

Nuwaraeliya Municipal Council

Nuwaraeliya District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 02 July 2015 while Financial Statements relating to the preceding year had been submitted on 02 June 2014. The Auditor General's Report relating to the year under review was sent to the Mayor including Members of the Municipal Council on 05 August 2015.

1.2 Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Nuwara Eliya Municipal Council as at 31 December 2014 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

Following matters are observed.

- (a) Entertainments Tax received amounting to Rs.751,387 had been shown as Rs.25,000 in the Cash Flow Statement.

- (b) A sum of Rs.579,675 received as Donations and Grants during the years from 2011 to 2014 had been shown as Refundable Deposits in the Statement of Financial Position as at 31 December 2014.

- (c) Overstatement of opening balance of Machinery and Equipment in a sum of Rs.81,000 and value of purchases in a sum of Rs. 350,745 in the year 2012 had not been corrected even in the accounts for the year under review.
- (d) Value of goods auctioned for Rs.1,063,193 during the year 2013 had been shown having deducted the amount received at the auction from the assets only, without being identified and deleted from the registers and assets accounts.
- (e) Nine Mobile Latrines valued at Rs.992,264 existed at 31 December of the year under review had not been accounted under Fixed Assets.

1.3.2 Non-reconciled Control Accounts

While the total of balances relevant to 05 items of accounts according to Control Accounts was Rs.66,735,935, according to Subsidiary Registers, the total of those balances had been Rs.66,568,903. Accordingly a deference of Rs.167,032 was observed.

1.3.3 Accounts Payable

While the value of two Accounts Payable as at 31 December 2014 was Rs.17,806,983 out of that, total of balances that had been outstanding for more than one year was Rs.1,289,707.

1.3.4 Lack of evidence for audit

Evidence to confirm the value of Rs. 88,237,628 shown as adjustments for the preceding year was not furnished to audit.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a.) <u>Financial regulations of the Republic of Sri Lanka</u>	
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(i.) F.R. 343	
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	Nine Receipt Books taken over by 08 officers in 09 instances during the period from the year 2010 to the year 2014 had not been handed over.
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(ii.) F. R. 371	
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	Advances amounting to Rs.49,472 granted in 02 instances had not been settled.
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(iii.) F.R. 395	
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	Bank Reconciliation Statements for January to December 2014 had not been prepared even as at July 2015.
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(iv.) F.R. 571	
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	Deposits valued at Rs. 269,674 made in 07 instances had not been cleared even after a period exceeding 02 years since the date of deposit.
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(v.) F.R. 757 (b)	
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	Annul Board of Survey Reports had not been submitted to the Auditor General.
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| (b.) | Government Procurement Guidelines-2006 | Five Works valued at Rs. Rs. 04 million had been awarded to a single Society, in breach of condition of restricting the number of works to 3 and value of those to Rs. 02 million at a time to a single a society, when awarding contracts to voluntary organizations. |
| (c.) | Clause 40 in Chapter XXIV of the Establishments Code of the Republic of Sri Lanka | Action had not been to recover Staff Loans amounting to Rs. 461,623 due from 04 officers who had vacated post. |
| (d.) | <u>Public Administration Circulars</u> | |
| (i.) | Circular No. 09/2007 dated 05 May 2007 | A sum of Rs. 180,000 had been paid to two retired officers enrolled on contract basis out of the Council Fund during the year under review contrary to the Circular provisions. |
| (ii.) | Circular No. 25/2014 dated 11 December 2014 | Permanent appointments had been awarded to 31 Employees who had not completed 180 days service. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2014 amounted to Rs. 90,844,015 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 104,745,297, indicating a decline of Rs. 13,901,282 in the financial results.

2.2 Analytical Financial Review

When the surplus for the year under review is compared with the surplus for the preceding year, a decrease in a sum of Rs. 13,901,282 was observed. It was mainly due to decrease of revenue in 02 revenue items and increase of expenditure of 05 expenditure items.

- (i) When Salaries and Wages of the Sabha had gone up by Rs.26,064,347, Reimbursement of Salaries had had gone down by Rs. 12,422,122 causing a downfall of financial results in a sum of Rs.36,486,469.
- (ii) Tender Money amounting to Rs. 41,225,000 obtained in leasing out the New Shopping Complex had caused the un-usual rise in Lease Rent Revenue by Rs. 50,117,700.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Revenue Item	Arrears as at 01.01.2014	Billings during the year 2014	Amounted to be recovered	Recoveries during the year		
				Out of billings	Out of arrears	Balance as at 31.12.2014
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates	61,758,084	38,377,645	100,135,729	18,316,300	18,650,658	63,168,871
Lease Rent	426,500	32,552,336	32,978,836	17,832,646	10,449,745	4,696,445
License Fees	852,500	12,252,966	13,105,466	12,244,966	17,000	843,500
Water Charges	18,633,351	39,378,549	58,011,900	26,342,961	10,961,250	20,707,689

2.3.2 Rates

- (a.) While assessment of Rates had not been made during a period of more than 07 years by the Council, it was observed in audit sample checks that Rates are not being recovered from a large number of properties including a tourists hotel consist of 101 rooms.
- (b.) Although there were 44 properties in arrears of Rates recoverable exceeding Rs.100,000 per property, legal action had not been taken to recover those amounts in arrears.
- (c.) Warrant Charges amounting to Rs.73,320 due from a tourist hotel had been written-off on the basis of the recommendation of the Revenue Inspector and approval of the Accountant without obtaining sanction of the Council property.

2.3.3 Land Tax

While 178 Plots of Land had been leased out according to the registers of the Council, the amount outstanding to be recovered as at 31 December from 170 Plots was Rs.15,396,722. While these rents in arrears related to a period ranging from 2 to 20 years, Leased Rent had not been assessed and revised during a period of more than 10 years.

2.3.4 Stalls Rent

- i. Although the rent of 463 stalls belong to the Council had been assessed during the year 2009, a 25 per cent of the rent recovered previously had been added to that rent and recoveries had been made on the basis of a decision of the Council, without making recoveries according to that assessed rent. Due to that, a large amount of revenue had been lost to the Council.
- ii. Stalls Rent in arrears amounting to Rs. 31,788,478 was outstanding to be recovered as at 31 December 2014, due to failure in making recoveries according to the agreements.

2.3.5 Publicity Advertisement Boards Charges

A sum of Rs. 3,483,312 outstanding to be recovered had not been recovered in terms of by-laws sanctioned by the Council from 190 Publicity Advertisement Boards erected in the area of authority of the Council during the period from the year 2014 to 2015.

2.3.6 Court Fines and Stamp Fees

Amounts receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014 are shown below.

	Rs.
Court Fines	318,038
Stamp Fees	12,976,421
Total	----- 13,294,459 =====

3. Operating Review

3.1 Performance Evaluation

Progress Reports and Administrative Reports indicating physical and financial performance had not been prepared in order to ensure conformation to the Annual Action Plan.

3.2 Management Inefficiencies

Following matters are observed.

- (a) Approximate revenue of Rs. 2,000,000 had been earned through the project for hiring out bicycles carried on by a private investor in the Gregory Garden since

the year 2011. While the relevant investor had abandoned the project in the procurement procedure, due to insisting a performance bond for 100% of the revenue to be received causing a large financial loss to the Council in 2014.

- (b) Although 16 stalls constructed having spent a sum of Rs. 5,922,189 adjoining the new office complex of the Nuwara Eliya Municipal Council had been completed and handed over to the Council by the contracting firm on 16 September 2013, action had not been taken to call for quotations and give those for rent, even up to 31 December 2014.
- (c) Although one year and four months had elapsed having paid a sum of Rs. 715,446 to the manufacturing firm to repair the Micro Type Cab Vehicle No. PB-8678 belongs to the Council; vehicle had not been repaired and returned back to the Council.

3.3 Operational Inefficiencies

3.3.1 Stores Control

Following matters are observed.

- (i) While a ledger relating to receipts and issues of stores had not independently maintained by an officer in the accounts section, all receipts and issues had been recorded only in the stores ledger by the store-keeper. Due to that, internal control relating to stores management had collapsed.
- (ii) 230 Rain Coats valued at Rs. 448,500 purchased during the year 2011 and 135 Electric Bulbs valued at Rs. 744,750 purchased during the same year for illumination of Gregory Tank had been kept idle without being used for any purpose.

- (iii) 178,000 Iron Folate Capsules received from the Health Department for the Maternity Clinic of the Nuwara Eliya Municipal Council had become out dated during the year under review.
- (iv) Although the Store-keeper motioned that a water tank of 4' x 8' "Septrin" type valued at Rs. 50,000 was provided to the Nuwara Eliya Election Office according to the stores registers, cash or Receipt Order had not been received for that.
- (v) The General Stores balance of Rs. 17,170,750 could not be satisfactorily vouched in audit due to non-submission of annual board of survey reports.

3.3.2 Contracts Administration

- (a) A condition had been laid down that at least a minimum of 66,400 Block Stones should be laid out of the provision of Rs. 4,000,000 received for laying Inter Connected Block Stones for 05 roads under the Maga Neguma Project. However, the Council had not considered that and estimates had been prepared for laying 41,253 Block Stones. Due to that, a sum of Rs.868,968 had been lost to the Council.
- (b) Although a period of 09 years had elapsed after paying a sum of Rs. 3,000,000 to a consultancy firm for preparation of preliminary plans and estimates for construction of Golf View Trade Complex, the relevant work had not been commenced even up to the end of the year under review.

3.3.3 Idle and under-utilized Assets

Following vehicles and assets remained under-utilized during a period of more than 05 years.

Particulars	Period of Removal from Use
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Lorry Vehicle 27 Sri 4934	More than a period of 10 years
Three F 4 Wheeled Tractors	More than a period of 05 years
Four Motor Cycles	More than a period of 10 years
Three Water Browsers	More than a period of 10 years
Four Electricity Transformers	More than a period of 10 years
Parts of Pre-school Equipment	More than a period of 05 years
P.V.C. Bends (more than 225 m.m.)	More than a period of 10 years

3.3.4 Identified Losses

A sum of Rs. 36,800 due to the Council for 368 tickets of 07 Entrance Fees Books issued for recovery of foot cycles hire of the Gregory Garden for the period from April to July of the year 2014 had not been recovered.

3.3.5 Legal Expenses

A sum of Rs. 1,680,500 had been spent as Lawyers' Fees out of the Council Fund for submission of explanations on behalf of the Council for a case filed by the Deputy Mayor against the Mayor and the Council challenging a decision taken to remove from the Post of Deputy Mayor on the grounds of not participating at 03 Council Meetings without getting leave approved.

4. Accountability and Good Governance

4.1 Budgetary Control

Following matters are observed.

- (a) Although an expenditure amounting to Rs. 24,018,423 had been incurred in excess of the limits of provisions under Expenditure Head for Supplies and Equipment in the Budget for the year under review, a formal approval had not been obtained for that.
- (b) The percentage of recovery of revenue estimated for Rs. 1,440,000 for 17 sub-items of 06 Revenue Heads had been 0%.
- (c) It had been failed to recover targeted revenue under 04 Sub-items of Revenue relating to 06 Revenue Heads in a range from 79% to 97%.
- (d) According to the Budget prepared for the year under review, when estimated revenue and expenditure are compared with the actual revenue and expenditure, variations from 17 per cent to 86 per cent in 05 Items of revenue and variations from 10 per cent to 60 per cent in 05 items' of expenditure were observed. Accordingly, it was observed that the Budget had not been made use of as an effective tool of management.

4.2 Audit Queries not replied and un-resolved

While replies had not been furnished to 15 audit queries as at 31 December 2014, value of transactions that could be computed in those amounted to Rs. 52,805,747.

4.3 Procurement Plan

A Procurement Plan had not been prepared with regard to purchases and constructions of the Council.

4.4 Conducting Audit and Management Committee Meetings

Audit and Management Committees had not been established in the Establishment.

4.5 Internal Audit

An adequate Internal Audit had not been carried out in the Establishment.

5. Systems and Controls

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Special attention of the Sabha is needed in the following areas of controls.

- (a.) Revenue Administration
- (b.) Internal Control
- (c.) Debtors and Creditors Control
- (d.) Assets Management
- (e.) Stocks Control