review.</p> <p>(b) Arrears of rates amounting to Rs. 11,664,133 of 9235 private assessment tax units from the year 2016 had not been collected even in the year under review.</p> <p>(c) Arrears of weekly fair charges amounting to Rs. 1,166,094 and arrears of public toilet charges amounting to Rs. 1,846,047 from the year 2016 had not been collected even in the year under review.</p> <p>(d) Arrears of shop rents of 427 shops amounting to Rs. 6,187,235 and arrears of annual rents of 37 shops amounting to Rs. 9,162,596 from the year 2012 had not been collected even in the year under review.</p>	<p>It has been mentioned that action would be taken to recover.</p>	<p>Arrears of revenue should be collected.</p>

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| <p>(e) Although final notices had been issued regarding 29 properties including chicken, beef, mutton, fish shops and market which had been leased annually by the council for the period of 07 years from 2012 to 2021, arrears of rents amounting to Rs. 10,281,728 as at 30 September of the year under review had not been collected.</p> | <p>It has been mentioned that final notices had been issued regarding arrears of rents and action would be taken to collect the remaining.</p> | <p>Arrears of revenue should be collected</p> |
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3. Operational Review

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

Audit Observation	Comments of the Council	Recommendation
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<p>(a) A sewerage and rain water drain system constructed by Urban Development Authority entering into an agreement with a contractor under Urban Development and Low Income Housing Project in the year 2004 had been transferred to Municipal Council informing to pay Rs. 4,403,970 to Local Loans and Development Fund. As lack of proper drainage from the project, a council decision had been taken at the general meeting of the council on 24 November 2006 to stop paying the loan and interest to Local Loans and Development Fund. Outstanding loan and interest should have been paid by the council to Local Loans and Development Fund had been Rs. 7,164,366 as at 31 December 2021.</p>	<p>It has been mentioned that loan would not be paid since sewer drains were not working properly, and action had been taken to inform Local Loans and Development Fund regarding this.</p>	<p>Action should be taken in accordance with the recommendations of the appointed committee for monitoring the project, and loan and interest should be paid.</p>
<p>(b) Ministry of Public Administration Provincial Councils and Local Government had granted a cab worth of Rs. 6,390,000 to the municipal council in the year 2015. In the same year, the cab had met with an accident, and an estimate amounting to Rs. 6,354,490 had been submitted after handing over the cab to the local agency for repairing. Although the committee approval had been received to carry out the repair from an approved garage of Sri Lanka Insurance Corporation and to reimburse the amount to be paid by Insurance Corporation, the offices responsible for damages and the maximum amount to recovered regarding the damage of this cab had not been determined as per Financial</p>	<p>It has been mentioned that the cab had been handed over to a garage for repairs, the primary report of the accident of the cab had been sent to Ministry of Local Governments in accordance with</p>	<p>Insurance claim should be recovered and loss should be recovered from the responsible parties in accordance with Financial Regulation 105 (2).</p>

Regulation 105(2) after passed more than 6 years. Although 06 years have passed since the accident, the insurance claim had not been recovered until 12 October 2021. As the insurance company had agreed to pay only Rs. 2,200,000, Bandarawela Municipal Council had to incur a loss of Rs. 4,184,491 from this vehicle accident.

Financial Regulation 104 and the final report had not been received yet.

3.2 Procurement Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
<p>When calling bidders for lease the ownership of collecting the charges from Bandarawela retail market and wholesale market for the year 2020, the newspaper advertisement had been published delaying till the last 10 days of the year 2019, and bidding period had been limited to 06 days contrary to provisions of section 6.2.2 of procurement guidelines. As issuing bidding documents after 03 days of it, there had not been sufficient time to fulfil the special conditions that bidders had to meet, although requests have been made to obtain a reasonable time for it, the attention of the procurement committee has not been drawn to it. Bandarawela Municipal Council had to incur a loss of Rs. 8,290,000 due to rejecting the highest bid on a very minor defect such as not submitting an asset certificate of them and accepting the lowest bid of the bidders.</p>	<p>A tenderer had been selected by the newspaper advertisement published with strict conditions to prevent the same person from leasing the retail and wholesale market, and Governor's sanction had been obtained in accordance with the section 229 (2) of Municipal Council Ordinance.</p>	<p>Property should be leased following tender procedures properly.</p>

3.3 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
----- Although the responsibility of Preparing the financial statements of a Municipal Council and submitting the approval of Municipal Council has been with the accountant, the accountant has been given the responsibility of preparing financial statements of the year 2021 to two investigation officers and paid Rs. 61,109 from the council fund. It has been unacceptable that hiring an officer who had not knowledge and experience for preparing financial statements for the position of accountant and paying salaries and allowances.	----- It has been mentioned that as the officer who prepared financial statements had been sick, other officer could not be employed for that.	----- Since an accountant had been employed in the Municipal Council, employing investigation officers for preparing financial statements could not be accepted.

.4 Accountability and Good Governance Delaying of Preparing Financial Statements

Audit Observation	Comments of the Council	Recommendation
----- Although the financial statements of the Municipal Council should be prepared and presented to the Auditor General before 28 February 2022 as per the circular No. PFD/RED/REG/02/CC/01/2021 dated 10 may 2021 of Ministry of Finance, Municipal Council had been presented financial statements on 30 March 2022, and a one month delay had been occurred presenting the financial statements to the Auditor general.	----- It has been mentioned that relevant circular would be applied for the council.	----- Financial statements for the year under review should be presented to the Auditor General before 28 February 2022.