

Badulla Municipal Council

Badulla District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 16 September 2015 while Financial Statements relating to the preceding year had been submitted on 24 August 2015. The Auditor General's Report relating to the year under review was issued to the Mayor of the Council on 09 December 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 Badulla Municipal Council as at 31 December 2014, 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 deficiencies are observed.

- (a.) Value of 13 buildings, 50 blocks of land and 08 motor vehicles belong to the Council had not been assessed and accounted during the year under review.
- (b.) Although a sum of Rs. 282,186 should be shown as Staff Security Investments as at 31 December of the year under review, it had been shown as Rs. 193,920 in the financial statements and due to that Assets had been understated in a sum of Rs. 88,266. Liabilities too had been understated due to understatement of Staff Security Deposits.
- (c.) Although a sum of Rs. 14,851,605 should be shown as Fixed Deposits as at 31 December of the year under review, it had been shown as Rs. 14,867,246 in the financial statements. Due to that, Assets had been overstated in a sum of Rs. 15,641.

- (d.) Although a sum of Rs. 547,543 should be shown as Fixed Deposits Interest in Arrears as at 31 December of the year under review, it had been shown as Rs. 404,931 in the financial statements. Due to that Assets had been understated in a sum of Rs. 142,612.
- (e.) Although the Fixed Deposits Interest relevant to the year under review is Rs.1,412,884, a sum of Rs. 1,488,096 had been credited to the Revenue and Expenditure Account. Due to that, Revenue for the year had been overstated in a sum of Rs.75,212.
- (f.) Although Stamp Fees Revenue amounting to Rs. 6,247,803 more than the amount provided under provision for debtors at the beginning of the year under review had been received, a sum of Rs.9,003,709 had been credited to the Accumulated Fund. Due to that, Accumulated Fund had been overstated in a sum of Rs. 2,755,906.
- (g.) Although the Stamp Fees Revenue Receivable as at 31 December of the year under review was Rs. 21,622,362, it had been shown as Rs.21,368,079 in the financial statements. Due to that, Debtors had been understated in a sum of Rs. 254,283.
- (h.) Although the Court Fines Revenue Receivable as at 31 December of the year under review was Rs. 4,759,701, it had been shown as Rs.4,757,547 in the financial statements. Due to that, Debtors had been understated in a sum of Rs.2,154.
- (i.) Although the Pension Contributions Payable as at 31 December of the year under review was Rs.27,830,575, it had been shown as Rs.27,731,685 in the financial statements. Due to that, Current Liabilities had been understated in a sum of Rs. 98,890.
- (j.) The total of loan installments paid to the Local Loans and Development Fund during the year under review was Rs. 2,653,679. Out of those loan installments, interest relevant to past years amounting to Rs. 1,996,635

Creditors Account, Capital Value of installments amounting to Rs. 223,706 to the Local Loans and Development Fund Account and Interest relevant to the year amounting to Rs.433,338 the Revenue and Expenditure Account should be debited. However, the entire amount had been debited to the Local Loans and Development Fund Account.

- (k.) Interest in Arrears had been added to the Loan Account due to restructuring the loan amount. Due to that, the Loan had been increased by Rs. 25,486,785. Although that difference should be adjusted through the Creditors, it had been adjusted through the Accumulated Fund. Due to that, Accumulated Fund had been understated in a sum of Rs.27,991,099.
- (l.) Although the Local Loans and Development Fund Loan balance after making adjustments referred to in (j) and (k) above should be Rs.114,842,503 , it had been shown as Rs. 114,916,844 in the financial statements. Due to that, Non-current Liabilities had been overstated in a sum of Rs. 74,341.
- (m.) A provision of Rs. 5,081,776 had been made under Creditors as loan interest payable to the Local Loans and Development Fund for the year under review. It was observed that making a provision for interest is not required, due to the new loan payment method dated 27 October 2014 introduced by the Ministry of Finance and Planning includes the interest in arrears. Due to that, surplus for the year had been decreased in a sum of Rs. 5,081,776.

1.3.2 Non-reconciled Control Accounts

A difference of Rs. 29,913,383 was observed when the account balances shown in the financial statements presented by the Council are compared with the relevant balances in the subsidiary records.

1.3.3 Accounts Receivable and Payable

According to the financial statements presented, the value of Accounts Receivable as at 31 December of the year under review had been Rs. 84,348,697 while the value of Accounts Payable amounted to Rs. 102,342,067.

1.3.4 Lack of Evidence for Audit

(a.) Non-submission of Information to Audit

Transactions totaling Rs. 59,332,353 could not be satisfactorily vouched in audit due to non-submission of required Information to Audit.

(b.) Audit Queries not replied

Replies had not been furnished to 05 audit queries issued even as at 09 October 2015.

1.3.5 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.) Circular No.1980/46 dated 31 December 1989 of the Commissioner of Local Government	- Although the monthly lease rents should be assessed at least once in five years, in leasing out the Senanayakepitiya Milk Stall in extent of 1126 square feet monthly rent of Rs. 5,000 was being recovered continuously over a period of about 18 years without getting the rent assessed.
(b.) Clause 1:6 and 4 in Chapter XXIV of the Establishments Code of the Republic of Sri Lanka	- Loans outstanding amounting to Rs.1,580,510 from 26 employees /officers who were in service of the Council and left on transfers, vacated post, and interdicted had not been recovered.

(c.) Financial Regulations of the Republic of Sri Lanka

- (i.) Financial regulation 396 (d) - Action in terms of Financial Regulations had not been taken with regard to 33 cheques valued at Rs.251,766 issued, but not presented for payment exceeding 06 months.
- (ii.) Financial regulation 571 - Refundable Deposits amounting to Rs. 4,645,578 that had exceeded more than two years after deposit had not been cleared in terms of Financial Regulations.
- (iii.) Financial regulation 371 - Action in terms of Financial Regulations had not been taken get settled the advances amounting to Rs. 4,450,558 granted in 55 instances during the period from the year 1998 to 2014 to various parties for various purposes.
- (iv.) Financial regulation 756 - Annual Survey had not been carried out with regard to the assets belong to the Council during the year 2014.

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.33,781,222 as against the excess of recurrent expenditure over revenue for the preceding year amounted to Rs. 1,712,779. Accordingly a favorable variance of Rs.35,494,001 observed.

2.2 Revenue Administration

2.2.1 Court Fines

Court Fines amounting to Rs. 4,757,547 remitted as at 31 December 2014 to the Chief Secretary to the Uva Provincial Council under various Ordinances and Acts by the Magistrate Court was due to be received the Municipal Council.

2.2.2 Stamp Fees

Stamp Fees amounting to Rs. 21,368,079 remitted as at 31 December 2014 to the Chief Secretary to the Uva Provincial Council by the Registrar General, but withheld in the Provincial Treasury was due to be received the Municipal Council.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Budgetary control
- (c.) Revenue Administration
- (d.) Store Control
- (e.) Files Maintenance