

Bandarawela Municipal Council
Badulla District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 24 March 2014 and the financial statements for the preceding year had been presented on 19 March 2013. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 26 August 2014.

1.2 Opinion

In my opinion, except for the effects on the financial statements of the matters referred to in paragraph 1.3 of my report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Bandarawela Municipal Council as at 31 December 2013 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The financial statements prepared and submitted by the Council for the year under review had not been prepared according to the Sri Lanka Public Sector Accounting Standards.

1.3.2 Accounting Deficiencies

- (a.) Interest amounting to Rs.313,646 payable during the year under review in respect of the loan amounting to Rs.6,082,198 obtained from the Local Loans and Development Fund and the Urban Development Authority had not been brought to account. Therefore, the expenditure for the year and the creditors as at 31 December had been understated in the financial statements by Rs.313,646.
- (b.) The balance of the bank account maintained by the Council in the name of Urban Development Authority amounted to Rs.1,656,192 as at 31 December 2013. But, this had been accounted as Rs.1,645,176 and therefore, current assets had been understated in the financial statements by Rs.11,016.
- (c.) Income from Rest House Management Fees relating to the year under review amounted to Rs.1,287,000. Nevertheless, this had been brought to account as Rs.1,782,000 resulting in an overstatement of revenue in the financial statements by Rs.495,000.
- (d.) Provisions had been made for estimated and contracted amounts in respect of 06 works by which the bills had not been submitted as at 31 December of the year under review. As such, creditors and the expenditure for the year had been overstated in the financial statements by Rs.8,773,300 each.

1.3.3 Contingent Liabilities

Provisions had not been made in the financial statements for contributions amounting to Rs.2,004,480 and surcharges amounting to Rs.926,125 payable to the Employees Provident Fund for the period January 2003 to 31 March 2013 in terms of Employees Provident Fund Act No.15 of 1958 and Section 38 of the Employees Provident Fund Act (Amendment) No.08 of 1971 for employing Traffic Wardens.

1.3.4 Accounts Receivable and Payable

According to the financial statements presented the balances of accounts receivable as at 31 December of the year under review amounted to Rs.104,095,428 and the balances of accounts payable amounted to Rs.137,386,511.

1.3.5 Lack of Evidence for Audit

Transactions totaling Rs.97,483,709 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with laws, rules and regulations were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Section 1:6 and 4 of Chapter xxiv of the Establishments Code of the Republic of Sri Lanka	- Employees loans amounting to Rs.92,799 due from 05 employees/officers who had vacated their posts, retired, transferred and deceased had not been recovered.
(b.) Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government	- When a lessee who had taken a stall on lease get cancel his lease agreement willingly, the stall should be re-vested with the Council and lease out after calling for fresh tenders. Nevertheless, in 20 instances, the Council had vested the stalls as agreed by the old lessee by charging only a vesting charge without calling for fresh tenders.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2013 amounted to Rs.33,540,553 as compared with the excess of revenue over recurrent expenditure amounting to Rs.24,922,196 for the preceding year, thus indicating a favourable variance of Rs.8,618,357 in the financial result.

2.2 **Analytical Financial Review**

An analytical review of the net increase of the financial results is shown below.

<u>Recurrent Revenue</u>	<u>2013</u>	<u>2012</u>	<u>Variance</u>	
	Rs.	Rs.	Rs.	
Rates and Taxes	24,330,413	20,113,517	4,216,896	
Lease Rent	27,017,176	30,819,083	(3,801,906)	
Licence Fees	8,340,985	4,439,112	3,901,873	
Service Charges	13,072,769	8,966,328	4,106,441	
Warrant Charges and Fines	844,566	506,014	338,552	
Other Revenue	21,086,003	15,719,264	5,366,739	
Revenue Aid	59,379,831	42,198,429	17,181,402	31,309,997

<u>Recurrent Expenditure</u>				
Personnel Emoluments	66,746,780	52,894,376	(13,852,404)	
Travelling Expenses	2,414,188	685,418	(1,728,770)	
Supplies and Equipment	11,168,483	9,294,681	(1,873,802)	
Repairs and Maintenance of Capital Assets	9,359,082	6,591,085	(2,767,997)	
Transport, and Utility Services	24,033,134	20,608,696	(3,424,438)	
Payment of Interest, Dividends and Bonus	4,857,438	5,815,078	957,640	
Aid, Contributions and Subsidies	1,844,507	1,410,053	(434,454)	
Pensions, Pensionery Benefits and Gratuities	107,577	540,162	432,585	(22,691,640)
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			Favourable Variance	8,618,357
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2.3 Revenue Administration

2.3.1 Court Fines and Stamp Fees

Court fines and stamp fees receivable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
Court Fines	676,230
Stamp Fees	1,989,180

	2,665,410
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2.3.2 Stall Rent

The income receive from the stalls of the Trade Centre owned by the Council is not even sufficient to pay the interest on the loan obtained from the Local Loans and Development Fund for the construction of the Trade Centre building resulting a loss to the Sabha Fund. Further, action had not been taken to assess and recover the stall rent in terms of the provisions of the Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government.

2.3.3 Hoarding Charges

A survey had not been done on the permanent hoardings erected within the Council area.

2.4 Transactions of Contentious Nature

Advances amounting to Rs.4,200,000 had been obtained from 15 stall owners on the basis of providing stalls after the construction of the bus stand and had kept in the deposits account, contrary to the Circular No.1980/46 dated 31 December 1980 of the Commissioner Local Government.

2.5 Idle Assets

Three items of assets valued at Rs.2,860,266 owned by the Council had been lying idle, without action being taken to repair and use or to dispose of.

2.6 Uneconomic Transactions

The Bandarawela Central City Project commenced on an agreement valued at Rs.9,482,310 had been abandoned by 2014 and therefore, the expenditure of Rs.3,458,292 incurred for the Project had become a fruitless expenditure.

3. Accountability and Good Governance

3.1 Budgetary Control

The following variances were observed between the budgeted income and expenditure of the Council for the year 2013 and the actual income and expenditure.

<u>Recurrent Revenue</u>	<u>Budgeted</u> Rs.	<u>Actual</u> Rs.	<u>Variance</u> Rs.	<u>Percentage of</u> <u>Variance %</u>
Licence Fees	5,202,100	8,340,985	3,138,885	60.03
Service Charges	7,008,000	13,072,769	6,064,769	86.5
Warrant Charges and Fines	352,400	844,566	492,166	139.7
Other Revenue	6,950,400	21,086,002	14,135,602	203.4
Revenue Aid	42,497,150	59,379,831	16,882,681	39.7
<u>Recurrent Expenditure</u>				
Personnel Emoluments	60,329,120	66,746,780	6,417,660	10.6
Travelling Expenses	1,034,000	2,414,188	1,380,188	133.5
Repairs and Maintenance of Capital Assets	11,440,000	9,359,083	2,080,917	18.2
Transport, Utility and Other Services	20,839,800	24,033,134	3,139,334	15.0
Aid, Contributions and Subsidies	2,280,850	1,844,507	436,343	19.1
Pensions, Pensionery Benefits and Gratuities	325,000	107,577	217,423	66.9

4. Systems and Controls

Special attention of the Council is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Stores Control