

Rathnapura Municipal Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Municipal Council, Rathnapura for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, 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 Municipal Council Ordinance (Cap.252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Municipal Council, Rathnapura as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 Principles, 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 Municipal Council's financial reporting process.

As per Sub-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.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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 governing body of the 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.

- The financial statements of the Municipal Council are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- Except for the observation in paragraph 1.2 (e) and (g) of this report, the recommendations made by me during the previous year are included in the financial statements presented 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 | Comment of the Council | Recommendation |
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| (a) Fixed assets purchased for Rs.1,029,400 during the year under review had not been capitalized. | Actions would be taken to make it correct in the future. | The purchasing of fixed assets should be capitalized. |
| (b) The adjustments had not been done on the Stamp Fees under billings of Rs.14,622,237 as at the end of the year under review. | The under billings that could not be stated would be corrected. | Adjustments should be done on the under billings. |
| (c) Even though the value of the industries carried out under the decentralized provisions during the year under review had been Rs.9,593,039, because of the billing had been Rs.10,624,704 the capital income and the arrears capital income had been overstated by rs.1,031,665 at the end of the year under review. | The over billed amount of the industries under the centralized provisions of the year 2020 would be corrected. | The billings relevant for the year should be recognized accurately. |
| (d) The operational surplus for the year and the receivable income had been understated by equal values because of not billing income regarding 06 revenue heads accumulated Rs.2,023,275. | The under billings would be corrected. | The billings relevant for the year should be recognized accurately. |

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| (e) | The Operational surplus had been overstated by Rs.1,579,000 because of stating the amount of billed income from the Salusala Building for the year under review of Rs.480,000 as Rs.2,059,000. | Noted to take actions to correct in the future. | The income relevant for the year should be accurately realized and stated. |
| (f) | The difference of Rs.4,297,514 between the balance of the Common Account according to the Financial Statements and the balance according to the Summary Cash Book had been transferred to the Accumulated Fund account without been reconciled the reasons for the difference. | The details had been difficult to recognize. Actions would be taken further to find out more facts. | The difference should be realized and adjusted. |
| (g) | The Processing Fees and Unauthorized Construction Service Charges for the year under review of Rs.685,067 and Rs.448,324 respectively had been credited to the Deposits Account therefore the Other income had been understated by Rs.1,133,391. This error was descending over previous years, therefore the current liabilities in the statement of financial position had been overstated by Rs. 10,890,167 and the balance in the accumulated fund had been understated by the same value. | Action had been taken to state the Processing Fees under 30341(iii) according to the Budget 2021. When making the budget for the year 2021 it had been approved by the Sabha including the above revenue heads. Also actions had not been taken to state the Unauthorized Construction Service Charges under any revenue head for the year 2020 and actions about this would be taken in the year 2021. | The revenue relevant for the year should be stated accurately. |
| (h) | An amount of Rs.297,000 paid as the Planning Committee Allowances for the year under review had not been realized as an expenditure relevant for the year and debited the Processing Fees Account therefore the Operational Expenditure had been understated by Rs.297,000 | Planning Committee Allowances had been stated under the Expenditure Head 31459(10) in the year 2021. Therefore that error would be corrected in the future. | Expenditure and Income relevant for the year should be stated accurately. |

1.6.2 Transactions without Necessary Authority

| Audit Observation | Comment of the Council | Recommendation |
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| The Ambulance had been driven for 3639 Kilo metres without a necessary approval at 38 instances during January 2019 to August 2020 stating transporting patients and other things and also it had been driven without making running charts for 2581 Kilo metres. | It had been driven without a proper approval and actions would be taken to obtain the approval and actions would be taken to recognize the drivers who drove the ambulance without running charts and charge the amount spent from them. | Actions should be taken to avoid the miss using of State belonged Property and the amount of money should be charged from the responsible person who made it miss used. |

1.7 Non-compliance

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

Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

| Reference to Laws, Rules, Regulations etc. | Non-compliance | Comment of the Council | Recommendation |
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| (a.) Financial Regulation 571(2) | Actions had not been taken regarding Deposits lapsed of Rs.9,384,988 from the year 1965 to year 2018 according to the Financial Regulations. | Actions would be taken to take the amount that could be taken in to the General Deposit Revenue Account and to settle the miscellaneous deposits as far as possible. | Actions would be taken according to the Financial Regulations about the lapsed deposits. |
| (b.) Establishments Code of the Democratic Socialist Republic of Sri Lanka Chapter XIX Section 5.7 | A rent of rs.330,000 for a Quarters from May 2011 to June 2020 had not been charged by 03 Officers. | Actions would be taken to charge the rent according to the Section 5.7 Chapter XIX of the Establishment Code. | Actions should be taken according to the Establishment Code when recovering the house rent. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Municipal Council amounted to Rs.89,516,436 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.120,052,443.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

| Audit Observation | Comment of the Council | Recommendation |
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| (a.) Rates and Taxes | | |
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| The Rates in arrears as at 31 December 2020 had been Rs.37,517,503 and actions had not been taken to recover this money in arrears. Also Sabha had been failed to interpret a time analysis about rates in arrears through its computer system and the rates had been recovered based on the rates assessment made in the year 1997. | We had been able to maintain rates recovering progress rate as 67 per cent even though in the middle of Pandemic Situation and a time analysis could not be obtained by the computer system older than 20 years carried out in the rates Division and actions are being taken to make an assessment. | The revenue that should be recovered by the Sabha as soon as possible. |
| (b.) Court Fines and Stamp Fees | | |
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| Actions had not been taken to recover the Stamp Duty in arrears of Rs.8,316,185 from the Chief Secretary of the Provincial Council and other officers as at 31 December 2020. And also the value of the Stamp Duty from May to December 2020 had not been realized. | Actions are being taken to make discussions with the Line ministry to calculate and recover the Stamp Duty relevant for the year | The revenue that should be recovered by the Sabha as soon as possible. |

(c.) Environmental License

25 institutions had been recognized that should obtain the environmental license and 44 institutions had been recognized that should renew the license, under the National Environment Act No.47 of 1980 amended by the At No.56 of 1988 and the Act No.53 of 2000 and the regulations imposed under that. Therefore Sabha had been lost an income of Rs.276,000 and a timely environmental evaluation had not been carried out.

The recruitment of Environmental Officers had been done therefore actions would be taken to update the procedure of issuing Environmental License.

Actions should be taken according to the National Environmental Act.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being 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.

3.1 Transactions with Contentious Nature

| Audit Observation | Comment of the Council | Recommendation |
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| (a) Only 147 perches had been acquired according to the assignment plan even though The approval had been received at the General Meeting held on 28 June 2010 to exchange 02 pieces of lands acquired in the year 2007 by the Sabha with other lands. The two owners of those who related to this exchange of the lands had being building an unauthorized 06 storied building in the nearby land and the Municipal Council had been approved the plot plan in the year 2007 as including an amount of 67 perches acquired by the government. A condition had been included by the National Building Research Organization to carry on a Land Excavation Test even though the Certificate of Land Conformity had been issued on 04 April 2013 because the Parameters should be | A request from the Provincial Secretary had been made to open the boundaries again and carry out a Land Survey, but it had not been done yet and a compliant would be made to the Land Survey Council about the Plan which had been granted the approval and the recommendation for the building had been granted by the Director of the Urban Development authority and actions had not been | Actions should be taken to acquire the part of the land that is owned by the Sabha and settle and actions should be taken to regulate the procedure of issuing license for constructions and actions should be taken to investigate about the officers who act less concerned and take actions against them and actions should be taken to charge the money that should be recovered. |

confirmed as the structural constructions were of 06 storied building with an underground floor. But the Construction License had been issued without any concern about those conditions. Sabha had been charged only Rs.100,000 even though Rs.8,830,000 should be charged on the above building as Unauthorized Services Charge.

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| <p>(b) The plot plans of 03 building constructions carried out by external parties had been approved by the Municipal Council on 02 August 2017 even though it included a part of a Land owned by the Sabha when issuing the approval. It had been difficult to take legal actions against the unauthorized residencies therefore Sabha had decided to distribute the lands on the land tax basis to the related parties at the general meeting held on 08 October 2019. But disciplinary actions had not been taken against the responsible parties who had given the approval to the external party plot plans included the lands owned by the Sabha.</p> | <p>Legal Actions would be taken in the future.</p> | <p>Disciplinary actions should be taken against the Planning Committee members who lead to misuse the Property owned by the Municipal Council.</p> |
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3.2 Procurement Management

Audit Observation

The bids had been called from 05 named institutions identified through the internet by the President of the technical Evaluation Committee to fix the Lightening Conductors in the Kanadola Compost yard within the Authority of Municipal Council. Audit had been revealed that except the institution that the Procurement offered for a value of Rs.990,525 including VAT under the recommendation of the Technical Evaluation Committee all the other institutions were not supplying the lightening conductors. Therefore the quotations had been called by an institution with the expectations to offer the procurement and 04 other intuitions which does not even supply lightening conductors and offered the tender.

Comment of the Council

Only one institution had been presented bids even though the Quotations had been called at two instances and Sabha had not suffered any loss by the purchasing.

Recommendation

A suitable tenderer should be recognized by a fair competition among them according to the Procurement Guidelines.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation

A cost of Rs.17,766,972, 160 employees of Staff, 21 Machines and Equipment had been used to dispose 16,200 metric tons of Solid Waste within the authority of the Sabha during the year under review. It had been arisen Environmental Issues by irregular dispose of a considerable amount of waste included 35 to 38 per cent of the garbage collected left by using 65 to 62 per cent of garbage collected above, 27 tractor loads of non-clinical Waste by Hospitals and waste disposed by the Fish and Meat Stalls.

Comment of the Council

The procedure of collecting and disposing at the centre of the Solid Waste Management had been a continuous procedure consisted with human activities, therefore optimum effort are being taken to make the procedure more efficient.

Recommendation

The effect should be minimized caused by the disposal of Garbage to the open environment.