

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 23 May 2016 while Financial Statements relating to the preceding year had been submitted on 22 June 2015. The Auditor General's Report relating to the year under review was sent to the Commissioner on 09 August 2016.

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 Nuwaraeliya Municipal Council as at 31 December 2015 and its financial performance for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following matters are observed.

- (a) The value of 08 categories of western drugs received as Grants during the year under review had not been computed and accounted.
- (b) A sum of Rs.284,025 received as donations to the Council in 04 instances during the year under review had been kept in the Deposits Account without being taken to revenue.
- (c) The sum of Rs.300,000 received in 06 instances during the years 2014 and 2015 on account of a court case relating to Beef Stalls Rent in arrears had been held in the Deposits Account. Due to that, Deposits Refundable and Debtors had been overstated by that amount.
- (d) A sum of Rs.1,622,471 recovered during the years 2013 to 2015 had been kept in the Deposits Account without being remitted to the Department of Pensions and the Widows and Orphans Fund.
- (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 Accounts Payable

While the value of three Accounts Payable balances as at 31 December 2015 was Rs. 19,021,019, out of that, total of balances that had been outstanding for more than one year was 17,806,983.

1.3.3 Non-compliance with Laws, Rules and Regulations.

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

(a) Municipal Councils Ordinance

Section 40 (1) (f)

Legal requirements had not been complied with in connection with the lands leased out without sanction of the Minister in charge of the Subject and the President in 30 instances during the years 1985 to 1995.

Section 237 (1)

New assessments had not been carried out after assessment made during the year 2000, with regard to instances of making physical changes affecting the annual assessed value

(b) Financial regulations of the Republic
of Sri Lanka

i. F.R. 104

Action had not been taken with regard to the cash shortage of Rs.423,631 revealed in preparation of the bank reconciliation statement during the year 2015.

ii. F. R. 371 (2)

Advances amounting to Rs.2, 226, 476 obtained in 19 instances during the year under review had not been settled even as at 20 January 2016.

iii. F.R. 395 (c) and Public Finance
Circulars No. 453 dated
09 December 2011 and
No. 02/2013 dated
31 January 2013.

There had been delays in preparation of Bank Reconciliation Statements from May 2015 to December 2016.

iv. F.R. 396 (d) According to the last bank reconciliation statement prepared, necessary action had not been taken with regard to 38 cheques valued at Rs. 139,579 issued during the period from June 2013 to February 2015 and time lapsed for more than 06 months, but not presented for payment.

(c) Establishments Code of the Republic of Sri Lanka

(i) Clause 10:1 in Chapter VIII A sum of Rs. 18,376 had been paid as holiday pay in 02 instances without approval of the Head of the Institution.

(ii) Paragraph 3 Although there had been a surplus of 338 employees in 04 Divisions of the Council during the year under review, overtime allowances amounting to Rs. 8,298,955 had been paid.

(iii) Clause 4 in Chapter XXIV Action had not been to recover Staff Loans amounting to Rs. 112,193 due from two officers who had retired.

A sum of Rs. 75,000 and sum of Rs. 461,623 due respectively from 34 officers who had vacated service and 05 officers who had been dismissed had not been recovered.

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 2015 amounted to Rs. 102,583,782 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 90,844,015, indicating an improvement of Rs. 11,739,768 in the financial results.

2.2 **Analytical financial Review**

Increase of Rs. 11,739,768 in the surplus was mainly due to increase of revenue in 05 revenue items and decrease of expenditure of 03 expenditure items.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Information as furnished by the Commissioner relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

Item of Revenue	Arrears as at 01.01.2015	Billings during the Year 2015	Amount to be Recovered	Recoveries during the Year		
				Out of Billings	Out of Arrears	Balance as at 31.12.2015
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates	64,173,174	40,885,552	105,058,726	21,070,485	15,320,750	67,530,859
Lease Rent	57,601,492	35,582,446	93,183,938	24,738,254	26,698,197	41,585,486
License Fees	782,500	13,670,580	14,453,080	13,655,580	15,000	782,500
Water Charges	25,023,319	37,160,811	62,184,130	22,574,573	13,315,373	26,294,183

2.3.2 Rates

Following observations are made.

- (a) In the event of making physical alterations to an asset affecting the annual value of a particular asset after assessment of that asset, the Municipal council should carry out a fresh assessment and recoveries should be made effective from the first date of the ensuing month in terms of Sub-section 237(1) of the Municipal Councils Ordinance. However, the Municipal Council had not taken action to revise Rates with regard to constructions made during a period of more than 07 years after the year 2001.
- (b) According to audit sample checks, operational works of 05 large scale constructions had been commenced without certificates of conformity. However, a very small amount of Rates was being recovered based on the value of the land prevailed prior to construction.
- (c) In terms of Sub-section 252(3) of the Municipal Councils Ordinance, the full amount of Rates or part of it could be waived when such amount is not significant or on the grounds of poverty of the Rate Payer based on sanction of the Council. However, action had been taken for waiver of Warrant Charges amounting to Rs. 73,320 of a Hotel in Nuwaraeliya on the basis of the recommendation of the Revenue Inspector and approval of the Accountant dated 24 February 2010.
- (d) Action in terms of Section 242 of the Municipal Councils Ordinance had not been taken for recovery of Rates in arrears.

2.3.3 Water Charges

Following matters are observed.

- i. According to registers of the Council there were 187 disconnected water services during the period from the year 2007 to the year 2015 while arrears sum of Rs. 2,516,535 was outstanding to be recovered from those water consumers as at 31 December 2015. Follow up action had not been taken to find out whether those consumers have obtained un-authorized water connections.
- ii. While Water Charges in arrears as at 31 December 2015 amounted to Rs. 26,294,183, action in terms of clause 4 of the agreements signed as per By-laws of the Municipal Council had not been taken to recover that amount.

2.3.4 Vehicles Parking Fees

Following matters are observed.

- i. Vehicles Parking Fees were being recovered without imposing By-laws for parking vehicles in the area of authority of the Council.
- ii. While 13 employees had been attached for the recovery of Vehicles Parking Fees, uniforms had not been provided to them.
- iii. According to sample audit checks carried out, supervision with regard to recovery of fees was at a weak level.

2.3.5 Gregory Bicycles Projects

It had not been possible to implement the Project for Providing Bicycles for Hire in the Gregory Park during the year this year as well, due to enforcement of severe conditions by the Council, causing loss of revenue more than Rs. 05 million to the Council.

2.3.6 Write-off of Land Lease Rent

It had been recommended through the decision No.04 of the Extraordinary Finance and Standing Orders Committee on 08 October 2015 to obtain the sanction of the Minister to write-off lease rent of Rs.3,906,000 due for the period from 1991 to 2009 in respect of a land in extent of 29 acres 01 rude 16.2 perches. This decision had been taken contrary to Section 266 of the Municipal Councils Ordinance.

2.3.7 Other Revenue

Following matters are observed.

- i. Although the minimum bid had been decided when calling for quotations for running Meat Stalls, Sunday Fair, Fish Boards, Canteens and Public Latrines, the minimum bid had not been shown in the newspaper advertisements calling for quotations.
- ii. According to the files submitted to audit, agreements relevant to 05 instances had not been signed by anybody on behalf of the Council.

2.3.8 Court Fines and Stamp Fees

Court Fines amounting to Rs. 758,748 and Stamp Fees amounting to Rs. 16,636,323 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2015.

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) Government procurement procedure had not been followed when purchasing the Sound System and the Conference system valued at Rs. 1,054,440 for the use of the Council.
- (b) While a land in extent of 06 acres 01 rude 15 perches belongs to the Municipal Council had been given on lease on 31 July 1982 for a period of 33 years for a garment factory, the lease period had elapsed on 31 July 2015. However, action had not been taken to get the property transferred back to the Council as per agreement or to enter into a new agreement under a fresh assessment.

3.3 Stores Control

Following matters are observed.

- (a) Stock Register folio numbers of the Good Received Notes issued after receipt of goods purchased to the stores are not mentioned in the Receipt Orders. Due to that, it was not

possible to get confirmed that the stocks valued at Rs. 536,446 purchased in 06 instances were recorded in the stocks registers.

- (b) Stocks valued at Rs. 546,561 purchased in 08 instances had not been recorded in the stocks books.
- (c) 178,000 Iron Folate Capsules received from the Health Department for the Maternity Clinic of the Municipal Council had become out dated during the year under review.
- (d) While a shortage of 325 items relevant to 143 categories of goods were observed at the Board of Survey in 2015, action in terms of Financial Regulations 103 and 104 had not been taken to make recoveries after deciding the parties responsible or to write-off from the books.
- (e) While surplus office goods and equipment, vehicles and vehicles spare parts were observed in a number of Divisions of the Council, action had not been taken to take those to the books.

3.4 Improper Transactions

On 28 July 2015, 64 tires valued at Rs. 3,135,510 had been purchased having called for only three quotations, contrary to the Government procurement procedure. When those quotations so obtained were compared with the quotations obtained from the market by audit, a sum of Rs. 959,482 had been overpaid by the Council.

3.5 Delayed Projects

Although a period of 09 years had elapsed after paying a sum of Rs.3,000,000 to a private Consultancy Firm for preparation of preliminary plans and estimates, for construction of the Golf View Market Complex, those works had not been commenced even as at the end of the year under review.

4. Accountability and Good Governness

4.1 Budgetary Control

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 Procurement Plan

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

4.3 Internal Audit

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

4.4 Assets Management

(a) Idle and under-utilized Assets

Following matters are observed.

- (i) Five vehicles and two categories of assets belong to the Council had been remained idle during a period of more than 05 years.

- (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 remained idle in the stores without being used for any work.

(b) Assets Provided to Outside Parties

A Water Tank of Septic Type in size of 14' x 8' valued at Rs.50,000 kept in the Works Stores had been provided to the Nuwaraeliya Elections Office. This had been recorded as a balance in the books, due to lack of an Issue Order.

5. Systems and Controls

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

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