

## Maharagama Urban Council

### Colombo District

#### 1. Financial Statements

##### 1.1 Presentation of Financial Statements

The financial statements for the year 2019 had been presented for audit on 10 March 2020 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 13 August 2020 and on 21 August 2020.

##### 1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown under the basis for qualified opinion of this report, the financial statements of the Maharagama Urban Council give a true and fair view of the financial position as at 31 December 2019 and its financial performance for the year ended in accordance with Generally Accepted Accounting Principles.

##### 1.3 Basis for Qualified Opinion

###### (a) Accounting Deficiencies

	<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(i)	Interest received from nine fixed deposit had been accounted after deduction of With Holding Tax amounting Rs.580,974.	Withholding tax are not deductible for government institutes.	Accept. The Bank of Ceylon and the National Savings Bank have been informed by letters requesting to return the withholding tax.
(ii)	Due to incorrect calculation of interest on fixed deposit according to the maturity date, it had accounted less by Rs.111,414 for the year 2018, and Rs.4,112,911 more for the Current year and Rs.3,427,672 as receivable interest.	The interest should be calculated correctly according to the maturity date of the fixed deposit	Accept. The Fixed Deposit Investment Account for the year 2019 and the Receivable Fixed Deposit Interest Account had been prepared using the required notes.
(iii)	Two compactors valued at Rs.29,384,000 were obtained from Department of Local Government on the basis of charging to stamp	Should be correctly accounted.	Accept. It is noted to correct in the Final Account for the year 2020.

duty, in the year 2018. Due to not correcting Capital expenditure of Rs.7,108,250 in the year 2019, were not the balances of the recoverable utility service account and the Provincial council loan account were shown in excess by that value.

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| (iv) | Staff security deposits of Rs.35,000 refunded had not been recorded in the account of investment interest account.  | Should be correctly accounted.  | Accept. It is noted to correct in the Final Account for the year 2020. |
| (v)  | Instead of finding reasons for differences in the opening balances in the schedules and ledger accounts and adjusting the accounts accordingly, Rs.3,144,480 had been credited to the accounts through journal entries in five occasions. | The balances in the schedules and ledger accounts should be compared and corrected. | No Comments.   |

**(b) Unreconciled Accounts**

----- <b>Audit Observation</b> -----	----- <b>Recommendation</b> -----	----- <b>Comments of the Accounting Officer</b> -----	
(i)	Balance relating to nine items of account were in excess by Rs.7,654,906 and less by Rs.295,806 in the financial statements when compared with the balances in the supporting documents/reports of the financial statements.	Action should be taken to reconcile the differences in the related balances and to rectify accounts.	Noted some of the identified changes to be corrected in 2020.
(ii)	Although the balance of the Urban Development Fund investment account is Rs.30,118,276, the balance of that deposit account was Rs.36,979,385 and a difference of Rs.6,861,109 was observed.	Action should be taken to reconcile the differences in the balances and to rectify accounts.	No comments.
(iii)	According to the register of business tax as at 1 January 2019 amounted the arrears was Rs.201,685 and according to the financial statement business tax arrears was Rs.534,685. So, a difference of Rs.333,000 was observed.	Action should be taken to reconcile the differences in the balances and to rectify accounts.	No comments.

(c) **Accounts Receivable**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
Nine cheques valued at Rs.311,581 had been dishonored for the period from 2010 to 2019, but Action had not be taken to recover that amount.	Action should be taken to recover the amount.	Accept. Action will be taken to recover.

(d) **Lack of Necessary Documentary Evidence for Audit**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
Required schedules had not been submitted for audit relating to nine items of accounts aggregating Rs.122,216,801.	Schedule or necessary information should be submitted to confirm the balances.	No comments.

**1.4 Non-compliance**  
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**1.4.1 Non-compliance with Laws, Rules, Regulations and Management Decisions**  
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Instances of Non-compliance with laws, rules, regulations and management decisions appear below.

<b>Reference to Laws, Rules Regulations and Management Decisions</b> -----	<b>Non-compliance</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka  ----- Chapter XXIV, Sections 4.4 and 4.5	When the staff loan could not be recovered, it should be recover from the guarantors or pension gratuity. But action had not been taken to recover	Action should be taken in accordance with the Chapter XXIV and section 4.4 and 4.5.	Accept. Action had been taken to recover the loans.

Rs.574,983 recoverable from the 18 officers.

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

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F.R.371(2)(c) and (5)

Although the sub-impressts obtained should be settled immediately upon completion of the relevant work, there were 10 instances where advances of Rs.225,000 were settled with a delay of 32 to 281.

Should be act in accordance with the FR 371(2)(c) and (5).

Accept. Noted to avoid delays in the future.

## 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 2019 amounted to Rs.416,367,303 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.62,788,166.

### 2.2 Financial Control

#### Audit Observation

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The amount of Rs. 2,052,258 in a current account which was closed in August 2015, had been shown in the accounts for the year under review.

#### Recommendation

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Action should be taken to settle.

#### Comments of the Accounting Officer

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The report prepared after the investigation has been forwarded to the office of the Assistant Commissioner of Local Government. Once the problem is resolved, the account will be adjusted.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue

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

Source of Revenue	2019				2018			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	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	111,112	101,109	105,690	57,384	102,506	109,778	109,821	61,387
Rent	28,095	23,263	27,719	4,722	21,167	26,334	25,012	4,487
Licence Fees	1,904	-	1,783	-	1,203	-	1,602	-
Other Revenue	332,528	-	280,722	-	260,565	-	31,834	-
	<b>473,639</b>	<b>124,372</b>	<b>415,914</b>	<b>62,106</b>	<b>385,441</b>	<b>136,112</b>	<b>168,269</b>	<b>65,874</b>

### 2.3.2 Rates and Taxes

#### Audit Observation

For the year under review billed revenue was Rs.91,296,836 and the Council had failed to recover Rs.31,044,560 or 23 per cent.

#### Recommendation

Prompt action should be taken to recover the rates and tax amount.

#### Comments of the Accounting Officer

Out of the billed revenue in 2019 76.74 per cent had been recovered 50.93 per cent of the arrears in 2018 and 2019 had been recovered.

### 2.3.3 Rent

#### Audit Observation

The Council had failed to recover Rs.4,722,410 due from 155 trade stalls as at 31 December 2019.

#### Recommendation

Action should be taken to recover arrears of rents.

#### Comments of the Accounting Officer

No comments.

### 3. Operating Review

#### 3.1 Performance

The following are the observations made relating to the regulation and control of matters of public health, public utility services and public roads, and the performance of the duties which were to be performed by the Council for the welfare and convenience of the people under Section 4 of the Urban Council Ordinance.

##### (a) Abandoned Activities

	<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(i)	Out of nine projects valued at Rs.6,566,468 to be implemented under the general fund 03 projects valued at Rs.540,000 had been implemented by the Divisional Secretariat and 02 projects valued at Rs.1,841,468 out of 04 projects valued at Rs.4,185,000 had been cancelled. Due to public protests and various other reasons.	Proper investigations should be carried out to resolve issues and implement the projects.	Six projects had not been implemented due to various problems.
(ii)	Out of 158 projects contracted to be implemented in 2019, fifteen projects valued at Rs.24,825,000 under the aid of the Provincial Council , Out of 64 projects contracted twenty five projects valued at Rs.14,595,000 under the aid of the Gamperaliya and Out of 8 projects contracted five Projects under the ‘ Sukitha City’ to be implemented had been cancelled.	Action should be taken to carried out the contracted projects.	The projects had been canceled by the Provincial Council and the Divisional Secretariat.

##### (b) Delays in Execution of Activities

	<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
	Out of 200 projects contracted to be implemented in 2019, ten projects valued at Rs.6,384,000 under the general fund had not been completed due to reasons such as; bad weather, delay in come to agreements and lack of provisions.	Action should be taken to complete the projects within the relevant period.	Accept. Implementation of projects until resolve were delayed the issues of public protests, border issues, legal issues, weather issues, etc.

(c) **Solid Waste Material Management**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Collection of garbage had not been properly managed and as such the Council had to over paid Rs.16,470,000 to the Waste Management Authority.	Garbage collection should be managed properly.	Accept. Awareness programs for the public have also been implemented in the area regarding garbage segregation

**3.3 Human Resources Management**

(a) **Vacancies of employee**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
By the end of the year under review, there were 24 vacancies	Action should be taken to fill the essential vacancies.	Recruitment is in progress.

(b) **Staff Loans**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(i) Loan balance totalling Rs.600,336 included, Rs.121,101 from seven officers who had left the service, Rs. 249,103 from 7 deceased person, Rs.34,639 from 3 retired person and Rs.195,493 from 2 transferred officers remained without been recovered during the year under review.	Action should be taken to recover the loans.	Accept. Checking the registers and correcting the shortcomings.
(ii) As at 31 December 2018, a debt balance of Rs.117,317 due from 5 officers had not been recovered and also had not been accounted for.	Action should be taken to recover the loans immediately.	Accept. Checking the registers and correcting the shortcomings.

### 3.4 Operating Inefficiencies

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) The Urban Council has the power to cancel the lease agreements, unilaterally whenever a lessee defaults payment for over six months. However, action had not been taken by the Council to cancel the rent agreements of trade of stalls which default the payment rent.	Should be complied with the condition of the rent agreements.	Accept Action will be taken to cancel the agreements of shop owners who have arrears of rent over 06 months.
(b) Although a total sum of Rs.24,554,972 including Rs.13,717,577 had been paid to the Urban Development Authority for the acquisition of the Navinna Stadium in the current year, it was not acquired by a deed even by 31 December 2019.	Action should be taken to acquire.	Accept. The Chairman has requested the Urban Development Authority to take necessary action to hand over the stadium as the payment has been settled by 22 January 2019.

### 3.5 Identified Losses

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) One hundred and forty eight library books valued at Rs.43,227 issued to 87 members during the period 2010 to 2019, had not been returned.	Action should be taken to get back library books or charged the loss from members.	Accept. Recommended to remove the books from the inventory by 31.12.2019 due to non-delivery of the letters sent to return the books.
(b) A vehicle of the Council had met with an accident on 03 November 2017, and the estimated value of the loss amounted to Rs.500,000 as per the preliminary report and it had not been disclosed in the financial statements.	Should be disclosed in Financial Statements.	No comments.



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| (c) Out of 11150 bulbs purchased from August 2018 to December 2019, 4928 bulbs which were burnt out before the expiry of the warranty period had been changed and further 761 bulbs had not been get replaced. | The service should be obtained before the warranty period expire. | Accept. Action will be taken to change.  |
| (d) A loss of Rs.91,988 was incurred as a resubmit of retendering one leased property for the second time, as the relevant information was not called for the tender evaluation.                               | Relevant information should be called for when calling tenders.   | Accept. According to a decision taken by the General Council on 17 January 2019, the tender had to be called for the second time.  |
| (e) Due to tendering shortcomings, the council had lost a revenue of Rs.1,100,000 relating to one leased property agreed on 01 December 2019.  | Arrangements should be made to lease out annually.                | Accept. Although the tender was opened on 28th December 2018 for leasing out for the year 2019, the General Council held on 17.01.2019 decided that this should be re-tendered and award it to the tenderer in the current year. |