

Negombo Municipal Council

Gampaha District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements of the year under review had been presented to audit 31 March 2011 and the financial statements for the preceding year had been presented for the audit on 22 March 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Negombo Municipal Council had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:3 of this report the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Negombo Municipal Council as at 31 December 2010 and the financial results of its operations for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

- (a) The value of installments for the year under review in respect of loans relating to 06 Projects amounting to Rs.13,521,990 and a sum of Rs.3,380,497 relating to the preceding years payable to the Local Loans and Development Fund had been shown under long term liabilities instead of being shown as current liabilities.

- (b) Even though the contribution to the Local Government Services Pension Fund in respect of the year had been brought to account as Rs.2,445,971, according to the bills of the Local Government Services Pension Fund, the balance amounted to Rs.2,282,851. No payments whatsoever out of this amount had been made during the year under review.
- (c) A sum of Rs.10,000 deposited by a Distraing Officer on 01 September 2010 had been included in the sundry deposits.
- (d) The interest due to the Local Loans and Development Fund in respect of the year under review and the preceding years amounting to Rs.8,974,841 and Rs.2,243,710 respectively had not been brought to account as accrued expenses. The payment of Rs.3,310,819 relating to the preceding year made in the year under review had been brought to account as expenditure of the year under review.
- (e) In addition to the Input Tax on the Value Added Tax allowed on goods and services, all Input Taxes on the Value Added tax not allowed on goods and services had been debited to that account. As such the balance of that account as at the end of the year had become a debit balance of Rs.5,847,882.
- (f) Over-recoveries of staff loans amounting to Rs.25,975 had been shown as a deduction from the staff loan balance.
- (g) The stamp fees in respect of the years 2006 to 2009 amounting to Rs.59,346,604 received in the year under review had been credited to the Receivables Account instead of setting off against the sum of Rs.48,236,350 brought to account as stamp fees receivable and crediting the balance to the revenue for the year. As such the sum of Rs.60,000,000 billed for the year had been shown in the accounts as Rs.48,889,746.
- (h) Even though the Output Tax relating to the year 2010 had been debited to the Value Added Tax Account as Rs.8,606,827, that amount had been computed as Rs.8,462,730 in the preparation of Tax Returns.

1:3:2 Unreconciled Control Accounts

The balances of 03 items of account according to the Control Account totalled Rs.140,119,774 whereas according to the subsidiary registers those account balances totalled Rs.138,445,874.

1:3:3 Lack of Evidence for Audit

(a) Non-submission of Information to Audit

Transactions totalling Rs.30,202,381 could not be satisfactorily vouched in audit due to the non-submission of information required.

(b) Unanswered Audit Queries

Replies to 08 audit queries had not been furnished even by 31 March 2011 and the value of quantifiable transactions relating to those audit queries amounted to Rs.16,940,703.

1:3:4 Inappropriate Disclosures in Accounts

Instead of disclosing the balances/ overdrafts of Bank Accounts separately in the accounts, those had been totalled and disclosed. As such the overdraft of Rs.59,190,038 in the Account No. 0001372353 with the Bank of Ceylon had not been disclosed in the accounts.

1:3:5 Unsettled Accounts

The balance of the unsettled accounts as at 31 December 2010 amounted to Rs.22,059,878.

1:3:6 Non-compliances

Non-compliances with the provisions in the following laws, rules, regulations and management decisions were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Public Administration Circulars Circular No. 06/2008 of 06 February 2008.	According to the Circular, the pension includes a part of the cost of living allowances and as such payments to officers who serve on leave unavailed of should not exceed the cost of living allowance. Nevertheless, 03 officers of the Council serving after retirement on leave unavailed of had been paid the full cost of living allowance with the salary thus resulting in an overpayment of Rs.17,922.
(b) Circulars of the Commissioner of Local Government	
(i) Circular No. 88/20 dated 20 April 1988	A Statement of Arrears of Revenue giving the relevant periods had not been prepared.
(ii) Circular No. LGD/5/5/2 dated 23 October 2007.	Even though it was stated that the reimbursement of entertainment tax made to Local Authorities due to the limitation of entertainment tax recovered from cinemas with effect from 31 May 2006 would not be done by the Government, a sum of Rs.1,864,812 had been billed as the tax receivable for the year under review.
(c) Circulars of the Commissioner General of Inland Revenue	
Stamp Duty Circular No. 2 of 15 May 2006.	Stamps Duty collected in each quarter should be remitted to the Commissioner General of Inland Revenue on or before 15 th day of the month following.

Nevertheless, the Stamp Duty balance not settled over and over again amounted to Rs.731,550.

(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

(i) Financial Regulation 272(3)

A test check of a 03 months sample of January, February and March 2010 relating to the General Account revealed that 111 payment vouchers totalling Rs.22,912,975 had not been furnished to audit.

(ii) Financial Regulations 189 and 486

Action in terms of the Financial Regulations referred to had not been taken in dishonoured cheques valued at Rs.464,582.

(iii) Financial Regulation 396

Action had not been taken to cancel 297 cheques valued at Rs.10,132,372 uncashed for more than 06 months and credit the value to the respective accounts.

(iv) Financial Regulation 565(3)

A Summary of Balances had not been prepared by balancing the accounts of each Deposit Ledger monthly.

(v) Financial Regulation 565(4) and (5)

According to the Financial Regulation referred to the balances of Deposit Ledgers should be carried forward. But it had not been so done. The refunds from deposits had not been signed by a staff officer for correctness. The Monthly Summary Statement of Deposits prepared on Form

General 71 had not been furnished to the Auditor General.

- (vi) Financial Regulation 571(1) and (2) The list of particulars of amounts transferred to revenue had not been annexed to the relevant vouchers while the lists of transfers had not been approved. Even though the transfers should be noted against the respective items of deposits, none of the deposits transferred to revenue by the Council had not been noted against the respective deposits.

2. Financial and Operating Review

2:1 Financial Results

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2010 amounted to Rs.95,411,537 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.94,844,269 for the preceding year..

2:2 Financial Control

- (a) A substantial overdraft had been maintained in the General Bank Account during the year under review and overdraft interest amounting to Rs.3,491,223 had been paid. Nevertheless action had not been taken to utilized the surplus balances in the other Current Account to settle the overdraft.
- (b) Follow up action on the unidentified debits amounting to Rs.880,549 and credits amounting to the 750,830 appearing in the Bank Reconciliation Statements for December 2010 had not been taken by making enquiries from the Banks.

- (c) Action had not been taken for the recovery of the sum of Rs.258,400 recovered by the Bank of Ceylon as the Withholding Tax on 11 Fixed Deposit Accounts.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Even though a request was made by me to the Municipal Commissioner by my letter dated 08 March 2011 to furnish the particulars of the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year, such information had not been furnished despite the reminders sent subsequently.

2:3:2 Courts Fines

Even though a sum of Rs.18,000,000 had been billed for Courts Fines under Revenue Head 10352, the receipts amounted to Rs.55,934. The basis of billing could not be ascertained in audit.

2:3:3 Other Revenue

A sum of Rs.3,783,333 had been in arrears as at 31 December 2010 on the lease of Rajapakse Park. Even though the Council had recovered possession of the Park in the year 2009, action had not been taken for the recovery of the outstanding balance.

2:4 Expenditure Structure

The budgeted and the actual expenditure of the Council for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	2010			2009		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	174,360	147,796	26,564	150,287	141,252	9,035
Others	175,577	120,588	54,989	139,669	121,555	18,114
Sub-total	349,937	268,384	81,553	289,956	262,807	27,149
Capital Expenditure	62,967	91,705	(28,738)	93,417	241,496	(148,079)
Grand Total	412,904	360,089	52,815	383,373	504,303	(120,930)

2:5 Surcharges

According to the surcharges imposed by me in term of provisions in Section 226(1) of the Municipal Councils Ordinance (Cap. 252), against those responsible, the value of surcharges recoverable as at 31 December 2010 amounted to Rs.2,013,394.

2:6 Human Resources Management

Approved and Actual Cadre

Even though the information on the approved and the actual cadre of the Council as at 31 December 2010 was called for on 08 March 2011 and reminders sent subsequently, such information had not been furnished even by the date of this report.

2:7 Assets Management

2:7:1 Staff Loans Recoverable

The festival and the special advances receivable from 02 substitute labourers, whose services were terminated on 31 August 2010 amounted to Rs.1,700 and

Rs.1,154 respectively. A balance of Rs.305,678 remained recoverable from 20 employees over a period exceeding 07 years.

2:7:2 Assets not Surveyed

The value of assets not supported by Boards of Survey and computed at the book values as at 31 December 2010 amounted to Rs.116 million.

2:8 Operating Inefficiencies

2:8:1 Private Vehicle Park opposite Wellawidiya Fish Market

Even though a private business is being run without the approval / permit/ licence from the Council for collection of parking fees from the customers who visit the Wellawidiya Fish Market by motor vehicles for purchase of fish, action thereon had not been taken.

2:8:2 Lease of Ettukala Beach Park

- (i) Any evidence of the transfer of the ownership of the Beach Park to the Council was not observed in audit.
- (ii) According to clause 19 of the lease agreement, there was no methodology for the recovery of the electricity and water bills of the latrines systems and no recovery had been made for such expenditure.
- (iii) According to clause 09 of the lease agreement, the lessee should maintain the Beach Park. Nevertheless, it was observed that 03 employees from the Council had been deployed daily for cleaning the Beach Park.
- (iv) Even though the Negombo Police had instructed that 03 notice boards, that is, the notice board prohibiting carrying liquor to the Beach Park, the notice board specifying maximum parking fees and the notice board indicating the hours the Beach Park is kept open, the Council had not taken action accordingly.

- (v) A separate meter had not been installed for the electricity supplied to the bathing place situated in the Beach Park and electricity had been supplied through the common meter. Action had not been taken to enact subsidiary legislation and collect revenue for the Council. The entire cost of electricity had been borne by the Council.
- (vi) The Council had not taken action to issue a licence for the restaurant run in the Beach Park by a private party.

2:8:3 Minors' Accounts

Action had not been taken to disclose the minor's deposit Account of Rs.29,738 at least by way of notes to the accounts.

2:8:4 Stock Control

The following observations are made.

- (i) The balance and the value of all the goods entered in the stock book had not been recorded. As such the balance of the stock book could not be reconciled with the balance of the stores bin cards.
- (ii) A shortage of 11 items of stocks amounting to Rs.40,759 as at 30 March 2010 was observed.
- (iii) The examination of the stock ledger and the bin cards of all electrical goods as at 07 September 2010 revealed negative balances under 10 items of goods as issues had been made without stock balances in the stock ledger. As such the stock ledger had not been made use of as an instrument of stock control. It was also observed that a supervisory officer had not checked this matter.
- (iv) Even though goods valued at Rs.5,207,264 had been received during the year under review, prepayments made thereon had not been settled. As such fictitious creditors had been created as the goods had been received and paid for without eliminating the entries in the creditors account.

- (v) Even though the balance of goods amounting to Rs.216,994 had been under-settled in the settlement of prepayments, no attention had been paid to that matter.

2:10 Internal Audit

An adequate internal audit of the institution had not been carried out.

03. Systems and Controls

Special attention is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Staff Loans Control