

Bandarawela Municipal Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Bandarawela Municipal Council for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial Operations, cash flow statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 read in conjunction with Section 219 of the Municipal Council Ordinance (Chapter 252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Bandarawela Municipal Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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 Standards, 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 financial reporting process of the Municipal Council.

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 annual and periodic financial statements to be prepared of the Municipal Council.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 exercise 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 the Municipal Council's 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 Municipal Council;
- Whether the Municipal Council 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Municipal Council presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the other recommendations, except the recommendation 1.6.1 (b) and (g) made by me in the report of the Auditor General 154 (6) in

the previous year as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The insurance compensation amounting to Rs.6,924,833, receivable for compensation of damages due to sudden floods occurred to the Public Library of the Municipal Council during the year under review, had not been included in the financial statements.	Adjustments will be made in the accounts of the year 2024.	Accounts should be prepared accurately.
(b) The value of library books amounting to Rs.1,746,000 received as donations to the public library in the year under review had not been accounted.	-Do-	-Do-
(c) The fixed deposit interest income related to the previous year amounting to Rs. 916,164 had been considered as revenue in the year under review and accounted.	-Do-	-Do-
(d) The tender income for leasing wholesale market and retail market related to the previous year amounting to Rs.836,350 had been considered as revenue in the year under review and accounted.	-Do-	-Do-
(e) During the preparation of the financial statement of the previous year, the loan amounting to Rs. 4,403,970, which had been missed from the local loan and development fund account, had been debited to the accumulated fund.	Since assets and liabilities should be existed equally, this has been adjusted to the accumulated fund.	Accounts should be prepared accurately.
(f) Employee loans amounting to Rs.703,896 that should be recovered from 14 officials, who had been absorbed into the National Water Supply and Drainage Board in the year 2021, had not been included in the financial statements.	The balance has been adjusted to the accumulated fund of the year under review.	Action should be taken to recover the employee loan balances.

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| (g) | Nine (09) civil cases filed in the Court by the Municipal Council as at 31 December in the year under review, and 09 cases filed against the Municipal Council by external parties had not been disclosed in the financial statements. | Disclosure will be made in the preparation of the financial statements for the year 2024. | Information material to the going concern of the entity should be disclosed in the financial statements. |
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1.6.2 Unreconciled Control Accounts or Reports

Audit Observation

Even though the balance of property, plant and equipment indicated in the statement of financial position had been Rs.4,110,576,197 as at 31 December of the year under review, the balance of the revenue contribution to capital outlay account for that date had been Rs.4,116,606,427. Therefore, a difference of 6,030,230 had prevailed between those two balances.

Comments of the Council

Action will be taken to rectify the balance of property, plant and equipment in the statement of financial position as at 31 December of the year under review and the balance of the revenue contribution to capital outlay account for that date.

Recommendation

Financial Statements should be prepared accurately.

1.6.3 Written Evidence not made Available for audit

Audit Observation

Fixed asset registers related to 3 types of assets with a total value of Rs.1,642,517 and inventory books had not been submitted to audit and therefore, they could not be satisfactorily vouched in the audit.

Comments of the Council

Officers have been instructed to check whether the relevant information is available in the inventory and if there were property and plant not available physically, action will be taken according to the instructions and orders of the Department of Local Government.

Recommendation

Inventory books, fixed asset registers should be maintained in an updated manner.

1.7 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance to laws, rules, regulations and management decisions are mentioned below.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Municipal Councils (Amendment) Act No 19 of 1987 (Chapter 252) Section 272 (6) Section 267 (30)	License fees amounting to Rs.4,292,587 had not been collected for 93 advertising billboards that had been published within the Municipal Council.	An amount of Rs.734,485 has already been recovered.	Revenue from advertising billboards should be recovered timely.
(b)	The Financial Regulations of the Democratic Socialist Republic of Sri Lanka Section 104 (4) of the Financial Regulation	A formal inquiry regarding an accident occurred in April 2015 had not been conducted even by the end of the year under review.	Although letters have been sent to the Ministry of Provincial Councils and Local Government on 12.07.2019, replies have not yet been received.	Action should be taken according to the Financial Regulations.
(c)	Public Administration Circular No. 01/2002 dated 25 February 2002	State emblem and the name of the institution had not been painted on 28 vehicles.	The state emblem has been painted on the vehicles owned by the Bandarawela Municipal Council.	State emblem and the name should be painted.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue of the Council that had exceeded the recurrent expenditure for the year ended 31 December in the year under review had been Rs.54,749,311 and in corresponding to that, revenue of the Council that had exceeded the recurrent expenditure in the previous year had been Rs. 15,807,000.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue Arrears

According to the information presented by the Municipal Commissioner, the information related to the estimated revenue, billed revenue, collected revenue and revenue arrears related to the year under review and to the previous year are mentioned below.

Revenue Source	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	20,030,000	18,201,585	10,435,017	7,766,568	15,335,000	39,332,837	13,797,077	25,535,760
(ii) Rents	47,744,803	55,201,498	49,085,432	6,116,066	44,919,768	95,221,185	49,053,982	46,167,202
(iii) License Charges	6,704,000	13,327,004	13,327,004	-	10,105,000	7,603,250	7,603,250	
(iv) Other Revenue	33,890,000	45,432,268	45,432,268	-	52,000,000	56,805,259	46,546,563	10,257,696
Total	108,368,803	132,162,355	118,279,721	13,882,634	122,359,768	198,962,531	117,000,872	81,960,658

2.2.2 Performance in the Collection of Revenue

The observations regarding the performance in the collection of revenue of the Council are mentioned below.

	Audit Observation	Comments of the Council	Recommendation
(a)	The arrears of assessment tax amounting to Rs.7,252,568 as at 31 December of the year under review had not been recovered.	A sum of Rs.1,805,216 has been recovered.	Arrears of assessment tax must be recovered.
(b)	The arrears of shop rents amounting to Rs.5,773,458 as at 31 December of the year under review had not been recovered.	Action will be taken to recover arrears of shop rents in the future.	Arrears of shop rents should be recovered.
(c)	The Arrears of property tax amounting to Rs.3,599,354 as at 31 December of the year under review had not been recovered.	-Do-	Arrears of property tax should be recovered.

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| (d) | Outstanding rest house management charges amounting to Rs.17,353,588 as at 31 December of the year under review had not been recovered. | -Do- | Arrears of revenue should be recovered. |
| (e) | Court fines amounting to Rs.1,226,378 and stamp duty amounting to Rs.16,975,243 receivable as at 31 December of the year under review had not been delivered. | Letters have been sent to the Commissioner of Local Government and to the Commissioner of the Department of Provincial Revenue to deliver the relevant amounts mentioned in the outstanding court fines. | Outstanding balances should be recovered. |

3. Operational Review

3.1 Performance of Functions Assigned by the Act

The following matters were observed regarding the performance of the duties by the Council charged with 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 and all amenities within such area under Section 3 of the Municipal Councils Act.

Audit Observation	Comments of the Council	Recommendation
About 45 tonnes of non-biodegradable waste had been piled at Madugasthenna of Bandarawela without implementing a formal waste recycling programme.	Arrangements have been made to forward non-biodegradable waste to the Badulla Municipal Council.	Proper waste management should be carried out.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
The tender process had not been adopted by the Municipal Council in leasing out of 105 shops in the Nuga Sewana Trade Complex.	Shops have been leased out as per the approval of the Council under the long-term lease basis to the shop owners, who had engaged in business activities before the construction of the Nuga Sewana Trade Complex.	Action should be taken to obtain the maximum benefit by tendering the property when leasing out the property.

3.3 Asset Management

Audit Observation	Comments of the Council	Recommendation
The ownership of the Gully bowser, fire truck and the cab used by the Bandarawela Municipal Council had not been transferred to the Council.	The letters to transfer the ownership had been submitted to the Department of Motor Traffic.	The property owned by the Council should be legally transferred.

3.4 Irregular Transactions

Audit Observation	Comments of the Council	Recommendation
(a) According to the Public Administration Circular No. 13/2008 (vi) dated 29 December 2021, an executive officer of the Bandarawela Municipal Council had obtained a monthly allowance for 140 litres of fuel and 455 litres of fuel worth Rs.172,320 from the Municipal Fund from April 2022 to March 2023 for the same vehicle.	If it is found that fuel has been obtained in excess subsequent to checking the fuel quantities and the matters, for which the fuel has been obtained, arrangements will be made to offset the amount in parts in obtaining the monthly fuel allowance.	Over payments should be recovered expeditiously.
(b) Fuel of type Octane 92 had been used from the fuel reserve of the Municipal Council for a car of the Council in the year under review, and the officer had been paid based on the price of fuel of the type of Octane 95 when payments had been made to the officer and therefore, Rs. 175,000 had been overpaid to the officer from the fund of the Council.	Measures had been taken to continue the activities of the institution by establishing a fuel reserve.	Over payments should be recovered expeditiously.
(c) A committee consisted of the Municipal Engineer and 04 other members of the Municipal Council had decided the minimum bidding value and leased out the 228 shops in the Seewali Road shopping complex under long term lease basis.	The Government Valuation Department has already carried out a valuation for the 228 shops in the Seewali shopping complex.	The property should be valued and leased out timely.
(d) the Municipal Council had published advertisements in three popular newspapers dated 31 May 2022 in the year under review to lease out 228 shops in Seewali Road shopping complex under long term lease basis. A sum of Rs.84,424 had been paid from the Fund of the Council for the publication of	The newspaper advertisement has been re-corrected and published as it was a shortcoming occurred in the discharge of duties.	The Amount should be recovered from the responsible officials.

advertisements in the newspapers in two occasions including the revision of the first newspaper advertisement as an amount even less than the assessed value of the shops had been included as the minimum bidding amount in the advertisements.

- (e) Newspaper advertisements had been published in the year 2019 to lease out the right of charging fees of the wholesale and retail markets belonging to the Council for the year 2020. A financial loss amounting to Rs.8,290,000 had been incurred to the fund of the Municipal Council owing to the rejection of the bids of the bidder, who had submitted the highest bids, and accepting the bids of the bidder, who had submitted the lowest bid, owing to very minor defects such as insufficient time to fulfill the specific conditions stipulated to be fulfilled by the bidders as invitation of bids had been limited to 06 days and issuance of bidding forms after 03 days of publication of the advertisements.

Strict Conditions have been formulated and newspaper advertisements have been published to prevent leasing of the wholesale and retail markets by the same person for a long time, and a tenderer has been selected and the approval of the Governor has been obtained according to Section 229 (2) of the Municipal Council Ordinance.

The tender process should be followed in order to derive the highest advantage to the Council.