

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 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations for the year ending on that date 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 Practices, 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 Urban Council's financial reporting process.

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

1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My responsibility is to conduct an audit of the Municipal Council's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Report on Other Legal Requirements

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Municipal Council are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- b) The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Municipal Council	Recommendation
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(a) The sum of Rs. 16,000,000 received in the year under review under rural development assistance project, had not been accounted for as capital aid in the statement of financial operations.	Funds received under the rural development assistance project, will be brought to accounts under capital aid in due course.	Accuracy should be ensured in preparing accounts.
(b) Recoveries made from stalls trading vegetables in stocks without being billed in the year under review, had been overstated by Rs. 198,077,523 in the statement of financial operations.	The sum of Rs. 198,077,523 has been brought to the financial statements. This sum has also been included in the schedule for outstanding revenue.	Accuracy should be ensured in preparing accounts.
(c) Lands and buildings should not be accounted for under Property, Plant and Equipment according to the accounting policy for Urban Councils. However, lands and building valued at Rs. 3,606,600,414 had been brought to accounts under Property, Plant and Equipment.	Will be corrected in the year 2023.	- Do.
(d) The stock of fuel valued at Rs. 137,430 kept in the temporary fuel storage of the Municipal Council, had not been brought to accounts as current assets in the statement of financial position.	- Do.	- Do.
(e) The loan of Rs. 4,403,970 and the interest thereon amounting to Rs. 3,618,597 for which evidence had been presented through confirmation	- Do.	- Do.

of balances of the local loan and development fund, had not been shown in the financial statements.

- (f) A total of Rs. 22,632,989 relating to 02 asset accounts and a liability account, had been adjusted to the accumulated fund as corrections made on balances of the preceding year. - Do. - Do.
- (g) A sum of Rs. 1,808,345 had been debited to the accumulated fund account as a corrective measure on creditors being understated in accounts of the preceding year. However, that sum had not been credited to the creditors' account in the ledger. - Do. - Do.
- (h) The sum of Rs. 627,560 relating to the calculators, G.I. pipes, curtains, and the tractor disposed of in the year under review as per recommendations of the Board of Survey, had not been debited to the Revenue Contribution to Capital Input account. Correct balances being, Rs. 298,666 for machinery, Rs. 182,244 for motor vehicles and carts, and Rs. 146,650 for furniture, have been brought to accounts. - Do.
- (i) The employee loan of Rs. 703,896 recoverable from 06 officers who had been absorbed in to the National Water Supply and Drainage Board, had not been brought to accounts in the year under review. The receivable should be Rs.703,896 at present. This will be correctly brought to accounts in the year 2023. - Do.
- (j) According to the schedule, the value of contract securities totaled Rs. 5,620,431 for the year under review, but that value had been overstated by Rs. 50,583,870 thereby showing the sum of Rs. 56,204,301 in the statement of financial position thus tallying the account. The schedule will be corrected by examining the general deposit ledger. - Do.
- (k) A revenue of Rs.12,177,475 previously received from 02 stalls at the bus station , had been overstated in the statement of financial position as at 31 December of the year under review. Corrective measures will be taken in the year 2023. -Do.

- (l) The sum of Rs. 5,268,537 comprising court fines amounting to Rs. 207,788 and stamp fees income amounting to Rs. 5,060,749, had been understated in the financial statements of the year under review. Will be accounted in the year 2023 after being computed on accrual basis. - Do.
- (m) Allocations for creditors had been made as at 31 December of the year under review for an unbilled sum of Rs. 36,407,093 relating to 23 works including repairs on road drain systems, side walls, and official quarters. Only the billed value will be brought to accounts as creditors' value in due course. - Do.
- (n) Due to the double counting error occurred in accounting for the industrial creditors, current liabilities had been overstated by Rs. 936,000 in the statement of financial position as at 31 December of the year under review. Will be corrected in the year 2023. - Do.
- (o) A number of 144 units of assets worth Rs. 10,634,172 purchased through the Council Fund and the rural development assistance project in the year under review, had not been capitalized as non-current assets. Recorded in the inventory at present. Corrective measures will be taken in the year 2023 through the accounts.
- (p) The interest of Rs. 969,863 receivable on fixed deposits as at 31 December of the year under review, had not been shown in the statement of financial operations. Will be corrected in the year 2023. - Do.
- (q) A sum of Rs. 6,754,888 had been overstated in the statement of financial position as cash and cash equivalents as at 31 December of the year under review. - Do. - Do.

- (r) Works advances amounting to Rs. 2,869,416 paid to a contractor in the year under review, had been shown as deposits. - Do. - Do.
- (s) Fixed deposits valued at Rs. 5,000,000 realized in the year under review and transfer of funds amounting to Rs. 4,000,000 between bank accounts of the Municipal Council, had erroneously been shown under the Head of Deposits. As such, the payable deposit balance had been overstated by Rs. 9,000,000. - Do. - Do.
- (t) The sum of Rs. 7,924,153 paid to the Municipal Council by the National Water Supply and Drainage Board in the year under review for repairing the damages caused to 05 roads during development works, had been brought to accounts as general deposits; and, reimbursement of relevant losses had been made from the fund of the Municipal Council. The sum paid from the fund of the Municipal Council will be credited to the revenue. The sum paid from the fund of the Municipal Council will be credited to the revenue. -Do.

1.6.2 Un-reconciled Control Accounts or Reports

Audit Observation	Comment of the Municipal Council	Recommendation
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(a) A difference of Rs. 2,198,970 existed between the total balances of the schedules and statement of financial position relating to 06 items of outstanding revenue as at 31 December of the year under review.	Will be examined and corrective measures will be taken.	Accounts should be prepared correctly.
(b) A difference of Rs. 148,921,998 existed in recording the opening balances of 07 ledger accounts of the general ledger in the year under review.	Despite not being adjusted to the opening balance of the general ledger, the balance has accurately been brought to the final account through sub-accounts.	The general ledger should be prepared and the financial statements should be prepared based on correct balances.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Municipal Council	Recommendation
(a) Due to failure in properly maintaining a general ledger to prepare financial statements of the Municipal Council for the year under review, the values shown in the financial statements prepared as at 31 December and tallying the statement of financial position could not be satisfactorily examined in audit.	A general ledger will be correctly maintained in the year 2023.	The general ledger should be properly maintained, and documentary evidence that verify the account balances shown in the financial statements, should be made available.
(b) As other outstanding revenue, received revenue and sundry creditors' values, as at the beginning and end of the year under review, had not properly been shown in the miscellaneous revenue and sundry expenses accounts, transaction entries in the ledger valued at Rs. 716,006,962 could not be satisfactorily examined.	Will be corrected in the year 2023.	Documentary evidence that verify the account balances shown in the financial statements, should be made available.

1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to Laws, Rules, Regulations and Management Decisions	non-compliance	Comment of the Municipal Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	Financial Regulation 104 (4).	A detailed report had not been presented with respect to the accident involving a Cab of the Municipal Council occurred on 09 April 2015.	Will be replied later. Action should be taken in terms of Financial Regulations.

- (b) Letter No. 2/201 of the Chief Secretary of Uva Province dated 24 March 2005. Twenty-eight officers who should give securities had not done so. Fifteen of the 28 officers have given securities. Action is taken to obtain securities from the other 13 officers. Action should be taken in terms of provisions of the Circular.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue of the Municipal Council in excess of the recurrent expenditure for the year ended as at 31 December of the year under review, amounted to Rs. 15,808,000 as compared to the corresponding revenue in excess of the recurrent expenditure for the preceding year amounting to Rs. 39,020,666.

2.2 Financial Control

It is the responsibility of the Accounting Officer to clearly and correctly maintain books and registers with respect to financial transactions. Nevertheless, the following matters were observed on the reporting of financial transactions performed by the Municipal Council in the year under review.

Audit Observation	Comment of the Municipal Council	Recommendation
(a) Balance of the fund account in the general ledger amounted to Rs. 118,890,715 as at 31 December of the year under review though, that balance had been shown as Rs. 7,011,135 in the financial statements. As such, a difference of Rs. 111,879,580 was observed.	Not replied.	Accuracy should be ensured in preparing accounts.
(b) A balance in a savings account being maintained at a state bank amounting to Rs. 6,754,888 had been shown in the statement of financial position in the year under review, but the balance in the passbook of the savings account amounted to Rs. 306,555.	Balance in the daily cash summary book and the balance in the bank reconciliation statement are correct. It is informed that the closing balance of Rs. 701,135 shown as at 31 December is correct. Furthermore, the correct balance will be shown under cash and cash equivalents in the accounts for the year 2023.	Accuracy should be ensured in preparing accounts.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year as per information presented by the Mayor, are given below.

Source of Revenue	Estimated Revenue	2022			2021			
		Billed Revenue	Collected Revenue	Total Outstanding as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	18,885,000	18,284,746	14,907,314	3,377,432	35,276,000	35,276,000	16,404,587	18,871,413
(ii) Lease Rents	44,919,768	46,427,854	43,939,750	2,488,104	11,795,000	11,795,000	57,599,065	(45,804,065)
(iii) License Fees	6,605,000	6,805,573	6,805,573	0	21,959,000	21,959,000	8,622,584	13,336,416
(iv) Other Income	52,012,000	60,861,677	48,189,543	12,672,134	233,349,691	233,349,691	45,095,787	188,253,904
Total	122,421,768	132,379,850	113,842,180	18,537,670	302,379,691	302,379,691	127,722,023	174,657,668

2.3.2 Performance in Collecting Revenue

Observations on the performance of Municipal Council in collecting revenue, are as follows.

Audit Observation	Comment of the Municipal Council	Recommendation
Rates totaling Rs. 11,352,835, stall rents totaling Rs. 1,640,816, rest house management fees totaling Rs. 13,294,588, tax on fair totaling Rs. 1,565,697, tender fees on stalls totaling Rs. 3,885,207, public toilet fees totaling Rs. 771,862 and other income totaling Rs. 80,374 that had remained due over 02 years, were not recovered even in the year under review.	Action will be taken for recovery of the outstanding revenue in due course.	Outstanding revenue should be recovered without delay.

3. Operating Review

3.1 Execution of Duties Vested through the Act

The following matters were observed with respect to the execution of duties by the Municipal Council in terms of Section 04 of the Municipal Councils Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

	Audit Observation	Comment of the Municipal Council	Recommendation
	<p>-----</p> <p>Non degradable waste had been dumped over extensive periods at the solid waste management center being maintained by the Municipal Council at Kalamadugasthenna, Bandawarwela.</p>	<p>-----</p> <p>Necessary action will be taken in this connection in due course.</p>	<p>-----</p> <p>Action should be taken in accordance with conditions in the environmental protection license.</p>
3.2	Uneconomic Transactions		
	Audit Observation	Comment of the Municipal Council	Recommendation
	<p>-----</p> <p>The Council fund had received down payments totaling Rs. 77,065,544 relating to trade stalls as at 31 December of the year under review. That receipt comprised a sum of Rs. 71,822,477 relating to stalls at the proposed stock trading complex for vegetables at Vishaka Road. Although down payments had been recovered for trade stalls at that complex even before 2018, construction of the complex had not been commenced even by 31 December of the year under review. Nevertheless, the down payments so received, had not been retained in the deposits accounts as a liability of the Municipal Council, and the funds obtained by the Municipal Council from external parties, had been spent on activities other than the intended purpose.</p>	<p>-----</p> <p>Action will be taken in that connection in due course.</p>	<p>-----</p> <p>Funds should be utilized only on the intended purpose.</p>
3.3	Management Inefficiencies		
	Audit Observation	Comment of the Municipal Council	Recommendation
(a)	<p>-----</p> <p>A Cab belonging to the Municipal Council had met with an accident on 09 April 2015, but action had not been taken even up to 31 December of the year under review to obtain compensation for the damages and repair the Cabinet. During the period in which the vehicle had been kept for</p>	<p>-----</p> <p>Action is being taken to repair the vehicles.</p>	<p>-----</p> <p>Repairs should be conducted without delay, and an inquiry should be launched on the spare parts being misplaced.</p>

repairs at a garage approved by the Sri Lanka Insurance Corporation after being inspected, spare parts and accessories of 27 types had been misplaced. Although the Municipal Council had been informed in that connection on 31 October 2022, necessary action had not been taken to identify the parties responsible.

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| (b) | Necessary action had not been taken on 37 illegal constructions that had been identified by the Municipal Council during the year under review. | The supervising Technical Officer has given instructions at the location itself. Cases will be filed against those failing to comply. | Should be settled without delay. |
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3.4 Procurement Management

Audit Observation	Comment of the Municipal Council	Recommendation
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<p>As for calling for bidders to give the rights on lease to recover charges for the year 2020 from the stock and retail fair belonging to the Municipal Council of Bandawarwela, newspaper advertisements had been published after being delayed until the last 10 days of the year 2019. As such, contrary to provisions mentioned in Paragraph 6.2.2 of the Procurement Guidelines, the bidding process had been limited to 06 days. As bid formats had been issued after 03 days, there existed no time to fulfill the special conditions to be met by the bidders. Although requests had been made for a fair period in that connection, the Procurement Committee had not brought attention thereon. As such, the highest bidders had been rejected whereas the lowest bidders had been accepted due to minor inefficiencies such as failure of the bidders to furnish certificates on their assets and liabilities. Hence, the Municipal Council, Bandawarwela had sustained a financial loss of Rs. 8,290,000.</p>	<p>Given on lease by following the Procurement Procedure.</p>	<p>Properties should be given on lease by properly following the Procurement Procedure.</p>