

Boralesgamuwa Urban Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 30 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 07 September 2018.

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 of the Boralesgamuwa Urban Council give a true and fair view of the financial position as at 31 December 2017 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) Cash basis and accrual basis had been adopted to account the stamp fees of Rs.60,440,955 of the year under review and as such the stamp fees revenue had been overstated.
- (b) The salaries of Rs.4,646,537 not reimbursed as at 31 December 2016 had been reimbursed in January 2017. However, it had not been credited to the Salaries Reimbursable Debtors Account. Instead, it had been credited to the Revenue Aid Account. As such, the balances of Salaries Reimbursable Debtors Account and the Revenue Aid Account had been overstated.
- (c) The sewing machines valued at Rs.325,000 purchased in 2017 under the Poverty Allevation Project had been brought to account as Furniture and Office Equipment. As such, the Furniture and Office Equipment Account had been overstated by a similar amount.
- (d) The value of five vehicles received as donations and purchases during 1999 to 2014 had not been assessed and brought to account.

1.3.2 Accounts Receivable

- (a) Action had not been taken even during the year under review to recover the revenue licence fees of Rs.56,700 which continues from 2011.
- (b) Action had not been taken to settle the balance of prepayments of Rs.16,905 which continues from 2006.
- (c) The advance of Rs.12,000 obtained to repair three wheelers in 2018 had not been correctly brought to account. As such, this remained as an unsettled balance under the advances pre paid.

1.3.3 Lack of necessary documentary Evidence

The schedules and receipts for deposits totalling Rs.86,850 in 02 accounts, namely, contingent liabilities and advances prepaid (fuel deposits) had not been furnished and as such these could not be satisfactorily vouched in audit.

1.3.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
	Rs.	
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) F.R 110	-	A register of losses and damages had not been maintained.
(ii) F.R.396(d)	55,712	Action had not been taken regarding 03 cheques issued, but not presented for payments for over 06 months.
(iii) F.R 571	59,465	Action had not been taken regarding deposits over 02 years.

- (iv) F.R.751 and instructions regarding stores goods appearing in the Municipal Councils Accounts Code - Stock books had not been maintained for stores goods of the Council and the goods issued had not been entered in registers.
- (v) F.RR 880,881,891(1) and Chapter 612 of the Government Officers' Security Ordinance - Security Deposits had not been obtained from many officers who were required to furnish them and a register of security deposits had also been not maintained.
- (vi) F.R. 1645 - Daily running charts had not been properly maintained by entering times and distances.
- (vii) F.R.1645(a) - Vehicle log books had not been properly maintained by entering removal of tyres, tubes, change of batteries repairs and accidents.
- (viii) F.R.1646 - Running charts of 11 vehicles of the Council had not been furnished to the Auditor General.
- (ix) F.R.1653 - Milometers of 09 vehicles of the Council remained inoperative for a long time.
- (b) Paragraph 3.1 of the Public Administration Circular No. 30/2016 of 29 December 2016 - Consumption of fuel by 28 vehicles of the Council had not been tested.
- (c) Paragraph 3.3 of the State Accounts Circular No.01/2012 of 05 January 2012 - Community based organizations should not be engaged in more than 03 contracts. But, contracts had been awarded in contravention.
- (d) Accounts Code of the Municipal Councils and Urban Councils. - The register of fixed assets had not been updated.

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 2017 amounted to Rs.67,215,767 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.28,029,078.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	26,700	24,829	28,726	13,973	26,451	27,807	19,623	17,350
Rent	1,426	935	1,017	254	1,427	1,571	1,204	287
Licence Fees	512	377	377	-	463	401	338	63
Other Revenue	47,027	2,060	48,058	276	36,082	42,585	41,249	1,336

2.2.2 Rates and Taxes

The following matters were observed.

- (a) The rates billed for the year amounted to Rs.24,828,615. However, the Council had not taken action to recover 41.59 per cent of it amounting to Rs.10,326,983 during the year.
- (b) The outstanding balances of rates and taxes as at 31 December 2017 amounted to Rs.13,973,104 of which a sum of Rs.722,996 pertaining to 10 units of rates over Rs.50,000 remained as recoverable.
- (c) The approval of the Minister in charge of the subject had not been obtained to write off the outstanding balance of Rs.193,407 which could not be recovered.
- (d) The balance of rates as at 31 December 2016 amounted to Rs.17,349,832 of which Rs.16,918,396 only had been recovered during the year under review leaving an arrears of Rs.431,436.

2.2.3 Rent

- (a) The stall revenue billed for the year under review amounted to Rs.935,100 of which 85.5 per cent amounting to Rs.799,763 only had been recovered during the year.
- (b) Lease rent from 26 stalls of the Council amounting to Rs.189,064 had not been recovered during the year under review.
- (c) Arrears of rent of 76,292 due from 02 stalls sealed during 2011 could not be recovered. Action had not been taken to call for tenders to give them on lease and as such the Council had been deprived of revenue that it could have earned.
- (d) The outstanding balance of stall rent as at 01 January 2017 amounted to Rs.287,328. The Council had failed to recover Rs.104,399 out of it even during the year under review.

2.2.4 Licence Fees

- (a) Action had not been taken to recover business and industrial tax of Rs.197,800 from 157 trade institutions for the year under review.
- (b) The outstanding business tax of Rs.36,000 for the period 2012 to 2015 had not been recovered even during the year under review.

2.2.5 Stamp Fees

- (a) The estimated stamp fees revenue for the year under review amounted to Rs.30,000,000. However, there were no receipts.
- (b) Action had not been taken to obtain stamp fees Rs.3,655,100 due from the Colombo Land Registry by examining the lapses included in the letter of 24 October 2017. As such, the Council had been deprived of that revenue.

3. Operating Review

3.1 Performance

- (a) It was observed that the rates adopted for an identical item for carpetting roads and renovations to bye roads differed from each other while preparing the estimates for the project.
- (b) Reference notes had not been made relating to the building scheduled rates (BSR) and the highways scheduled rates (HSR) while preparing estimates for road constructions and for constructing the drainage systems.
- (c) Fourteen projects valued at Rs.12,048,526 to be executed from the funds of the Council should have been completed and handed over by 31 December 2017. But, the commencement of work had been delayed.
- (d) The work of six out of 21 projects executed from the funds of the Council had not commenced even by 20 April 2018.

3.2 Management Inefficiencies

- (a) The number of tons of segregated garbage and the number of tons of garbage which had not been segregated during the year 2017 were 493.62 and 9,653.27 tons respectively. These had been handed over to the Karadiyana Garbage sector. The percentage of segregated garbage was 5.1 of the garbage which had not been segregated.
- (b) The segregation of garbage was not in a best level and the collection of garbage had not been properly managed and as such the Council had to pay Rs.7,239,952 in excess.
- (c) Although a sum of Rs.150,000 had been provided for the disposal of garbage programme, a sum of Rs.79,490 had been saved.

3.3 Human Resources Management

The information relating to the cadre of the Council as at 31 December 2017 appear below.

Category of Employees	Approved Cadre	Actual Cadre	Vacancies	Excess
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Senior Level	03	01	02	-
Tertiary Level	01	01	-	-
Secondary Level	34	30	04	-
Primary Level	111	106	05	-
Others				
Aruna Udana	03	02	01	-
Substitute	-	02	-	02
Labourers				
Total	152	142	12	02
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The following observations are made.

- (a) The Council had failed to fill 12 vacancies as at end of the year under review. Meanwhile, 02 substitute labourers were in excess.
- (b) The activities of the Council could not be efficiently and effectively carried out as there were 02 vacancies in the posts of Senior Level.
- (c) The balance of arrears of employees' loans as at 31 December 2017 amounted to Rs.12,535,231. Of these the follow up action taken regarding recovery of loan balances of Rs.113,891 from 07 employees for the period 2009 to 2016 was at a weak level.
- (d) Action had not been taken to settle the loan balances of Rs.349,923 granted to 06 officers who had gone on transfers during the period 2009 to 2017.

3.4 Operating Inefficiencies

- (a) The street lamp complaints register had not been updated and as such the usefulness of follow up action on complaints made could not be checked.
- (b) Properties should be assessed every 05 years and rates recovered accordingly. However, rates had not been assessed after 2009 and as such the Council had not paid attention regarding the necessity to re-assess the new rates.

- (c) Although business activities were in progress at stall No.23 of the Public Market, action had not been taken to prepare bills for the period 2014 to 2017 and to collect revenue.

3.5 Assets Management

3.5.1 Assets not Acquired

Action had not been taken by the Council to acquire the crew cab valued at Rs.3,232,282, the motor grader valued at Rs.24,928,666, the becko machine valued at Rs.17,649,179 and the vibrate roll valued at Rs.7,967,144 granted to the Council by the Ministry of Public Administration, Provincial Councils, Local Government and Democratic Administration.

3.5.2 Idle/Under utilized Assets

Action had not been taken to dispose of 02 vehicles which were beyond usage for many years .

3.5.3 Annual Board of Survey

A board of survey report including stock of goods valued at Rs.654,438 as appearing in the financial statements of 2017 had not been furnished.

4. Accountabilty and Good Governance

4.1 Budgetary Control

- (a) In spite of the transfer of provisions among the items of revenue and expenditure during the year, 16 instances were observed where there were variations of 2.98 to 812.11 per cent in the revenue and expenditure . Thus it was observed that the budget had not been utilized as an efficient instrument of management control.
- (b) The entire provision of Rs.8,546,000 provided for 31 Objects had been saved as a result of not acting in accordance with Financial Regulation 50 while preparing the budget.
- (c) The savings in 16 Objects after utilization of the provision ranged from 37 per cent to 98 per cent due to over provision.

4.2 Internal Audit

The activities of the internal audit branch had not been properly organized and the copies of internal audit reports had not been furnished to the Auditor General.

4.3 Audit and Management Committees

A minimum of one meeting per quarter should be held by the Audit and Management Committee as per Circular No.DMA/2009(1) of the Department of Management Audit. However, 02 meetings alone had been held during 2017.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the chairman from time to time. Special attention is needed in respect of the following areas of control.

System	Deficiency
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(a) Accounting	(i) Omissions in accounts (ii) Understatements and overstatements in accounts
(b) Revenue Administration	(i) Non recovery of arrears of revenue. (ii) Tax assessments not being done on the due dates.
(c) Contract Administration	Estimates not being properly prepared.
(d) Budgetary Control	(i) Non preparation of realistic revenue estimates. (ii) Extensive variations in items of revenue and expenditure.
(e) Debtors and Creditors Control	Non settlement of balances.
(f) Management of Employees' Loans	Lack of systematic recovery of loan balances.
(g) Stock Control	Stock register not updated.
(h) Fixed Assets Control	(i) Idle Assets (ii) Fixed assets not being brought to account.