

**Maharagama Urban Council**  
**Colombo District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Amended financial statements for the year 2016 had been submitted on 23 August 2017 while financial statements for the preceding year had been submitted on 29 March 2016. The report of the Auditor General for the year 2016 was issued to the secretary on 20 October 2017.

**1.2 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Maharagama Urban Council as at 31 December 2016 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**

Provisions for Audit fees aggregating Rs. 3,647,197 payable for the years 2014 and 2015 had been made twice while the provisions for the current year had not been made.

**1.3.2 Non Reconciled Control Accounts**

A sum of Rs. 98,011,154 relating to five items of accounts had been overstated in the financial statements.

**1.3.3 Lack of Evidence for Audit**

Written evidence relating to 14 items of accounts of deposits, advances and receivables valued at Rs. 107,277,500 had not been furnished to audit and as a result accuracy of those balances could not get confirmed.

**1.3.4 Non-Settled Balances**

The following observations are made.

(a) A sum of Rs. 550,386 remained unsettled for a long period of time had been included in the total recoverable amount of staff loans amounting to Rs. 32,352,659. This balance should be recovered from 56 employees who vacated post, transferred and deceased. However actions had not been taken to recover the said balance during the year under review.

(b) A sum of Rs. 27,446 had been debited to a return cheques account without taking action to recover or re-account under debtors after identifying return cheques.

**1.3.5 Non Disclosures in the Accounts**

Eight cases had filed by the institute against external parties in the current year and a sum of Rs. 43,380 should be recovered from 3 cases. Nevertheless it had not been disclosed in the financial statements.

### 1.3.6 Non-Compliance of Laws Rules and Regulations

The following non-compliances of laws rules and regulations were observed.

#### Reference to Laws Rules and Regulations

#### Non-compliance

- (a) Sub-section 165 C of the chapter 255 of the Urban Council Ordinance

In the event that a land located within the jurisdiction of an urban council, is auctioned or sold by either 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 12 sales of land taken place during the year under review the council had recovered one per cent or Rs. 4,489,621 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 differences.

#### **(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

- (i) FR 133(1),(2) and  
FR 134(1),(2) and (3)

Internal audit section had not operated as to be fulfilled its objectives and activities.

- (ii) FR 188(2)

Actions had not been taken to settle a sum of Rs. 9,325 which the value of an unrealized cheque and 3 unrealized money orders.

- (iii) FR 371

Although the advances issued should be settled as soon as the specific purpose is completed advances issued to the officers of the council had been settled in a delay of period ranging from 27 days to 356 days.

- (iv) FR 396 (d)

Actions had not been taken in connection with 49 cheques valued at Rs.162,909 issued but not presented over 6 months

## 2. Financial Review

### 2.1 Financial Results

- (a) According to the financial statements presented the revenue for the year ended 31 December 2016, in excess of the in the recurrent expenditure of the council amounted to Rs. 192,729,139 whilst the revenue in excess of the recurrent expenditure of the previous year amounted to Rs. 88,994,545. However increase of miscellaneous income and grant income had been effected to the increase of the financial results of Rs. 103,734,594 for the year under review



### 2.3.2 Rates

The following observations are made.

- (a) Out of the Cumulative arrears of rates amounted to Rs. 62,556,325 as at 1 January 2016 a sum of Rs. 32,656,885 had been recovered during the year under review and a some of Rs. 29,899,440 representing 48 per cent had not been recovered.
- (b) The estimated income of rates and taxes for the year under review was Rs.81,979,717 and only a sum of Rs. 54,311,924 had been recovered during the year. How ever a sum of Rs. 22,667,793 representing 44 per cent of the estimated income had not been recovered.
- (c) An arrerars income of rates amounting to Rs. 1,944,960 relating to the unit of rates identified as only rate numbers but not remained physically had been recommended to forward to the approval of the minister in charge of the local government to write off. However this approval had not been obtained even up to the end of the year under review.
- (d) Properties had not been assessed in every 5 years and rates had not been recovered accordingly. As a result bills of rates had been issued for the properties which had not remained physically.
- (e) The rates in arrears amounting to Rs. 60,045,125 as at 31 December 2016 comprised with 12 units of rates in arrears of more than Rs. 1,000,000. The balance of the rates recoverable there from amounted to Rs. 2,774,244.

### 2.3.3 Lease Rent

The following observations are made.

- (a) A total of 413 stalls including 405 stalls and 8 Meat Stalls were owned by the council and a sum of Rs. 7,399,266 had been remained unsettle as at 31 December 2016 from 168 stalls and 8 meat stalls. Actions had not been taken to cancel the agreements and recover a sum of Rs. 7,170,073 receivable from 98 stalls as rent arrears from 6 to 85 months.
- (b) Although the bill value of the stall rent for the year under review was Rs. 13,534,365, only a sum of Rs. 9,621,402 had been received therefor a sum of Rs. 3,912,963 representing 29 per cent had been remained unsettle.
- (c) Stall rent amounting to Rs. 12,143,405 had been written off without taking actions to recover.
- (d) 37 stalls had been closed at Maharagama weekly fair and bills of rates had not been issued for a long period for 9 stalls without taking action to take over the stalls to the council as per the agreement.

- (e) The council should take actions to renew agreements after a lapse of 5 years from the date it had signed. However, actions had not been taken to re-assess the rent and renew agreements over 10 years.
- (f) A proper mechanism had not been implemented by the council relating to lease properties to identify actions such as sub-lease, rent or using as partnership.

### **3. Operating Review**

#### **3.1 Operating Inefficiencies**

The following observations are made.

- (a) Although two tractors and a trailer vested to the National Housing Authority had been received by the council from the Homagama Pradeshiya Sabha in the year 2002. Those vehicles had not been assessed and the ownership had not been transferred to the council. However, one tractor is condemned and actions could not be taken to remove the tractor because the ownership had not been transferred. As a result the tractor had been remained idle.
- (b) A damaged trailer had not been repaired even after the end of the year and the insurance claim agreed to pay amounting to Rs. 20,000 had not been recovered even up to 22 June 2017.

#### **3.2 Identified Losses**

The following observations are made

- (a) A count of 231 library books valued at Rs. 59,854 had not been handed over to the library by 137 members from the year 2010 to 2015.
- (b) A total sum of Rs. 214,012 receivable from 14 deceased officers as staff loans from the year 1988 to 2010 had not been recovered.

#### **3.3 Un-Economic Transactions**

The following observations are made.

- (a) According to the agreements entered into with two private companies for sanitary service of the premises of the weekly fair at Maharagama, a sum of Rs. 4,258,358 had been paid for the year 2016. However, tax income from the fair for the period was Rs. 2,763,495 only.
- (b) In order to keep prevail prices in a stable condition throughout the year suppliers should be registered at the beginning of the year. Due to the failure of the council to take actions accordingly a sum of Rs. 435,000 had to be paid in excess for purchasing 3000 bulbs in July 2016.
- (c) A sum of Rs. 12,350 had been paid in excess of the minimum price recommended by the evaluation committee for purchasing electric equipment from the same institution.

### 3.4 **Contract Administration**

The following observations are made.

#### **(a) Project Performance**

- (i) Agreements had been entered into in respect of 392 projects valued at Rs.295,710,779 being implemented within the jurisdiction of the council in the year under review and a sum of Rs.253,433,099 had been spent for 358 projects completed and incompleted 16 projects whilst 18 projects had been canceled.
- (ii) Out of the total provision made for the construction of roads and drains, repairs and maintenance, the remained sum without incurring was in a range from 0.02 to 100.
- (iii) Out of requests for repairing roads 18 requests had not been fulfilled.

#### **(b) Awarding Contracts**

Out of the total contracts awarded during the current year 98 per cent had been awarded to community based organizations by the council. 100 contracts valued in a range of Rs. 1,000,000-2,000,000 such as construction of building, laying carpet on roads and road developments had been included in those contracts. However, evidence had not been furnished to confirm that those organizations had fulfilled the requirements of section 3.9.1 of the procurement guideline.

#### **(c) Development of the Papiliyana Play Ground**

The following observations are made.

- (i) A sum of Rs. 7,000,000 had been provided by the local government fund in the year 2012 for the development of the Papiliyana Play Ground. Further, at the end of the year 2016 4 other contracts had been awarded for an estimated value of Rs. 5,414,900 by the council fund. Accordingly, the estimated value was Rs. 112,414,900 and out of that, a sum of Rs. 9,685,238 had been incurred at the end of the current year. Development of the playground had not been completed at the end of the year under review.
- (ii) The initial estimate of Rs. 7,000,000 and a sum of Rs. 227,430 had been paid to the consultancy company for preparing plans, and it had been agreed to supply the service for supervision and consultancy until the development is completed. However, the company had not supplied their service for supervision and hence the engineer of the kaduwela urban council had done the supervision.

- (iii) Instead of preparing estimates for the constructions after testing soil of the land estimate had been prepared by focusing amount of Rs. 7,000,000. As a result a sum of Rs. 4,132,937 had to be incurred for activities which had not included in the estimate.
- (iv) Although the cost for removing the roof in the initial estimate was Rs. 50,000, according to the bill a sum of Rs. 55,000 had been paid. Thus a sum of Rs. 5,000 had been overpaid.
- (v) Instead of submitting the total estimate for the constructions of the building, the estimate valued at Rs. 12,414,900 had been awarded to 3 contractors as 5 phases.
- (vi) Although the estimated amount for fixing the roof was Rs. 1,499,900, the selected contractor had made his offer as Rs. 1,488,360. However, the contract had been awarded to the estimated amount in excess of Rs. 11,540. Moreover signatures of the documents furnished had been erased and changed by using Tip-ex
- (vii) Although the removing and fixing cost of the roof was Rs. 672,485 as per the initial estimate, it had been increased by 44.84 per cent or Rs. 1,488,360 in the new estimate. Further it had been furnished as the entire amount instead of separating under work items. However the newly fixed roof had been blown away in the first half year of 2016 due to climate changes.
- (viii) The contracts for fixing aluminium windows valued at Rs. 1,300,000 had been awarded on 3 February 2016 to an organization than the decided organization by the contract awarding committee.

**(d) Construction of Stalls for Selling Coconut in Weekly Fair – Rs.7,300,349**

Out of the estimated activities of the construction of stalls 27 activities valued at Rs. 2,153,676 had not been done and a lot of issues had been found after the construction of stalls.

**(e) Construction of Community Hall at Jayagath Road, Nawinna**

The community hall of Nawinna Jayagath Road had been converted to a pre-School under 6 phases by incurring Rs. 6,427,965 and it had been opened to the public on march 2015. However, it had not been utilized for any fruitful purpose. Further the upper floor of the building had not been constructed and the concrete slab had been exposed to variant weather conditions. Therefor water had leaked into walls and there were some cracks and fungus on the walls.

**(f) Janitorial Service of the Maharagama Weekly Fair**

The following observations are made regarding the contract awarded to two private companies for the janitorial service of the Maharagama Weekly fair.

- I. Although one agreement had been closed on 31 March 2016, a sum of Rs. 2,894,436 had been paid to the said company for the service rendered until 15 September 2016. However the period of the agreement had not been extended or new agreement had not been signed.
- II. According to the agreement garbage should be transported 13 times in a month and a sum of Rs. 6,000 per instance should be paid for additional service. In addition to the scheduled 13 instances a sum of Rs. 507,922 had been paid for 83 instances relating to the period of January to May on December 2016. Thus Garbage had been transported in excess of 16 instances for a month.
- III. An Agreement had been signed with another company for Janitorial Service of the weekly fair for the period from 15 September 2016 to 14 September 2017 and it had been agreed to pay Rs. 214,000 for a month for 13 instances. However, the company stated in above (1) had used a tipper and the other company had used a tractor for transporting garbage. The capacity of two vehicles had not been considered when the agreement was signed.

### **3.5 Management In-Efficiencies**

The Following observations are made.

- (a) A building had been purchased by the council at cost of Rs. 1,200,000 stating that the purpose was to establish a library in the year 2006. However, a library had not been established even up to 2017 and it had been remained idle for a period of 11 years.
- (b) An inventory for the roads which belongs to the Maharagama Urban Council had not been maintained.
- (c) A number of 3 vehicles which included in vehicle register, had not been included in board of survey reports, thus the said report was inaccurate.
- (d) Actions had not been taken to remove stocks which had been unutilized for a number of years and a count of 198 types of items were found amongst the said stock.
- (e) According to the board of survey report as at 31 December 2016 Inventory Register had not been maintained by the sections such as the Garage, Health Sector, Road Sector and Public Market at Maharagama and Kottawa.

### **3.6 Garbage Management**

- (a) According to the new agreement entered into between the waste management authority and Maharagama Urban Council for the period from 1 August 2016 to 31 July 2018 fees for garbage disposal had been raised. By applying the new rate a sum of Rs.5,611,818 had been overpaid for the period from March 2016 to June 2016.



- (b) A proper plan for Waste Management had not been prepared by the Council. The separated garbage of the areas belong to the Urban Council was 1,767 metric tons and mixed garbage was 29,912 Metric Tons during the year 2016. Garbage collecting had not been managed properly. Hence 94 per cent of the total garbage had been disposed as mixed garbage. As a result a sum of Rs. 22,434,000 had to be over paid for mixed garbage during the year under review.

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

##### **4.1 Budgetary Controls**

The following observations are made

- (a) Even after transferring provisions between the heads of revenue and expenditure in the year 17 instances in which variations ranging from 4.63 per cent to 77.65 per cent were observed between the budget and the actual revenue and expenditure, thus observing that the budget had not been made use of as an effective instrument of control.
- (b) Although the estimated capital provisions for the year 2016 was Rs. 107,002,000, actual provision was Rs. 39,788,420 or a percentage of 37.2.
- (c) Out of the expenditure amounting to Rs. 53,434,500 budgeted for 114 items of expenditure no expenditure whatsoever had been incurred in the year under review.
- (d) Out of the revenue amounting to Rs. 38,888,000 budgeted for 11 items of revenue no revenue whatsoever had been collected in the year under review.

##### **4.2 Action Plan**

The Annual action plan for the year 2016 had not been furnished to audit.

##### **4.3 Annual Performance Reports**

Annual Performance Reports had not been prepared properly.

#### **5. Systems and Controls**

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

- (a) Accounting
- (b) Administration of Revenue
- (c) Control of Budget
- (d) Control of fixed assets and stock
- (e) Control of debtors and creditors
- (f) Internal Audit