

Ratnapura Municipal Council
Ratnapura District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2019 had been presented to audit on 28 February 2020 and the summary report and the Detailed Management Report of the Auditor General on the financial statements had been issued to the Mayor on 30 June 2020.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion Section of this report, the financial statements give a true and fair view of the financial position of the Ratnapura Municipal Council as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) A sum of Rs.13,244,244 relating to 6 works completed during the year under review had not been capitalized.	The respective works should be capitalized.	Noted down to adjust in the final account of the year 2020.
(b) Processing fees and unauthorized service charges amounting to Rs.9,723,276 received in the year under review and in the preceding years had been credited to the deposit account.	The revenue relating to the year should be identified correctly and brought to account.	Agreed with the audit observations and action will be taken thereon in future.
(c) The balance of shop rent receivable account had been overstated by Rs.8,075,932 as at end of the year under review.	The transactions relating to the year should be identified correctly and brought to account.	That will be rectified in the final accounts of the year 2020.
(d) Fixed deposit interest revenue relating to the year under review had been understated in the accounts by Rs.7,694,821.	The revenue collected during the year should be brought to account correctly.	That will be rectified in the final account of the year 2020.

(e)	Fixed assets totalling Rs.4,832,778 purchased during the year under review had not been capitalized.	Fixed assets purchased during the year should be capitalized.	That will be rectified in the final account of the year 2020.
(f)	The balance of the pre-payment money account had been overstated by Rs.2,500,000 in the statement of financial position.	The all transactions of the year should be brought to account correctly.	That will be rectified in the final account of the year 2020.
(g)	Capital revenue relating to the year under review had been overstated by Rs.1,937,392.	Capital revenue relating to the year should be correctly identified and brought to account.	Noted down to adjust in the final accounts of the year 2020.
(h)	Tax revenue relating to the year under review had been understated by Rs.1,919,400 in the accounts.	Revenue relating to the year should be identified correctly and brought to account.	Grant money will be credited to the revenue of the year.
(i)	Removals of motor vehicles and carts costing Rs.1,329,500 had not been brought to account.	Action should be taken to eliminate the cost of the assets which removed during the year from the assets account.	That will be rectified in the final account of the year 2020.
(j)	Refunds of revenue relating to the year under review amounting to Rs.1,058,820 had been adjusted to the accumulated fund.	Transactions relating to the year should be correctly identified and brought to account.	That will be rectified in the final account of the year 2020.
(k)	Revenue amounting to Rs.1,037,407 received during the year, had been posted twice in the cash book.	All transactions should be brought to account correctly.	That will be rectified in the final account of the year 2020.
(l)	Trade stall rent relating to the year had been understated by Rs.943,321.	Revenue relating to the year should be correctly identified and brought to account.	That will be rectified in the final account of the year 2020.
(m)	The balance of the gully bowser sinking fund account at the end of the year under review had been understated by Rs.621,372 .	Correct values relating to the transactions should be brought to account.	That will be rectified in the final account of the year 2020.

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| (n) | A sum of Rs.330,500 paid as planning committee allowances had not been brought to account as operating expenses and it was posted to the cash book twice. | Expenditure relating to the year should be correctly identified and brought to account. | That will be rectified in the final account of the year 2020. |
| (o) | When accounting of Value Added Tax relating to the year, the expenditure control account had been understated by Rs.108,863 and stock in hand account had been credited overstating by Rs.108,863. | The correct values should be brought to account. | That will be rectified in the final account of the year 2020. |
| (p) | A difference totalling Rs.44,310,830 was observed between the balances in the financial statements relating to 12 items of accounts and the balances according to the subsidiary registers and balance confirmations as at the end of the year under review. | The balances shown in the financial statements should be reconciled with the subsidiary registers. | That will be rectified in the final account of the year 2020. |
| (q) | A difference of Rs.21,986,287 was shown between the balances according to financial statements and the balances according to the summary of cash book relating to 04 bank accounts of the Sabha. | The values shown in the financial statements should be reconciled with the subsidiary registers. | That will be rectified in the final account of the year 2020. |

1.4 Non-compliances

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

The instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Recommendation	Comments of the Accounting Officer
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(a) Municipal Council Ordinance No.19 of 1987.			
(i) Section 42 (a)	Action had not been taken in respect of 14 unauthorized	Action should be taken in terms of the provisions of	According to the instructions obtained from the legal officer

	constructions.	the Municipal Council Ordinance.	in respect of removal of unauthorized constructions, action will be taken with the Urban Development Authority to remove those unauthorized constructions.
(ii) Section 127 (1) and (3)	Out of 122 development permits issued during the years 2017 and 2018 the confirmation certificates for 117 development permits had not been issued.	Action should be taken in terms of the provisions.	The confirmation certificate is issued, if the construction had been done according to the approved plan only. Action will be taken to inform the permit holders in respect of extending the period of permit, and to obtain confirmation certificate.
(b) Sections 10(5) and 10(6) of the Urban Development Authority Act No.01 of 1978.	Action had not been taken by the Council in respect of 109 development permits for which had not been extended the period though the valid period had ended.	Action should be taken in terms of the provisions.	Action will be taken to inform permit holders to extend the permit period.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 571	Action had not been taken in respect of lapsed deposits amounting to Rs.420,000 relating to the period from the year 2012 to the year 2017.	Action should be taken in terms of the Financial Regulation.	Action will be taken in terms of Financial Regulations.

(d) Public Administration
Circulars

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| (i) Paragraph 4.3 of the Circular No.30/2016 dated 29 December 2016. | Four vehicles had been repaired incurring Rs.804,816 during the year under review without obtaining a report of a qualified Mechanical Engineer. | Action should be taken in terms of the circular provisions. | Action has been taken in terms of the circular, at present. |
| (ii) Circular No.02/2018 dated 24 January 2018. | Performance agreements that should be signed for the staff annually had not been signed even by the end of the year under review. | Action should be taken in terms of the circular provisions. | The performance agreements for the year 2020 are being prepared. |
| (e) National Budget Circular No.02/2017 dated 25 July 2017. | Output indicators and main performance indicators relating to the output of the institutional role had not been identified. | Action should be taken in terms of the circular provisions. | Action will be taken in future. |
| (f) Local Government Circular No.2018/ e-Local Government 01 dated 19 July 2018. | The Council had failed to establish required facilities for providing opportunity to apply services through internet to the client. | Action should be taken in terms of the circular provisions and should provide required facilities to the client. | Action will be taken in 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.120,052,443 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.68,672,792.

2.2 Revenue Administration

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

The information relating to the estimated revenue, billed revenue, collected revenue and the arrears of revenue, furnished for the year under review and for the preceding year appears below.

Source of Revenue	Estimated Revenue	Billed Revenue	2019		Estimated Revenue	2018		Total arrears as at 31 December
			Collected Revenue	Total arrears as at 31 December		Billed Revenue	Collected Revenue	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	30,000,000	28,007,750	29,076,630	29,364,290	30,500,000	29,175,731	26,021,465	28,962,158
Lease Rent	84,047,258	72,078,670	72,505,841	37,220,063	68,398,946	66,152,480	63,173,522	28,362,641
Licence Fees	5,426,500	4,981,422	4,981,463	-	4,723,000	3,073,149	3,073,149	-
Other Revenue	<u>103,662,800</u>	<u>136,148,114</u>	<u>135,511,919</u>	<u>68,416,387</u>	<u>77,862,450</u>	<u>78,936,190</u>	<u>47,332,292</u>	<u>37,628,458</u>
	<u>223,136,558</u>	<u>241,215,956</u>	<u>242,075,853</u>	<u>135,000,740</u>	<u>181,484,396</u>	<u>177,337,550</u>	<u>139,600,428</u>	<u>94,953,257</u>

2.2.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) <u>Rates</u></p> <p>The balance of arrears of rates as at 31 December 2019 amounted to Rs.28,647,204 while the working of the Council to recover arrears of rates had been at a weak level. Further an age analysis in respect of the balance of the arrears of rates had not been furnished.</p>	<p>Prompt action should be taken to recover revenue receivable to the Council.</p>	<p>There is no possibility to obtain an age analysis of balances of arrears of rates through software which old 20 years utilized by the rates billing section.</p>
<p>(ii) Even though, all immovable properties in the authoritative area of the Council should be assessed once in 05 years for recover rates and taxes, the rates are being recovered as per the assessment of the year 1997. The implementation of the assessment made in the year 2005 had been delayed in 2 occasions by the General Meeting and the Finance Committee.</p>	<p>The properties for rates and taxes should be assessed once in 05 years.</p>	<p>After the several discussions made with the Department of Valuation from the middle of the year 2018, the Department of Valuation had commenced the assessment from 10 June 2019. After receiving the assessment reports, there will be a possibility to recover new rates.</p>
<p>(b) <u>Other Taxes</u></p> <p>Even though, the revenue from waste tax had been estimated in the budget of the preceding year and the year under</p>	<p>Action should be taken to impose by laws and to recover</p>	<p>Even though, the by law for waste tax had been prepared and referred to the Sabaragamuwa</p>

review as Rs.1,000,000 and taxes. Rs.2,500,000 respectively. Action had not been taken by the Council to implement the recovery of waste tax even by the end of the year under review.

Provincial Council for the approval, the approval had not been granted due to dissolution of the Provincial Council.

2.2.1 Lease Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Arrears of lease rent receivable by 31 December 2019 from 30 trading places of the public fair totalled Rs.1,948,215 and out of that a sum of Rs.1,049,375 had related for a period between 01 year and 03 years. Even though, it was decided to seal 20 trading places that decision had not been implemented.	Action should be taken in terms of the agreements and to recover arrears of lease rent.	Urban Works Department had been informed to make net covering required to seal of this trading places and further action will be expedited.
(b) Even though, it was decided to file cases against the lessees due to grant money of Rs.11,235,475 and trade stall rent of Rs.1,010,000 had been in arrear from the trade stalls of Gem Trading Complex, Demuwawatha, which leased out in the year 2015, that action had not been carried out.	Required legal action should be taken immediately to recover receivable revenue to the Council.	The files had been handed over to the legal officer to institute legal actions.

2.2.4 License Fees

Environmental Licences

Audit Observation	Recommendation	Comments of the Accounting Officer
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As action had not been taken in respect of non-obtaining of licences by 15 institutions which are required to obtain environmental licences and 44 lapsed licences which had not been renewed, a revenue of Rs.268,000 had been deprived of by the Council.	Required action should be taken to issue licences properly to all institutions who should obtain environmental licences.	Written notices had been made at this moment to above industries to obtain environmental licences and the notices will be sent to other industries which will be identified in the future. Legal action will be taken to the industries who has not paid response.

2.2.5 Other Revenue

Audit Observation	Recommendation	Comments of the Accounting Officer
----- A sum of Rs.2,960,100 recoverable from Sabaragamuwa Bus company relating to the period from the year 2009 to 2019 as entrance fees of the buses entered to main bus stand situated in the Ratnapura City had not been recovered even by the end of the year under review.	----- Action should be taken to recover revenue receivable.	----- The requests had been made to the Ministry of Transport and Civil Aviation through Provincial Council to recover above money.

2.2.6 Court Fines and Stamp Fees

Audit Observation	Recommendation	Comments of the Accounting Officer
----- The stamp fees receivable as at 31 December 2019 from the Chief Secretary of the Provincial Council and other authorities amounted to Rs.32,450,189.	----- Action should be taken to recover revenue receivable to the Council.	----- Stamp fees amounting to Rs.31,010,420 had been received during the year 2019.

3. Operating Review

3.1 Performance

The matters revealed in respect of the activities that should be carried out by the Council such as regularize and control over the matters of public health, public utility services, public roads and comfort, facilities and wellbeing of the people under Section 4 of the Municipal Council Ordinance are given below.

(a) Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
----- An annual action plan for the year under review had not been prepared.	----- An annual action plan should be prepared.	----- The action plan for the year 2020 has been prepared.

(b) Failure to achieve Expected Output Level

Audit Observation	Recommendation	Comments of the Accounting Officer
----- A sum of Rs.2,210,000 had been allocated in the annual budget 2019 for 05 various programmes under welfare service programme. Nevertheless, no programme whatsoever had been executed during the year under review.	----- The programmes for which made provisions from the Budget should be executed effectively.	----- Even though, the provisions had not been spent, several senior citizen programmes and community development society programmes had been executed during the year.

(c) Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
----- Even though, the Council had aware the 2030 Agenda relating to the Sustainable Development Goals, the long terms plans through the global indicators for that objectives to upgrade the livelihood and the health of the people of the authoritative area of the Council had not been prepared even by December 2019.	----- Sustainable Development plans should be prepared and executed.	----- Action will be taken to prepare in future.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
----- (a) In the survey carried out on the Health and Sanitation conditions in the year 2017 by the Public Health Division of the Council, it was identified that sanitated lavatory facilities were not available for the 155 family units within the authoritative area of the Municipal Council limits. But necessary actions had not been taken according to the provisions of the Municipal Council Ordinance.	----- The provisions should be made for the activities included in the Budget and those should be executed effectively.	----- As the provisions were not available in the years 2018 and 2019, the plans in respect of providing toilet pots had not been prepared. As the provisions thereon had been made from the budget in the year 2020, action will be taken to prepare, proper methodology and to give incentive allowances.

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| <p>(b) The gully bowser of the Council had met with an accident in August 2016, and a sum of Rs.151,610 had been incurred for the repairs. A sum of Rs.64,891 only had been reimbursed by the insurance coverage and action had not been taken in respect of the accident in terms of Financial Regulation 104.</p> | <p>Action should be taken in terms of the Financial Regulations.</p> | <p>A committee had been appointed to carry out preliminary investigations to recognize the responsible parties and action will be taken to recognize the responsible parties and to recover losses.</p> |
| <p>(c) The official vehicle of the Mayor had met with an accident on 26 July 2018 and a sum of Rs.202,388 had been incurred for repairs. Nevertheless, Rs.81,614 only had been reimbursed by the insurance coverage. Action had not been taken in respect of the accident in terms of Financial Regulation 104.</p> | <p>Action should be taken in terms of Financial Regulation.</p> | <p>A committee had been appointed to carry out preliminary investigations to recognize the responsible parties and action will be taken to recognize the responsible parties and to recover losses.</p> |

3.3 Operating Inefficiencies

Audit Observation

Action had not been taken to recover water charges from 989 water consumers of 07 water projects implemented by the Municipal Council and as such annual revenue of Rs.1,800,000 had been deprived of by the Council. In terms of the Council decisions dated 29 November 2012 and 14 May 2018, the proposals had been passed to fix water metres for all water projects. Nevertheless, that decision had not been executed. Further, 200 water metres valued at Rs.290,000 purchased in September 2018 had remained in the stores even by January 2020 and the guarantee period of them as well had ended on 04 March 2019.

Recommendation

Action should be taken to fix water metres and to recover water charges.

Comments of the Accounting Officer

Action will be taken to fix water metres in future.

3.4 Transactions of Contentious Nature

Audit Observation	Recommendation	Comments of the Accounting Officer
----- Despite, that an authority had not been given by the Municipal Council Ordinance or an other circular to grant loan advances to the Public Representatives, a sum of Rs.7,939,000 had been paid to 19 Public Representatives in the years 2018 and 2019 as distress loans and a sum of Rs.5,630,663 out of that had remained recoverable by the end of the year under review.	----- The provisions under any written law had not been made to grant loan advances to the Public Representatives.	----- The granting of loan advances to the Public Representatives had been approved by the decision No.06:07 of the General Meeting dated 08 January 2019.

3.5 Assets Management

3.5.1 Failure to Perform Maintenance and Repairs

Audit Observation	Recommendation	Comments of the Accounting Officer
----- Action had not been taken to repair 4 vehicles which had not been used for running for a period ranging from 01 year to 06 years or to dispose them properly.	----- Maintenance and repairs should be done in an updated manner.	----- Two vehicles will be repaired and a decision will be taken in future for other 02 vehicles.

3.5.2 Assets not vested

Audit Observation	Recommendation	Comments of the Accounting Officer
----- The number of motor vehicles utilized by the Council without the registered ownership amounted to 02.	----- The vehicles remained without the ownership should be transferred to the name of the Council.	----- The formats relating to the vesting of these motor vehicles has been prepared and the vesting activities will be initiated immediately.

**4. Accountability and Good Governance
Unresolved Audit Observations**

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) The Council had not taken action either to recover a sum of Rs.1,953,000 receivable relating to the period from 01 May 2001 to April 2010 from the lessee of the Cinema Hall or to take legal action even by June 2020 and also the Council had failed to recover the lease rent receivable from 2 lessees amounting to Rs.1,627,570 relating to the period from September 2017 to December 2019.	Legal action should be taken to recover arrears of revenue receivable to the Council.	The legal action will be taken immediately.
(b) Under Asian Development Bank Loan Scheme, a loan amounting to Rs.54,566,853 had been granted by the Urban Development Authority. Even though, it was informed by the letter of the Director General that 50 per cent of the rest house rent payable by the Urban Development Authority to the Municipal Council Ratnapura will be set off to the above loan, the number of loan installments deducted had not been confirmed. As such the entire loan amount had been shown in the financial statements as a liability even by the year under review.	The respective issue should be settled and financial statements should be rectified.	After being ensured the relevant information from Urban Development Authority action will be taken to provide information properly.
(c) (i) The Pompakelaya National Park had not been maintained adequately and as such the water filter had become inactive and the water pool also uncleaned and anyone could not be utilized those. This park comprising of about 56 acres at the beginning had limited for about 35 acres at present due to unauthorized constructions, settlement of people who met with disasters, providing land space for Greater Ratnapura Water Project. Even though, the	Special attention is needed for the protection, maintenance and development of the Urban Park.	The proposals had not been implemented in the years 2012 and 2015 due to non-availability of required provisions and the conservation of Pompakale park had been included under the Megapolis programme being implemented within the authoritative area of the Municipal Council at present.

proposals had been submitted for conservation of the park in the years 2012 and 2015, the Municipal Council had failed to execute any of those proposals by the end of the year 2019.

- (ii) The Director of the water project had been informed in the year 2017 to pay a rental amounting to Rs.34,009,564 for 30 years as per assessment value for 02 acres and 28.81 perches given for a water supply scheme from the Pompakale reservation in the year 2014 without being entered into a written agreement. Nevertheless, it was informed that the land belonging to the water project had been transferred to the National water supply and Drainage Board by a gazette notification dated 15 June 1978 under the voluntary Transfer Scheme and the payment of rental had been rejected. The Council had not made a proper investigation on the above matters.
- Action should be taken to examine the Gazette Notification and if having receivable revenue to the Council action should be taken to recover it.
- The Gazette Notification had been requested from the Department of National Archives but no reply had been received up to now.
- (d) Only 4.95 perches had been transferred back to the Council in the year 2009 out of the land in extent of 35.5 perches which leased out to the Ratnapura District Textile Industry Co-operative Society Ltd. and no action whatsoever had been taken for legal vesting of the balance extent of land area even by the end of the year under review.
- Prompt action should be taken for vesting of balance extent of land.
- Action will be taken to survey the land extent and to take suitable action.
- (e) Even though, a land in Pompakale Rathnapura with an extent of 05 acres and a building, 2 Tennis Courts and a Badminton Court situated thereon belonging to the Council had been leased out for a long term lease to the Rathnapura Lawyers Association for a period of 33 years at a lease rental of Rs.350, the lease rental had not been decided on the valuation of the Chief Valuer. Further, the said lease rental had not been revised once in 05 years. Event though, a sum of
- The responsible parties should have been identified and disciplinary action should be taken and legal action should be instituted against the persons who violated the agreements.
- The reports of accounts had been requested from the lawyers Association and action will be taken to recover money after receiving the reports.

Rs.11,550 had been paid by the relevant party on 08 December 2006 to the Council as total lease rental for 33 years, the cheque had been returned by the Mayor stating various reasons. Nevertheless, the Council had not taken action either to revise the respective agreement or to recover the money even by December 2019. Even though, 2/3 of the revenue earned by the association from renting out of the building should be paid to the Council, in terms of the agreement, no revenue whatsoever had been paid to the Council during the lease period of 19 years.

- (f) Even though, a planning application had been received by the Council on 17 July 2012 for a 4 storied building constructed unauthorizedly in the Municipal Council area of the Demuwawatha, Ratnapura, the plan had not been approved as the building was not complying with the due specifications. The Council had not taken action to remove the respective building, even by the end of the year under review.
- Legal actions should be expedited.
- Comments not furnished.