

Ratnapura Municipal Council

Ratnapura District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2016 and the financial statements for the preceding year had been presented on 31 March 2015. The report of the Auditor General for the year under review had been forwarded to the Municipal Commissioner of the Council on 07 July 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the 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 matters are observed.

- (a) The Asian Development Bank had granted a loan of Rs.54,566,853. 50 per cent of rest house rent due to the Municipal Council from the Urban Development Authority had been set off as loan instalments from July 2004. Accordingly, it was identified in audit that the amount so set off was Rs.2,785,664. But, this had not been disclosed in the financial statements. The entire loan obtained had been shown as loan payable in the financial statements.
- (b) The fixed assets totally valued at Rs.1,224,019 purchased under various objects and stores advances during the year under review had not been capitalized.
- (c) Provision for creditors had not been made for the unpaid expenses of the year under review amounting to Rs.2,094,259.
- (d) Out of the 1965 library books obtained as donations during the year under review, 1087 books valued at Rs.624,835 only had been capitalized. The balance of 878 books had not been capitalized by identifying or assessing their values.

- (e) The Nation Building Tax of Rs.119,824 of December of the year under review to be remitted had been confirmed. However, a sum of to Rs.277,469 had been brought to account as liabilities.
- (f) According to the summarized cash book of the Sabha maintained for current accounts such as general administration, development and planning and according to the financial statements, there were variances of many years between those balances and it was Rs.3,395,935 during the year under review. Accordingly, the balancing of financial statements for the year under review had become contentious in audit.
- (g) The opening balances as at 01 January 2015 had been adjusted in the accounts as Rs.7,193,640. However, it should have been Rs.6,674,140 according to the register of stamp fees.
- (h) The interest of Rs.10,378,289 payable on behalf of the loan No.1632 of Rs.12,656,450 of the Asian Development Bank as at end of the year under review for renovating the RatnapuraWeralupa Road had not been accounted as accrued expenses as per loan confirmation statement.
- (i) The total revenue of Rs.528,898 of Revenue Head 11 of the previous year had been accounted as revenue of the year under review.
- (j) The total revenue of Rs.1,383,007 of Revenue Head 12 had not been identified as revenue of the year under review.
- (k) The receipt of employees' loan interest of Rs.739,765 had been identified as accountable under the respective Revenue Head during the course of audit in 2014. But, action had not been taken to rectify this by a journal entry. The interest on employees' loan of the year under review amounting to Rs.768,661 had also been accounted as employees' loan received instead of being accounted under the respective Revenue Head.
- (l) Employees' loan interest had been accounted as receipt of employees' loans. As a result, the employees' loan current assets had been understated in the financial statements by Rs.6,702,222.
- (m) Three Projects under the Village to village, Door to door programme had been completed in 2014. But, the sum of Rs.1,750,851 had not been paid up to the date of audit of 13 June 2016. As such, this had not been shown as creditors and revenue receivable for the work concerned in the financial statements.
- (n) Provision had not been made for debtors as at end of the year under review with regard to works with external provision totalling Rs.4,296,449 operated during the year under review by entering into agreements.
- (o) Provision for creditors and debtors had not been made for the agreed work valued at Rs,4,971,813 of 2014. This had been accounted as income and expenditure of the year under review.

- (p) A board of survey had not been carried out as at end of the year under review. Stock registers had not been updated and register for issue orders had not been maintained. Accordingly, the opportunity to examine the closing balance of the stock book and the stock in hand had been lost. The stock in hand of Rs.23,004,503 could not be identified as per register of stock in hand.

1.3.2 Unreconciled Control Accounts

The following observations are made.

- (a) The balances of 10 items of accounts as at end of the year under review differed with the balances of subsidiary registers by Rs.51,299,614.
- (b) The difference between the expenditure analysis and the register of expenditure relating to 10 objects amounted to Rs.45,098,164.
- (c) The revenue billed and the revenue of the year relating to registers of 04 Revenue Heads differed by Rs.227,785.

1.3.3 Non-compliance with Laws, Rules, Regulations etc.,

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

(a) **Municipal Councils Ordinance (Chapter 252)**

Section 247 (c)

A resolution should be adopted for recovery of annual tax of a person who deals in business within the municipal area. Action had not been taken to issue such a licence for the Ratnapura Rest House for 2013, 2014 and 2015.

(b) **Financial Regulations of the Republic of Sri Lanka**

(i) Financial Regulation 396

Action had not been taken in terms of the said regulation with regard to 14 cheques of Rs.524,029 issued on Account No.0001015721 which had exceeded 06 months and remaining unpaid as at end of the year under review.

(ii) Financial Regulation 571

Action had not been taken in terms of the regulation with regard to deposits in 20 deposit accounts totalling Rs.23,099,511 which had exceeded 2 years since 2001.

(iii) Financial Regulations 880 and 881

None of the employees of the Sabha had furnished security deposits. Accordingly, the responsibility and safety relating to officers of financial administration could not be relied upon.

2. Financial Review

2.1 Financial Results

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.46,579,450 as against the excess of expenditure over recurrent revenue of the preceding year amounting to Rs.21,719,263.

2.2 Analytical Financial Review

The financial operating surplus had increased by Rs.68,298,713 during the year under review and it was observed that it was a 314 per cent more than the previous year. Increase in recurrent revenue and the decrease in recurrent expenditure during the year under review as compared with the previous year had mainly attributed to this.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information relating to the estimated revenue, actual revenue and the arrears of revenue, as furnished by the Secretary appear below.

Revenue Item	Estimated	Actual	Accumulated Arrears as at 31 December
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	Rs.	Rs.	Rs.
Rates and Taxes	32,500	32,999	27,198
Lease Rent	62,558	49,376	19,487
Licence Fees	3,242	1,814	-
Other Revenue	240,732	44,225	32,518

2.3.2 Performance in Collection of Reveue

A comparison of the estimated revenue of the year under review with the revenue collected showed that the revenue collected with regard to items such as rates and taxes, lease rent, licence fees warrant charges and fines and the other revenue as compared with the estimated amount showed a decrease of 26,25,44,88 and 65 per cent respectively.

2.3.3 Lease of stalls

- (a) Tenders should be called for even stalls constructed by the lessee on his own expenditure and subsequently vacated as per Section 1.8 of Paragraph 02 of the Circular No.2009/01 of 09 March 2009 of the Commissioner of Local Government. If not, the rights relating to the lease could be transferred to his wife or children after the lessees death as per Section 1.9. A bachelor could transfer the rights to his mother, father or brother. However, this had not been considered and the stalls had been given on lease to persons named by the first lessee.
- (b) According to paragraph 05 of the Circular of the Commissioner of Local Government No. 2009/01 of 09 March 2009, the assessed lease rent should be revised at least once in 5 years in order to avoid the increased burden on tax to the lessee and to stop increase in lease rent, But, 09 stalls of the ground floor of the Kudugalwaththa trade Complex for which lease rent had been assessed in 1996 had again been assessed on 10 April 2015 after 19 years. Accordingly, action had not been taken it terms of the regulation and as such the sudden increase in lease rent may instigate the lessee to ignore payment of lease rent.

3. Operating Review

3.1 Management inefficiencies

The following observations are made.

- (a) The Council had written off Rs.3,461,453 relating to land tax, public market stall tax and revenue from trade stalls an decision made by the Council during the year under review.
- (b) The administration of the rest house of the Council had been entrusted to the Urban Development Authority. According to an agreement entered into between the Urban Development Authority and the lessee, the lease had been granted for 20 years at Rs.70,500 per year as management fees with an annual increase of 5 per cent. 50 per cent of the management fees concerned had been reduced in lieu of the loan obtained by the Municipal Council from the Asian Development Bank. Accordingly, the entire management fees should be treated as the revenue of the Municipal Council and the amounted set off in lieu of the loan should be treated as settlement of loan and accounted

for. However, such a position had not been disclosed in the accounts. Further, the percentage of the said management fees retained by the Urban Development Authority was 10 per cent in December 1995 and 30 per cent from July 2003. But, proper action had not been taken in respect of those deductions too.

3.2 Activities of the Fire Extinguishing Unit

The following matters are observed.

- (a) The building where the fire extinguishing unit had been established was physically verified on 31 August 2015 and it was revealed that this unit had not adopted proper administrative methods. Adequate human and physical resources were available at the fire extinguishing unit to encounter an emergency situation in Ratnapura. Adequate concern had not been made with regard to the on by fire extinguishing unit which not only caters to the need of the authoritative area of the Council but for the entire district of Ratnapura local authorities. Accordingly, it had become questionable in audit whether this unit had adequate strength to meet any unforeseen circumstances.
- (b) Relief vehicles with blue bulbs should be used for fire extinguishing and rescue operations at times of emergency. However, the fire cab bearing registered No. PB 6386 had been made use of, for various necessities, with the approval of the Municipal Commissioner. Instances were observed where the distance travelled by the vehicle, particulars of journey, fuel orders obtained with numbers, fuel capacity etc., had not been mentioned. There were also instances where the officer using the vehicle had not signed the running charts. The expenditure incurred on fuel in 2014 and 2015 were Rs.173,014 and Rs.291,306 respectively. Accordingly, a distance of 21464 kilometres had been performed as per price of fuel existing in 2015 provided the number of working days are considered as 242. Therefore, the distance performed per working day could be considered as 89 kilometres. Based on the above facts, the expenditure incurred on fuel on behalf of the cab becomes a contentious matter in audit.

3.3 Vehicle Utilization

The following matters are observed.

- (a) The cab bearing No. PB 6386 had met with an accident on 05 June 2014 or on closest date while being driven by a senior officer causing extensive damage to the right side of the front portion of the vehicle. Subsequently, after the occurrence of the accident, a sum of Rs.396,756 had been spent from the funds of the Municipal Council to purchase spare parts from 04 institutions and to repair the vehicle with the approval of the Municipal Commissioner without considering the provisions in the procurement procedure. Although the insurance company had given Rs.90,836 to meet the expenditure concerned, no action, whatsoever, had been taken with regard to the loss of the balance sum of Rs.307,920. Action had not been taken in terms of Financial Regulations 101 to 110 regarding the loss.

- (b) Consequent to the repairs, the cab bearing No. PB 6386 had been used for official duties relating to the elections of 2015. The driver had handed over the keys of the vehicle to the Municipal Commissioner on 18 August 2015 after completing his duties. But, according to the police report, it was revealed that the cab had run off the road and extensive damage had been caused to it while being drive by the Municipal Commissioner on 18 August 2015 at 04 p.m or at a closest time and the time of the incident which occurred at Eheliyagoda Buduwaththa area, the Municipal Commissioner had fallen asleep and he had not obtained special authority for the journey. Accordingly, the loss caused by the accident had been valued at Rs.410,350 and a sum of Rs.291,000 had been obtained from the insurance company. Action had not been taken in terms of Financial Regulations 101 to 110 with regard to this accident.
- (c) It has been continuously brought to the notice verbally and in writing that there was leakage of fuel (petrol) through the pump of the fire lorry bearing No. LF1102 on 29 March 2014 or on a closest date. In spite of this, this vehicle had been used for duties, other than the extinguishing of fire and on one occasion, that is, on 26 May 2014 this had been used for cleansing the public market. Extensive leakage at that instance had resulted in filling the lorry with petrol less than a period of one hour and the driver of the vehicle had confirmed in writing in the running chart that 24 litres of petrol had been purchased on those 02 occasions. With the existence of such a situation, the pump had been continuously used for such activities and on 04 June 2015 or on a closest date it had been used for clearing the Ratnapura Public Market. The pump had caught fire and had become inoperative. Accordingly, a loss of Rs.384,212 had been caused by utilizing it for work other than the required scope and action had also been not taken in terms of Financial Regulation 104(3) in this regard.
- (d) The engine of the said cab bearing registered No. 251-2574 had become inoperative due to extensive heat caused to the engine on 25 June 2015 or on a closest date while being driven by the Municipal Commissioner, a journey which was supposed to be unauthorized and merely private. The vehicle had been repaired at the vehicle pool without considering the Financial Regulations or without any examination, whatsoever, pertaining to the incident. Thus it was observed in audit that the driver could instantly realize the situation caused by disconnection of the indicator and could have halted the vehicle without causing extensive damage due to extensive heat occurring in the engine.

3.4 Apparent Fraudulent Transactions

A Fixed rate of 01 per cent is recovered from the tax payer while giving a number for rates and taxes for a property within the authoritative area of the Sabha or while making revisions and a receipt and a daily report (Schedule) will be is to the issued tax payer on this occasion. A total sum of Rs.2,313,541 had not been credited to the funds of the Sabha in this connection due to irregular activities and it was observed in audit that misappropriation of funds, fraudulent issue of receipts, and misplacement of original receipts of cash had attributed to the loss.

3.5 Uneconomic Transactions

The lessees relating to the tenders called for with regard to the stalls bearing No. 06 and No. 07 had neglected to pay the minimum amount payable by them. As a result, tenders had been called for, by spending Rs.41,328 on 05 December 2013. But, before calling for tenders, two applicants had furnished letters for the lease of stall No. 06 and stall No. 07 for Rs. 2,001,000 and Rs. 2,002,250 respectively. Subsequently, the tenders had been awarded to them. Accordingly, the amount spent on tenders had become fruitless.

3.6 Contract Administration

The following observations are made.

(a) Access Road to the Katugasella Water Reservoir Stages I and II

Agreements had been entered into with 02 approved societies for Rs.699,410 on 30 J99,410 on 30 June 2015 and for Rs.1,635,249 on 11 June 2015 for stage I of the above work. A total estimate had not been prepared for the entire project.

(i) According to the field inspection carried out with the technical officer of the Sabha on 14 September 2015, progress was not observed with regard to the contract except for the heap of soil spread on the road. The agreed period of the 2nd stage had elapsed by the date of field inspection. Meanwhile, although the agreed period of the 1st stage was about to be reached, satisfactory progress had not been observed in the construction work.

(b) Construction of Sripada Mawatha – Ekamuthu Death Donation Society Building

(i) The Municipal Council had entered into 04 agreements with a Samurdhi Society on various occasions under stage 04 during the months of September, November and December of 2014 for Rs.4,307,564. A further agreement for Rs.1,506,529 was proposed to be entered into for the 5th stage. Meanwhile, a total cost estimate had not been prepared for the said project. Further, feasibility studies had not been carried out for this project. Further, action had been taken without considering the letter No. FC/SABP/M/2/2015 of 27 March 2015 addressed to the Chief Secretary of the Sabragamuwa Provincial Council by the Secretary of the Financial Commission on 27 March 2015 stating that constructions of less than Rs.25 million should not be carried out in stages.

(ii) It was observed at an on the spot inspection carried out with the technical officer on 18 June 2015 and 14 September 2015 that constructions had been carried out contravening the approved plan. Further, it was revealed that the work of the basement of the building had been completed in March 2016 and a specific date could not be fixed for completion of the project. It was observed that the project may extend long.

4. Accountability and Good Governance

4.1 Budgetary Control

The following observations are made.

- (a) The entire provision of Rs.2,950,000 of 41 objects had not been used for any purpose.
- (b) As a result of not incurring any expenditure from the original provision of 25 objects, 7 to 100 percent of the provision of those objects had been transferred to other objects.
- (c) The Finance working Committee had granted approval to transfer o2 provisions between objects on 14 October 2015 and 30 December 2015 respectively. However, expenditure in excess of the provision amounting to Rs.18,128,219 had been incurred on 25 objects before those dates.
- (d) The revenue estimated as per budget of 2015 amounted to Rs.63,582,900. This had been written off by a decision made by the Council on 19 November 2015. The expenditure relating to the said revenue had also been written off.

4.2 Corporate Plan and Action Plan

Action had not been taken to prepare a corporate plan for a minimum period of 03 years and a future action plan to comply with the said plan.

4.3 Annual Procurement Plan

An annual procurement plan had not been prepared and action taken accordingly.

4.4 Internal Audit

Although an internal audit unit had been established, action had not been taken to afford facilities and set it into operation.

4.5 Implementation of Audit and Management Committees

Action had not been taken to establish Audit and Management Committees and set it into operation.

4.6 Unresolved and Ureplied Audit Queries

Replies had not been furnished for 34 audit quantifiable with a computable value of Rs.329,341,255, as at 31 December 2015.

5. Systems and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contract Administration