

Ratnapura Municipal Council

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 03 April 2014 while Financial Statements relating to the preceding year had been submitted on 08 April 2013. The Auditor General's Report relating to the year under review was sent to the Mayor of the Council on 22 December 2014.

1.2 Disclaimer of Opinion

It was not possible for me to obtain adequate and appropriate audit evidence, due to important matters referred to in paragraphs 1.3. in this report to express an opinion. Accordingly, I do not express an opinion on these financial Statements.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Following statements which should be submitted along with the Financial Statements in accordance with Paragraph 21 of Sri Lanka Public Sector Accounting Standard 01 had not been submitted.

- (i.) Cash Flow Statement
- (ii.) A Comparative Statement of Budgeted and Actual Figures or showing the budgeted figures under separate column in the Financial Statements
- (iii.) Summary of Important Accounting Policies
- (iv.) Statement of Changes in Net Assets/Equity.

1.3.2 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a.) While the minimum amount for leasing out the properties belong to the Council relevant to the year under review amounts to Rs. 85,153,396, only a sum of Rs. 83,944,496 had been shown as income and the difference amounting to Rs. 1,321,400 had been accounted under Sundry Deposits.

- (b.) A sum of Rs. 100,706,846 received as minimum award money during prior years had been accounted under Sundry Deposits without being taken to revenue for the relevant year. Sundry Deposits balance carried forward at the end of the year under review had been understated in a sum of Rs. 82,665,276 lesser than the balances shown in the Register of Deposits.
- (c.) A sum of Rs. 1,147,387 identified as Rest House Rent relevant up to the month of October of the year under review and balance arrears of un-identified revenue had not been accounted as revenue for the year under review.
- (d.) Although the Stall Rent of Old Bus Stand relevant to the year under review had been Rs. 1,021,406, only the receipts of Rs. 936,289 during the year under review had been accounted as revenue resulting an understatement of revenue in a sum of Rs. 85,117.
- (e.) Although a surplus of Rs. 23,582,654 was seen through the overall results of the Revenue and Expenditure Account for the year under review through the Financial Statements submitted, a sum of Rs. 16,251,538 only had been adjusted to the Accumulated Fund Account.
- (f.) Although the Property Loans Interest Income receivable for the year under review amounts to Rs. 86,838 it had been accounted as Rs. 1,290,152.
- (g.) Courts Fines Revenue of Rs.415,600 for the year under review and the balance of Rs. 802,415 receivable at the end of the year had not been included in the Financial Statements.
- (h.) While there was no methodology to identify the entities to be issued with Business Licenses and register those entities, revenue received amounting to Rs. 1,800,396 only had been accounted. A sum of Rs.252,000 received during the year under review relevant to the year 2012 had been accounted as revenue for the year.
- (i.) While Stamp Fees Revenue of Rs. 20,200,306 received relevant to the preceding year had been accounted as revenue for the year under review, Stamp Fees Revenue of Rs. 11,098,522 relevant to the year under review had not been taken to the accounts.
- (j.) Although the balance of Arrears of Rates as at the end of the year under review was Rs. 21,192,393 according to the Rates Ledger Account it had been Rs. 21,335,707 and therefore the value of Rates Debtors had been overstated in a sum of Rs. 143,314.
- (k.) Although the Rates Revenue had been shown as Rs. 34,095,797 according to the Revenue and Expenditure Account for the year under review, the true revenue of the Rates Division had been Rs. 26,000,125 and therefore the surplus for the year under review had been overstated by Rs.8,095,672.

- (l.) Revenue on account of Processing Charges of the Planning Committees and Charges for Unauthorized Services amounting to Rs. 975,150 and Rs. 133,000 respectively received relevant to the year under review, which had not been adjusted in the Revenue and Expenditure account since previous years, had not been taken to the revenue. Expenditure of the Processing Charges Account amounting to Rs.191,000 relevant to the year under review too had not been adjusted. The balances relating to those accounts amounting to Rs. 3,497,529 and Rs. 518,645 respectively, as at the end of the year under review had not been shown as Refundable Deposits in the Balance Sheet.
- (m.) The balance of the Loan obtained for the construction of the Public Fair, under the Asian Development Bank Loan Assistance as at the end of the year under review was Rs.40,361,321. According to the Account it was Rs.28,002,506 and therefore the balance had been understated in a sum of Rs.12,358,815. In addition to this, loan installments of Rs.5,845,413 and interests amounting to Rs.2,816,843 paid during the year and further interest to be repaid amounting to Rs.908,130 had not been accounted.
- (n.) The sum of Rs. 3,658,113 being 40 percent of the Grant received under the Asian Development Bank Loan Assistance received relevant to the year under review for the construction of the Access Road and the Multi-Purpose Building had not been accounted.
- (o.) Interest payable amounting to Rs. 7,655,794 relevant to the year under review for the loan of Rs.12,656,450 for the improvement of roads in the area of authority of the Municipal Council under the Asian Development Bank Loan Assistance Project No. 1632 SRI(SF) had not been accounted as expenditure.
- (p.) According to the Staff Loans Register, loans granted during the year under review had been Rs.11,046,045 while recoveries had been Rs. 8,845,730. However, according to the Staff Loans Control Account loans granted had been Rs. 12,458,021 and loans recovered had been Rs. 10,280,711. Accordingly a difference of Rs. 1,411,976 relating to loans granted and a difference of Rs. 1,434,981 relating to loans recovered were observed.
- (q.) Revenue amounting to Rs. 5,232,728 for the year under review relevant to Development Account had been accounted as Rs. 7,349,958 and therefore the revenue had been overstated in a sum of Rs.2,117,229.
- (r.) Although a sum of Rs. 12,498,355 had been shown as Other Revenue, the Other Revenue relevant to the year under review had been Rs. 15,401,722 and therefore the revenue had been understated in a sum of Rs.2,903,367.
- (s.) When the Votes Leger is compared with the account, a difference of Rs.25,108,171 was observed.

- (t.) Expenditure amounting to Rs. 10,284,390 relevant to 05 Items of Expenditure recorded in the Votes Ledger had not been taken as expenditure of the year and therefore the expenditure had been understated to the extent of that value.
- (u.) Although the entries relating to 08 items of Expenditure amounting to Rs. 553,027 had not been recorded in the Votes Ledger that expenditure had been shown in the accounts.
- (v.) Provision had not been made under Creditors with regard to the Audit Fees relevant to the year under review.

1.3.3 Non-reconciled Control accounts

Following observations are made.

- (a.) It was observed that there were differences of Rs. 14,013,241 and Rs. 85,516,786 relevant to 15 Items of Assets Accounts and 08 Items of Liabilities respectively, between the balances according to Control accounts and Subsidiary Registers, as at the end of the year under review.
- (b.) A difference of Rs.5,456,300 between the balance according to the Register of Machinery and Equipment and the relevant account a difference of Rs.60,074,217 according to the Vehicle and Cart Account and the relevant account and a difference of Rs.857,923 according to the Register of Furniture and Fittings and the relevant account were observed.
- (c.) It was observed that there were differences of Rs.12,904,823 and Rs. 69,893 respectively when opening balances in the Summary Revenue Register and the Receipts in Advance are compared with the schedule of Other Revenue submitted along with the accounts relevant to 17 Items of Revenue Heads.

1.3.4 Lack of evidence for audit

- (a.) Evidences were not submitted to audit, to confirm the value of balances of Accounts Receivable totalling Rs.113,993,254 shown in Financial Statements.
- (b.) Information relating to the makeup of 03 balances of Assets and Liabilities amounting to Rs. 8,406,364 as at the end of the year under review which had been brought forward over a long period and long term Deposits for Fuel amounting to Rs. 300,000 were not submitted to audit.
- (c.) Creditors Register was not submitted to audit to confirm the Creditors' balance of Rs. 67,368,392 according to accounts.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

Following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Circular No. 2009/01 dated 09 March 2009 Clause 1.1	In leasing out 23 Stalls and Shops in front of the Public of the Commissioner of Local Government. Fair, valuation had not been made by the Chief Valuer.
(b) Circular No. 01/2010 dated 16 November 2010 of the Chief Secretary	Contrary to the provisions in the Circular referred to, 242 employees on the basis of agreements and 77 employees on casual, substitute or contract basis had been engaged, although it was possible to identify and recruit employees to 116 specific vacant posts of the Council.
(c) Financial Regulation of the Republic of Sri Lanka – 1992	

(i.) Financial Regulation 395	There was a long delay in the preparation of Bank Reconciliation Statements.
(ii.) Financial Regulation 396 (d)	Action in terms of the Regulation referred to in, had not been taken with regard to 89 cheques valued at Rs. 811,968 that had elapsed six months and not presented for payment during the period from the year 2006 to the year 2011.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over operational revenue of the Council for the year ended 31 December 2013 amounted to Rs.579,358 as against the excess of operational revenue over recurrent expenditure for the preceding year amounted to Rs. 17,168,213.

2.2 Analytical Financial Review

The deficit for the year under review indicated 103 percent decline in the operational results, when compared with the operations for the preceding year. It was mainly due to the decrease in the revenue and increase in the expenditure when compared with those for the preceding year.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	24,475	35,481	21,192
(ii)	Lease Rent	69,829	40,979	8,362
(iii)	Licence Fees	4,317	1,930	-
(iv)	Other Revenue	206,951	160,175	-

2.3.2 Performance in Revenue Collection

When Estimated Revenue is compared with Actual Revenue and Arrears of Revenue, a reduction by 41, 55, 47 and 77 percent respectively were reflected relating to revenue collected as Lease Rent, License Fees, Service Charges, Warrant Charges and Fines.

2.3.3 Lease Rent of Stalls

- (a.) A sum of Rs. 1,920,536 was due to be recovered from 123 Stall Holders as at 31 December 2013.
- (b.) Although the relevant award money had been paid by 07 lessees of shops in front of the Public Fair, agreements had not been entered into, up to 30 June 2014, date of audit.
- (c.) Although it was required to pay 50 percent out of the award money amounting to Rs. 250,000 and the balance amount should be paid within one year and finalized according to the letter dated 01 January 2013 of the Mayor, in leasing out the stalls of the Public Fair, it was observed in audit that award money to be recovered from 135 booths had been Rs. 11,555,800 as at 30 June 2014, date of audit. A proper course of action had not been taken to recover the amount due from stalls holders.
- (d.) Stalls had not been given to the persons who submitted tenders agreeing to obtain stalls for a monthly rental of Rs. 20,000, in response to a newspaper advertisement published for leasing out 23 shopping stalls in front of the Public Fair. Due to that, an income of Rs. 8,400,000 receivable to the Council from 14 lessees had been lost. Although tenders had

been called for to lease out 04 stalls in 04 instances, quotations had not been received. Those stalls had been given to 04 lessees who were prepared to lease out those stalls, according to decisions taken by the Council on 29 May 2013 and 10 July 2013, deviating from the proper procedure.

2.3.4 Land Tax

The Land belongs to the Council situated near the Pulugupitiya public latrine had been leased out to an individual for a period of one year for a sum of Rs. 26 Lakhs based on a valuation report obtained on 14 March 2011 from the Government Valuer, without calling for any tenders and entering into an agreement. Later, a file had been prepared again indicating that public tenders were called for leasing out that land and it had been leased out to the wife of the first lessee at 81 B, Holipitiya, Dodampe address, based on the above valuation of for on 19 December 2012 for a sum of Rs. 2,611,500. At the physical examination carried out on 29 October 2013, it was revealed that foundation had been made for the construction of a three floored building in this land without obtaining a certificate of conformity.

2.3.5 Court Fines and Stamp Fees

Following observations are made.

- (a.) Although the Stamp Fees Charges receivable from the Registrar General of Land for the period from March to December 2013 had been identifies as Rs. 11,098,522, any course of action had not been taken to recover that revenue to the Council.
- (b.) Although the Courts Fine Revenue as Rs. 342,317 for the year 2012 and Stamp Fees Revenue as Rs. 415,600 for the year 2013 had been identified and recovered to the Council on 30 January 2014, relevant adjustments had not been made through the accounts.

2.3.6 Other Revenue

While any course of action had not been taken to recover the Rental Income of Rs. 551,000 receivable to the Council for the Lukshame Cinema Hall belongs to Council, Cinema Hall had been closed down and premises were getting covered with wild plants.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- a. When purchasing cement for the first half of the year 2013 cement valued at Rs. 2,316,300 had been purchased from an establishment which had not been included in the Register of Names of the Suppliers.

- b. A continuous minus balance in a range from Rs. 1,432,061 to Rs. 6,059,060 had arisen in 07 instances from 09 December 2013 to 30 December 2013 in the Cash Book, due to overdraft facilities obtained by the Council during the year under review.
- c. The balance of Rs. 64,517 as at 29 June 2012 in the current account No.72808049 at the Bank of Ceylon had remained dormant for a period of more than 02 years.

3.2 Foreign Tours

Following matters were observed.

- (a.) Although all expenditure and facilities relating to foreign tours should be borne by the foreign organization or the foreign government, a sum of Rs.1,080,000 had been spent out of the Council Fund on behalf of 12 Members at the rate of Rs.90,000 per person for the foreign tour in Thailand from 26 February 2013 to 03 March 2013.
- (b.) Although duty leave should be approved duly, to obtain foreign travel allowances and other connected expenses, in terms of the Clause 2 (i) of the Circular No. F.P.M. 01/2010/1 dated 11 October 2010 of the Secretary to the Ministry of Finance and Planning and Secretary to the Treasury, a sum of Rs. 1,358,100 had been paid to a private establishment out of Council Fund on behalf of 12 Members who participated in the training work-shop in Thailand without any approval for leave.
- (c.) While approval of the Chief Minister had been received to incur expenditure out of Council Fund for the educational tour in Indonesia from 20 October 2013 to 25 October 2013 relating to the Local Government System, a sum of Rs.173,265 had been spent on behalf a Member out of Council Fund. Although 10 months had elapsed as at 27 August 2014, after the end of the training, a report had not been submitted explaining the manner in which the knowledge gained with regard to the Indonesian Local government System to be used locally.

4. Accountability and Good Governance

4.1 Budgetary Control

Following observations are made.

- (a.) Total provision of Rs. 3,382,000 relevant to 29 Items of Expenditure had been saved without being utilized for any activity.
- (b.) Total provision of Rs. 6,846,000 relevant to 20 Items of Expenditure had been transferred to other Items of Work without being utilized for any activity.
- (c.) While expenditure amounting to Rs. 17,805,838 had been incurred in excess of the provision relevant to 29 Items of Expenditure, any approval had not been obtained in that connection.

4.2 Audit Queries not resolved and responded.

Replies had not been furnished to 33 audit queries as at 31 December 2013. Value of transaction which could be computed, subject to those audit queries amounted to Rs. 348,606,901.

5. Systems and Controls

Special attention of the Council is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Revenue Administration
- (iii.) Budgetary control
- (iv.) Financial Control