

Nuwara Eliya Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Municipal Council, Nuwara Eliya for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account including a summary of significant accounting policies and other explanatory information, 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, Nuwara Eliya as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 Practices, 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 required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6 (I) (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
(a) Even though a sum of Rs.10,592,134 payable to the Local Loans and Development Fund in the ensuing year should be shown under current liabilities in the balance sheet, the total payable sum of Rs.18,336,366 had been shown as long-term liabilities.	It is informed that action will be taken in the ensuing year according to the Generally Accepted Accounting Principles as pointed out by Audit and it has been informed that relevant rectifications will be made at that time.	Loan capital should be identified and brought to account as long term and short term.
(b) The value of 17 motor vehicles received as donations to the Municipal Council and 03 vehicles shown in the Register of Fixed Assets had not been assessed and shown in the financial statements.	It has been informed that the Mechanical Engineer has been informed to get an assessment and the Department of Valuation has also been requested to give an assessment.	Assets should be assessed and shown in the financial statements.
(c) In the financial statements, there were understatements of Rs.10,675,357 in relation to 07 cases and overstatements of Rs.252,975 in relation to 02 cases.	It has been informed that rectifications will be made in the next financial statement.	Financial statements should be prepared accurately.
(d) Stamp duty amounting to Rs. 196,124 that should be shown under refundable deposits in the balance sheet, had been shown as creditors.	As it agrees with audit observations, it has been informed that action will be taken to prepare the final account in the ensuing year as pointed out by the Audit.	Accounts should be prepared accurately.

1.6.2 Non-reconciled Control Accounts or Reports

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs. 3,450,135 between the balance as per the financial statements and the balance as per the schedules relating to 02 items of account.	It has been informed that it will be rectified in the preparation of next financial statements.	The differences in account balances should be looked into and the relevant schedules or financial statements should be rectified.

1.6.3 Lack of Documentary Evidence for Audit

Subject	Amount Rs.	Audit Evidences not made available	Comment of the Council	Recommendation
Payment on reimbursement of expenditure	531,497	Vouchers, receipts, agreements pertaining to the expenditure	It has been informed that it will be examined further and explained to the audit in future.	Evidences pertaining to the transactions should be made available.

1.7 Non-compliances

1.7.1 Non-compliances with Laws, Rules and Regulations

Instances of non-compliance with Laws, Rules and Regulations are given below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comment of the Council	Recommendation
Financial Regulation 371 (2) (b) amended by the Public Finance Circular No. 2015/03 of 14 July 2015 and paragraph 05 of the said circular	though the imprest obtained should be settled within 10 days or immediately after the completion of the purpose for which it is granted, there were 09 unsettled balances of advances amounting to Rs. 1,214,500 that obtained for the conduct of various programmes in the Municipal Council, purchases and Petty Cash imprest over a period ranging from 05 to 08 years.	It has been informed that charges against the officers responsible have been drafted and referred to the Commissioner of Local Government.	Action should be taken in terms of circulars.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Municipal Council for the year ended 31 December 2021 amounted to Rs. 130,904,874 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs. 125,474,515 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

	Audit Observation	Comment of the Council	Recommendation
(a)	Rates and Taxes		
i.	Even though Rates were to be recovered from 6418 Rate Units as Rs. 31,367,682 from the revenue of Rates billed for the year and Rs. 59,344,072 from the opening arrears of Rates, the progress of recovery was not at a satisfactory level.	It has been informed that last red notices as at 10 August 2022 have been issued.	Revenue in arrears should be collected.
(b)	Rent		
	Shop Rent totalling Rs. 6,501,810 was due from 45 shop owners for a long period of 05 to 30 years.	It has also been informed that notifications on the termination of Form Of Notice Determining Tenancy has been issued.	Revenue in arrears should be recovered.
(c)	Water Tariff		
	The outstanding water tariff recoverable from 15 water consumers amounted to Rs. 6,175,509.	It has been informed that red notices were issued from November 2021 for the water services with an outstanding amount exceeding Rs.2,000 for a period over three months.	Revenue in arrears should be recovered.
(d)	Other Revenue		
i.	Action had not been taken to recover property tax amounting to Rs. 15,510,500 from 35 persons as at 31 December of the year under review.	It has been informed that action will be taken to recover the revenue in arrears without delay.	Revenue in arrears should be recovered.

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| ii. | Action had not been taken to recover the revenue totalling Rs. 19,247,649 due from 481 annual land permits as at 31 December of the year under review. | It has been informed that action will be taken to recover the revenue in arrears without delay. | Revenue in arrears should be recovered. |
| iii. | Land tax amounting to Rs. 16,878,328 had not been recovered from 184 land lessors as at 31 December of the year under review. | It has been informed that action will be taken to recover the revenue in arrears without delay. | Revenue in arrears should be recovered. |
| iv. | At a general meeting held in February 2011, it had been decided to lease the new cafeteria at Victoria Park for 10 years from 15 March 2011 with an annual increase of 10 per cent. According to that decision, this cafeteria had not been leased on an open procurement system annually during the past 10 years. Even though this lessee had defaulted on a payment of Rs. 2,241,319 in the year 2017, the Council had not taken any legal action against this lessee. | It has been informed that files have been handed over to the lawyer to initiate legal proceedings. | Revenue in arrears should be recovered. |
| v. | Lease amounting to Rs. 122,286 and Rs. 598,125 had not been recovered for the years 2018 and 2019 respectively pertaining to the Recycling Centre on the Udupussellawa Road which belongs to the Council and given on lease basis. | It has been informed that audit observations are agreed upon and it will be rectified in future. | Revenue in arrears should be recovered. |

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Municipal 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 Management Inefficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
A sum of Rs. 1,525,000 had been paid to a public corporation in the year 2018 to purchase building material for the Municipal Council on the approval of Finance Committee	It has been informed that the value of goods still receivable from the corporation is only Rs.245,400 and necessary action has been taken to receive it by	Action should be taken to settle the money paid.

dated 05 November 2018. Out of the said amount, a sum of Rs. 415,107 had not been settled even by 31 December of the year under review due to the non-receipt of relevant goods.

the Council during this year and further, the prepayment will be settled after the receipt of goods and presented to the Audit.

3.2 Assets Management

Audit Observation

Water equipment valued at Rs. 1,393,220 had not been issued for 11 months without considering the requirement and remained idle in the Stores for a period of 4 years and 8 months while a physical verification carried out on 26 October of the year under review revealed a shortage of stock valued at Rs. 366,145.

Comment of the Council

It has been informed that the current situation will be examined in future and necessary action will be taken to utilize the slow moving stocks effectively for the purposes of institution after a study thereon and it will be presented to the Audit.

Recommendation

Relevant action on the shortage should be taken.