

Maharagama Urban Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 29 March 2016 while Financial Statements relating to the preceding year had been submitted on 25 March 2015. The Auditor General's Report relating to the year under review was issued to the Chairman of the Council on 21 July 2016.

1.2 Disclaimer of Opinion

In view of the importance of matters referred to in paragraph 1.3 of this report, it was not possible for me to obtain adequate and suitable evidence to be based an opinion. Accordingly, I do not express an opinion on these financial statements.

1.3 Comments is on Financial Statements

1.3.1 Accounting Deficiencies

The following matters are observed.

- (a.) As allocations for creditors had not been made relating to the expenditure of the year under review, expenditure and creditors had been understated by a sum of Rs. 429,159.
- (b.) A sum of Rs. 215,783 had been allocated for the creditors in respect of applying concrete on the remaining stretch of the Shelton Park Road, Rukmale, but, all payments had been made by 17 July, 2015. Accordingly, expenditure and creditors had been overstated by that value.
- (c.) Although a sum of Rs. 485,000 had been allocated as creditors as at 31 December, 2015 in respect of repairing the roof of the shopping complex, Maharagama, the contract had not been completed. As such, the expenditure and the creditors had been overstated by that value.
- (d.) The road compactor machine valued at Rs. 5,300,000 had been shown in the financial statements as being Rs. 530,000 by the Council in the preceding year. As such, it was pointed out in the audit report that the balance of the fixed assets, and the Contributed Capital Input Account had been understated by a sum of Rs. 4,770,000, and due to failure in taking action to rectify that, the balance of the fixed assets, and the Contributed Capital Input Account had been understated by a sum of Rs. 4,770,000 in the year under review as well.
- (e.) The audit fees amounting to Rs. 9,143,457 computed with respect to the period 2007 – 2014 in terms of Section 181 (1) of the Municipal Councils Ordinance, had not been paid even up to 30 April, 2016, and provisions had not been allocated in the financial statements in respect of the audit fees payable for the year 2015.
- (f.) The value of the Truck being used for transporting garbage that had been received as a donation in the year 2015, had not been assessed and accounted.

- (g.) The stores creditors valued at Rs. 801,229 had also been erroneously included in the creditor balance of expenditure amounting to Rs. 13,026,902 written off in the year under review. As such, the creditors of expenditure had been understated by that value whilst the stores creditors had been overstated by that value as at 31 December, 2015.
- (h.) The revenue of Rs. 1,703,809 received from the Gully Bowser service with respect to the year 2015 had been included in the Deposit Account. Hence, the revenue of the year under review had been understated by a sum of Rs. 1,703,809 in the financial statements.
- (i.) The salary reimbursement revenue amounting to Rs. 35,824,699 receivable for the year 2015, had not been accounted.
- (j.) A sum of Rs. 47,867,854 had been shown in the accounts as a bank overdraft payable as at 31 December, 2015. However, it was verified through the confirmation of bank balances that such a bank overdraft had not existed, and the said account had been closed on 25 August, 2015. As such, the current liability of the accounts had been overstated by that value.
- (k.) A revenue of stamp fees amounting to Rs. 90,585,570 received for the year 2013, had been accounted as a revenue of the year under review. As such, the revenue of the year had been overstated by that value.

1.3.2 **Non-reconciled Control Accounts**

When a total sum of Rs. 118,044,934 relating to 06 items of accounts shown in the financial statements were compared with the balances of the relevant schedules, overstatements amounting to Rs.3,304,409 and understatements amounting to Rs. 196,513 were observed in the financial statements.

1.3.3 **Lack of Evidence for Audit**

Documentary evidence for the value totalling Rs. 119,686,578 in respect of miscellaneous deposits, advances, and items of receivable accounts, had not been made available to audit. The accuracy of those balances could to be verified through other means of auditing.

1.3.4 **Suspense Account**

Action had not been taken to settle the balance of the Suspense Account amounting to Rs. 25,781 brought forward over many years.

2. **Financial Review**

2.1 **Financial Results**

- (a.) According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs. 88,994,545 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 48,086,862.

- (b.) According to the Financial Statements presented to audit, the net deficit of the Council amounted to Rs. 51,285,198, and the Cumulative Fund had eroded by that value after adjusting the capital revenue and the expenditure for the year ended 31 December 2015.

2.2 Bank Accounts

The following matters were observed.

- (a.) Action had not been taken in terms of Financial Regulation 188 (2) of the Democratic Socialist Republic of Sri Lanka on 06 money orders, and 02 cheques valued at Rs. 13,907 that had not been realized despite being deposited as at 31 December, 2016.
- (b.) In terms of Financial Regulation 395 (c), bank reconciliation statements should be prepared before the 15th of the following month in respect of the transactions of the bank accounts as at the end of each month. Nevertheless, bank reconciliations statements had not been prepared with respect to a current account for the years, 2014 and 2015.
- (c.) Action had not been taken in terms of Financial Regulation 396 on 05 cheques totalling Rs. 177,323 that had remained uncashed over a period of 06 months from the date of issue.

2.3 Revenue Administration

2.3.1 Performance of Collecting Revenue

The summarized information on the actual revenue and revenue in arrears presented by the Chairman in respect of the year under review and the preceding year, are as follows.

<u>Source of Revenue</u>	<u>2015</u>			<u>2014</u>		
	<u>Actual Sum to be Collected</u> Rs. '000	<u>Actual Sum Collected</u> Rs. '000	<u>Arrears for the Year</u> Rs. '000	<u>Cumulative Arrears as at 31 December</u> Rs. '000	<u>Actual Sum to be Collected</u> Rs. '000	<u>Cumulative Arrears as at 31 December</u> Rs. '000
Rates and Taxes	90,718	53,138	37,580	74,306	84,256	76,246
Lease Rent	18,520	14,553	3,967	17,376	20,671	27,046
License Fees	1,002	1,002	-	18	833	29
Other Revenue	<u>258,007</u>	<u>126,812</u>	<u>131,195</u>	<u>162,209</u>	<u>182,845</u>	<u>124,914</u>
	<u>368,247</u>	<u>195,505</u>	<u>172,742</u>	<u>253,909</u>	<u>288,605</u>	<u>228,235</u>

2.3.2 Rates

The following observations are made.

- (a.) A sum of Rs. 90,717,876 had been shown in the financial statements of the year under review as revenue from Rates and taxes, and a sum of Rs. 37,579,947 therefrom had remained recoverable as at 31 December, 2015.
- (b.) The total of the Rates in arrears amounted to Rs. 72,501,617 as at 31 December, 2015, and the balance of the Rates in arrears between Rs. 50,000 and Rs. 100,000 therefrom totalled Rs. 2,796,570 representing 4 per cent of the total arrears.
- (c.) Eighteen units of Rates over Rs. 100,000 had existed in the Rates in arrears as at 31 December, 2015, and the total of the outstanding value amounted to Rs. 4,015,888.
- (d.) Of the cumulative Rates in arrears amounting to Rs. 76,245,719 as at 31 December, of the preceding year, a sum of Rs. 44,900,208 remained recoverable as at 31 December, 2015.

2.3.3 Lease Rent

- (a.) As at 31 December, 2015, a sum of Rs. 16,537,552 remained receivable according to the schedules on stall rent, whilst a sum of Rs. 838,270 had remained receivable according to the registers of revenue from meat stalls. However, action had not been taken to recover those monies.
- (b.) Of the stall rent revenue amounting to Rs. 25,319,300 that remained in arrears as at 31 December, of the preceding year, a sum of Rs. 19,021,523 remained recoverable as at 31 December, 2015.

2.3.4 Land Sales Tax

In the event that a land located within the jurisdiction of an urban council, is auctioned or sold either by an auctioneer or a broker, a tax equivalent to 01 per cent of the value of sale should be paid by the seller to the Council as per Sub-section "c" of the Urban Council Ordinance (Chapter 255). Nevertheless, in respect of 13 sales of land taken place in the year under review, the Council had recovered 01 per cent or Rs. 4,027,883 of the sale value assessed by the Revenue Inspector. The Council had not taken action to look into the difference between the assessed value and the actual sale value of the land plots thereby recovering the difference. Although the seller should pay a tax equivalent to 01 per cent of the sale value to the Council, it was observed in audit test checks that a tax amounting to Rs. 37,500 had been recovered by the Council from the buyer.

2.3.5 Billboard Fees

In terms of the notice of the Chairman of the Maharagama Urban Council published in the Gazette notification, No. 1891 of the Democratic Socialist Republic of Sri Lanka dated 28 November, 2014, fees should be charged for the billboards being displayed within the jurisdiction of the Maharagama Urban Council as indicated therein. However, as observed in the test checks conducted physically in the jurisdiction of the Council, billboard fees totalling Rs. 370,500 had not been recovered in the year under review in respect of 16 billboards fixed permanently.

3. Operating Review

3.1 Operating Inefficiencies

A subsequent advance should be granted only after settling the advance obtained for a particular purpose. However, despite the advance obtained earlier had remained unsettled, the same officer had been granted advance again.

3.2 Employee Loans

- (i) According to the financial statements as at 31 December, 2015, the recoverable balance of the employee loans, amounted to Rs. 26,443,244, including a balance totalling Rs. 349,590 that remained recoverable over an extensive period from the employees who had vacated the service, transferred, or deceased.
- (ii) Of the miscellaneous loan balances amounting to Rs. 147,115 belonging to 05 employees, no loan installment whatsoever had been recovered in the year under review.

3.3 Irregular Transactions

When obtaining privately-owned Tipper lorries on rent for the disposal of garbage within the jurisdiction of the Council, those vehicles had been obtained under the bids of the preceding year without calling for quotations, and no agreements had been entered into in that connection. Rents amounting to Rs. 1,550,000 had been paid in respect of the Tippers in the year under review. Furthermore, when payments were made for the Tippers in the year under review, a sum of Rs. 85,250 had been paid for 11 days for which the service had not been provided.

3.4 Identified Losses

- (a.) A sum of Rs. 128,513 had been spent by the Council on the repairs of 02 vehicles that had met with accidents in the year under review. Nevertheless, the Council had not taken action in terms of Financial Regulation 103, 104, and 105 to identify the persons responsible for those accidents and recover the damages from them.
- (b.) No action whatsoever had been taken by the Council in respect of 58 library books valued at Rs. 112,148 that had not been returned by 355 members during the period 1999 – 2010.
- (c.) According to the reports of the Board of Survey conducted for the year ended 31 December, 2015, it was observed that 02 Trailer machines belonging to the Council had not physically existed at the Council. Although those 2 Trailer machines had been shown in the Register of Fixed Assets, the value had not been mentioned.

3.5 Contract Administration

3.5.1 Delayed Projects

- (a.) Agreements had been entered into in respect of 366 projects being implemented within the jurisdiction of the Council in the year under review, and 314 projects had been completed. Forty one projects had remained incomplete, whilst 11 projects under the funds of the Council, had been cancelled.

- (b.) Although agreements had been signed by the Council in respect of 04 projects in the years 2014, and 2015, those projects had not been commenced even up to the date of audit, 06 May, 2016.

3.5.2 Janitorial Service of the Maharagama Weekly Fair

The contract for janitorial services at the premises of the weekly fair in Maharagama, had been awarded to a private company with effect from 09 May, 2015.

The following matters were observed in this connection.

- (i) Of the 04 institutions that had submitted bids, the bid with the lowest price had been turned down, and the highest bidder had been selected.
- (ii) Despite being stated that the lowest bidder had been turned down as the relevant company would provide janitorial services only on the days where the weekly fair is held, the requirements expected had not been clearly stated in the notice calling for bids.
- (iii) When the contractor had been paid as per the agreement, a sum of Rs. 6,000 had been additionally paid for the trips done in excess of the 13 trips per month. Had the Tender Board taken into consideration the statement provided by the lowest bidder who had been turned down, that Compactor vehicles, and Tippers would be made use of in the disposal of garbage, the said additional payments could have been averted. The selected contractor had used only the Tractors for disposing garbage.
- (iv) Although the agreement in respect of the said purpose had been entered into with the contractor on 15 July, 2015, the contractor had engaged in the disposal of garbage prior to that date since 09 May, 2015, and payments had been in respect of that period. Nevertheless, it was revealed in audit that the premises of the weekly fair had been allowed for trading with effect from 27 June, 2015.
- (v) In terms of the agreement entered into with a private company for the janitorial services of the premises of the weekly fair in Maharagama, fees amounting to Rs. 2,660,019 had been paid on the janitorial services provided in the period from May, 2015 to December, 2015. Nevertheless, only a sum of Rs. 1,833,287 had been received for that period as revenue from the tax of the fair.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters are observed.

- (a.) Variances of 3 to 100 per cent between the budgeted revenue and the actual revenue were observed, whilst variances of 7 to 82 percent between the budgeted expenditure and the actual expenditure were observed in 17 instances even after transfer of provisions among Revenue and Expenditure Heads during the year and therefore it was observed that the budget had not been used as an effective tool of management control.

- (b.) Although a sum of Rs. 416,000,000 had been estimated by the Council as capital grants of the year 2015, only a sum of Rs. 1,348,539 had actually been received representing 0.3 per cent.
- (c.) Of the sum amounting to Rs. 146,352,500 budgeted under 114 Heads of expenditure, no expenditure whatsoever had been incurred in the year under review.
- (d.) Of the sum amounting to Rs. 537,926,500 estimated for 18 Items of revenue under 07 Heads of revenue, no revenue whatsoever had been collected in the year under review.

4.2 Internal Audit

The functions of the Internal Audit Unit had not been organized in terms of the Financial Regulation 133 (1) and (2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

4.3 Assets Management

Annual Board of Survey

It was revealed in accordance with the report of the Board of Survey for the year ended 31 December, 2015, that inventories had not been maintained with respect to the garage, Health Division, Road Division, and the market.

5. Systems and Controls

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

- (a.) Internal Audit
- (b.) Budgetary Control
- (c.) Accounting
- (d.) Administration of Revenue
- (e.) Assets Management
- (f.) Control of Debtors and Creditors