

## Negombo Municipal Council

### Gampaha District

#### 1. Financial Statements

##### 1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been submitted to Audit on 31 March 2016 and the Financial Statements for the preceding year had been presented on 30 April 2015. The report of the Auditor General's for the under review was issued to the Municipal Commissioner of the Council on 23 August 2016.

##### 1.2 Qualified Opinion

In my opinion, except for the effects of the matters referred to in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Negombo Municipal Council as at 31 December 2015 and 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

The Following deficiencies were observed.

- (a) The interest on fixed deposits and the fixed deposits sinking fund of the Council had been over calculated by Rs. 248,527 and taken to the revenue for the year under revenue.
- (b) According to the verification of library books carried out during the year under review, there were 100398 books at 07 libraries owned by the Municipal Council. However action had not been taken to compute the value of this stock of books and bought to account.
- (c) 147 books valued at Rs.31, 255 had been received as donations during the year 2015 for the Library of the Municipal Council and action had not been taken to account these donations. Non-of the books received as donations up to the year under review had not been brought to account.
- (d) Action had not been taken to capitalize the value of the stock of goods to the value of Rs. 20,046,589 received as aid from the Provincial Road Development Authority for the Kamachchodey Fair during the year 2014.

- (e) Twenty contracts valued at Rs. 9,388,784 entered into during the year under review in respect of Provincial Development works had not been disclosed in the financial statements.
- (f) Although the transactions relating to the relevant period should be included in the financial statements on accrual basis, provisions had not been made in the accounts for transactions occurred during the year 2014 and the previous years. There for a sum of Rs. 2,060,445 had been written off from the accumulated fund during the year under review.

### **1.3.2 Un reconciled Control Accounts**

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The total of the balances of 10 items of accounts as at 31 December 2015 amounted to Rs. 125,832,924 as per control accounts and according to the relevant registers/schedules the total of the said balances amounted to Rs. 125,408,188 showing a difference of Rs.424,736.

### **1.3.3 Accounts Receivable and Payable**

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- (a) Action had not been taken to settle the balance of interest on investments amounting to Rs. 2,820,895 brought forward for over a long period.
- (b) The balance of other income in arrears as at 31 December 2015 amounted to Rs.200,459,303 and this included 12 balances prevailed for over 12 year.
- (c) The balance of payments in advance as at 31 December 2015 amounted to Rs.38,463,230 and this included a balance of dishonored cheques amounting to Rs.1,414,977 that had not been settled. No action had been taken up to now in respect of 91 dishonored cheques amounting to Rs.1,333,950 relating to the period 1992 to 2013.
- (d) Action had not been taken to settle pension contributions amounting to Rs.15,771,794 payable for the period 2004 to 2010.
- (e) The balance of stores debtors relating to the period 1986 to 2010 amounted to Rs.6,983,011 and action had not been taken to settle these balances.
- (f) The balance of sundry debtors from year 1981 to the end of the year under review amounted to Rs.18, 212, 201 and no action had been taken to recover this balance.
- (g) The balance of general supplies creditors as at 31 December 2015 amounted to Rs. 49,417,305 and this included a balance of Rs. 2,058,390 brought forward for over 10 years. This balance had not been settled even as at end of the year under review.

#### **1.3.4 Lack of Evidence for Audit**

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- (a) Replies had not been furnished even as at 20 June 2016 for 23 audit queries relating to the period year 2007 at 2015.
- (b) Non-submission of information for Audit  
Schedules and confirmation of balances had not been submitted in respect of 06 items totaling Rs. 129,571,627 and therefor, the said items could not be satisfactorily vouched in audit.

#### **1.3.5 Non-Compliance with Laws, Rules and Regulations**

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Non-compliance with followings laws, rules, regulations and management decisions were observed in audit.

- (a) Action had not been taken in terms of Financial Regulation 396 (d) of the Democratic Socialist Republic of Sri Lanka in respect of 15 cheques valued at Rs.171,376 which had lapsed over 06 months.
- (b) An adequate security deposit had not been obtained from the officers from whom security deposits should be obtained in terms of Financial Regulation 881 of the Republic of Sri Lanka and the Public Officers Security Ordinance.
- (c) According to the Circular No.20/88 dated 20 April 1988 of the Commissioner of Local Government, a statement showing the age analysis of the revenue in arrears should be prepared and submitted to the Council at least once in 03 months. However this had not been done.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the Financial Statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.126, 398,161 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 102,180,961 for the preceding year.

## 2.2 Revenue Administration

### 2.2.1 Estimated Revenue, Actual Revenue and Revenue in Arrears

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Mayor is shown .....

Source of Revenue	Estimated Rs.000	Actual Rs.000	Cumulative Arrears as at 31 December Rs.000
I. Rates and Taxes	157,040	152,795	95,220
II. Lease Rent	17,383	22,422	14,563
III. Licence Fees	37,772	30,176	12,179
IV. Other Revenue	198,800	229,017	2,818
	410,995	434,410	124,780

### 2.2.2 Rates and Taxes

Rates and Taxes had not been assessed after year 2007 for the Kochchikade area and therefore the Council had deprived of a significant amount of revenue that could have been earned annually as rates and taxes.

### 2.2.3 Trade Licence Fees

The Following matters were observed.

- (a) Licence fees had not been recovered during the year under review from 152 institutions relating to 26 businesses from which licence fees had been recovered during the year 2014. Therefore, the Council had deprived of licence fees amounting to Rs. 368, 155.
- (b) Licence fees had not been recovered during the year under review for 27 hotels, lodges and eating houses in the area under the Municipal Council that had been registered under the Sri Lanka Tourist Board Act.
- (c) According to 247(a) and (b) of the Municipal Council Ordinance one percent of the receipts of the hotels, exiting houses and lodges registered or approved by the Sri Lanka Tourism Development Authority should be recovered as licence fees. While enforcing licence fees for the year 2015, at had been decided to recover one percent charge only from the eating houses and Rs. 3,221 per one room from hotels and lodges. Accordingly,

trade licence fees of one percent had been charged from 08 eating houses and charges had been recovered based on number of rooms from 17 hotels and 03 lodges.

#### **2.2.4 Recovery Charges at the Bus Park of the Negombo Bus Stand**

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The sample audit check carried out on 01 January 2015 about the recovery of charges at the Bus Park of the Negombo Bus Stand revealed the following matters.

- (a) Two employees had been assigned to carry out duties regarding bus park charges based on shifts method, and a ticket for Rs. 50 should be issued on entering a bus to the Bus Park. The No. of the bus, entering, departure, date and the signature of the cashier should be recorded on this ticket. However, it was observed at a check. That these instructions had not been carried out.
- (b) Bus Park charges collected daily should be paid to the office on the very same day. Nevertheless, the employees collecting charges had retained money with them for 01 to 07 days.
- (c) According to the fortnight reports on bus travel turns of the Road Passenger Transport Authority of the Western Province, a comparison of turns of bus travels from the bus stand with the bus park charges collected revealed a shortage of charges collected. According to the above reports, the charges that should be collected within the period 16 to 30 March 2015 amounted to Rs. 355,200 whereas the charges paid to the office amounted to Rs.178, 950. Therefore, the amount received by the Council was less by Rs. 176,250.

#### **2.2.5 Charges for Disposal of Solid Waste**

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Although the Commissioner of Local Government of the Western Province by his letter No. LGD/05/08/Gen/volume dated 21 December 2010 had informed that all Local Authorities should implement the “Solid Waste Management Rules” No. 01 of 2008 published in the gazette Notification No. 1560/6 dated 30 July 2008; the Municipal Council had not implemented those rules. Revenue in this regard had not been estimated for the year under review and therefore the Council had deprived of income stated in the above rules.

#### **2.3 Surcharges**

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According to the surcharges levied by the Auditor general since 1995 against the parties responsible under the provisions of 226 (1) of the Municipal Council Ordinance (chapter 252) the value of surcharges recoverable as 31 December 2015 amounted to Rs.24,854,584.

### **03 Operating Review**

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#### **3.1 Management Inefficiencies**

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##### **3.1.1 Bank Overdrafts**

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The Following observations are made.

- (a) According to Financial Regulation 387 of the Republic of Sri Lanka, bank overdrafts should not be obtained. But the Council had obtained bank overdrafts often since year 2007. The bank overdrafts limit of Rs. 200 Lacks prevailed on 26 May 2015 had been increased to Rs. 250 Lacks from 27 May 2015 and fixed deposits amounting to Rs. 31,200,000 had been kept as security for the overdrafts.
- (b) Although the Council possess fixed deposits valued at Rs. 467 Lacks the Council had get increased the bank overdrafts instead if settling the bank overdrafts. This situation was observed in audit as a weakness of financial control. A sum of Rs. 14,146,254 had been paid as interest on bank overdrafts from 2007 to end of the year under review.

##### **3.1.2 Distress Loans**

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The Following observations are made.

- (a) A separate bank account had been maintained for distress loans and sum of Rs.2,500,000 had been transferred to this account from the general cast account of the Council in the year 2015. The balance of the distress loon account as at 31 December 2015 amounted to Rs.2, 608,211. Therefor the total amount transferred had remained in the account and it was observed that the funds of the Council had unnecessarily retained in this account.
- (b) Although the distress loan had been limited to Rs. 250,000; distress loans in excess of this limit had been paid to 02 officers.
- (c) It is the responsibility of the Council to enter into agreements after get assured the availability of provisions. However, agreement had been entered in to during the year under review in respect of 12 projects valued at Rs. 9,092,906 although no provisions available.

### **3.1.3 Unauthorized Constructions**

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An application for construction of a fuel filling station had been submitted to the Kchchikade Sub-office on 28 January 2015. The Mayor had informed the owner on 16 February 2015 to submit a Road Clearing Certificate obtained from the Road Development Authority in order to give the approval. Although the Road Development Authority had informed that this is an unauthorized construction, the building application had been approved and the business activities had been commenced by May 2016.

## **3.2 Operating Inefficiencies**

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### **3.2.1 Disposal of Waste in Kochchikade Area**

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(a) Tenders had been called for the disposal of waste in the Kochchikade area and an agreement had been entered. A spot check carried out with the assistance of the Chief Health Inspector of the Council and a Health Inspector of Kochchikade area during 12 to 15 October 2015 revealed that the following works agreed had not been carried out.

- Sweeping roads and cement drains and cleaning the required places.
- Cleaning the inside of culverts and drains.
- Removing unnecessary plants, flags, posters and decorations
- Waste at the Owitiyawatta waste yard had not been flatten and graveled in August and October 2015.

(b) Payments had been made on written certification to the effect that the works had been done satisfactorily even though the works had not been carried out according to Waste Disposal Agreement. Therefore, the supervising officers had not carried out their duties properly.

### **3.2.2 Lase of Halls of the Shopping Complex of the Negombo Bus Stand**

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The Council had failed to lease out the stall No. 66 since year 2014 due to the defects in construction of the second floor.

### **3.2.3 Control over Street Lamps**

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The Following observations are made.

- (a) 1,671 Nos. of street lamps had been issued from the stores during the period 01 January 2015 to 04 December 2015 and there was no system available to return the used street lamps and equipment to the stores.
- (b) A physical verification carried out on 02 December 2015 reveled a shortage of 17 street lamps at the stores and a shortage of 140 street lamps at the Electricity Section.

- (c) A register had not been maintained by the Electricity Section to record the No. of street lamps obtained from the stores and maintenance works (fixing)
- (d) According to the Annual Action Plan of the Council it had been planned to implement a system of numbering street lamps posts. However, this had not been implemented up to now.

### **3.3 Control over Contracts**

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#### **3.3.1 Maintenance of the Escalator of the Negombo New Bus Stand**

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A sum of Rs. 466,839 had been paid to a private institution for the period 2013 to 2015 for the annual maintenance of the Escalator stating that the maintenance period was expired in November 2012. However, it was observed that the escalator is inoperative since 2011 and therefore, the payments made for the inoperative escalator is a fruitless expenditure.

#### **3.3.2 Supply of Gravel during the year 2014**

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Although quotations had been called for and the suppliers had been registered at the beginning of the year to supply gravel for 04 play grounds, gravel had been purchased on contract basis. An examination carried out on the above revealed the following matters.

- (a) Although suppliers had been registered for supply of gravel in the year 2014 and the Council possess machinery for flattening gravel; a sum of Rs. 7,069,045 had been paid for purchase of 2041.2 Cubes of gravel and flatten the gravel on contract bases.
- (b) Eventhough the Council possess a Backho Loader and two skid Loaders services had been obtained from a private institution without obtaining the services of the above machinery.
- (c) Development works had been carried out by purchasing gravel on contract basis without being purchased from the registers supplies at minimum prices.

#### **3.3.3 Reconstruction of Canal Ways**

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Provisions amounting to Rs. 2,000,000 had been received from the Devotional Secretary in 2014 Negombo for all the canal way Reconstruction Project of Daluwa Kotuwa Division under "One Work for One Village- Development Programme. An estimate for Rs. 1,993,290 had been prepared for this and the contract had been awarded to a private institution at a value of Rs. 1,737,020. According to the agreement entered into on 10 September 2014, the works should be completed and hand-over within 02 months, It had been informed that the works had been completed on 01 November 2014 and a sum of Rs. 1,841,241 had been paid to the contractor on 25 March 2015.

The following matters were observed in this connection.



- (a) The Divisional Secretary had informed on 04 December 2014 that the Project had not been completed according to the approved estimate; and that it is regrettable submitting bills for works not done; and that special attention is needed in respect of the officers supervising the works and recommending the bills. According to the measurement report dated 11 November 2014 of the Engineer and the Technical officer of the Council he had certified that he had check the measurements and found correct and the Municipal Commissioner had recommended it on 26 November 2014 and the Mayor had approved the payment on 27 November 2014.
- (b) The Municipal Commissioner by his letter dated 17 December 2014 had informed the respective contractor to complete and hand-over the project with the assistance of the Technical officer, Development Officer and Grama Niladari.
- (c) According to the letter dated 11 May 2015 of the Divisional Secretary, he had informed that he cannot satisfy on these payments and that to submit payment vouchers after carrying out a correct basement of the works completed.
- (d) The Council had not taken any action in respect of the officers who had recommended and certified the project works not completed.

#### **3.3.4 Development of Mankuliya Play Ground**

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Estimates had been prepared for supply and pile – up 510.3 cubes of gravel, level the piled up gravel and compress using a roller and a sum of Rs. 1,776,149 had been paid to the contractor on 16 May 2014. According to the bill of quantities, it had been estimated to purchase 510.3 cubes of gravel for a length of 360 feet, a width of 189 feet and a height of 0.75 feet, and a check carried out on 04 March 2015 revealed that a supervising officer had not participated in piling – up and measuring gravel before leveling.

#### **3.4 Transactions of Contentious Nature**

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An examination carried out on 16 April 2015, lease of in respect of Wednesday and Sunday fair at Kamachchode revealed in following matters.

- (a) According to the Finance Committee recommendations No. 625 dated 22 September 2014 and the Council Resolution No. 5/5 dated 02 October 2014, it had been decided to lease out the Kamachchode Wednesday fair at a lease rent of 10% more than the rent of year 2014 until opening of the new fair in year 2015 and to obtain a letter from the lessee on the above.
- (b) It had been decided to tender under 03 parts, i.e. vegetable and fruits, textiles and dry fish; after the opening of the Fair; However, agreements had been entered into on 18 December 2014 so as to enforce the time period from, 01 January 2015 to 31 December

2015 without indicating the time in the agreement as “ only upto the opening of the new fair” .

### **3.5 Idle Assets**

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The Council had received a Motor Grader, Truck and a Single Drum Vibrating Roller on 06 February 2015 from the Ministry of Public Administrations, Provincial Councils and Local Government as a grant for strengthening the Local Authorities. However, the Motor Grader and the Truck had been lying idle even up to 10 November 2015 without being put to any use.

## **4. Accountability and Good Governance**

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### **4.1 Procurement Plan**

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An Annual Procurement Plan had not been prepared in terms of the National Budget Circular No.128 date 24 March 2006.

### **4.2 Budgetary Control**

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The entire provision made for 09 items of Expenditure for the year under review had not been utilized and therefore, the budget had not been made use of as an effective tool of control.

### **4.3 Performance**

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The Council had failed to carry out 10 activates included in the Annual Action Plan during the year under review.

## **4. Systems and Controls**

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

- (a) Accounting
- (b) Financial Control
- (b) Revenue Administration
- (c) Assets Management