

Dehiwala Mount Lavinia Municipal Council

Colombo District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 04 April 2011 and the financial statements for the preceding year had been presented on 30 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 Dehiwala Mount Lavinia 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 Dehiwala Mount Lavinia Municipal Council as at 31 December 2010 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Policies

The accounting policies adopted had not been disclosed with the financial statements.

1:3:2 Accounting Deficiencies

- (a) The accounting deficiencies observed in the accounts in terms of revenue, expenditure, assets and liabilities are given under the number of instances and values in the following Table.

		Effect on the Accounts							
		Revenue		Expenditure		Assets		Liabilities	
		Number of Instances	Value	Number of Instances	Value	Number of Instances	Value	Number of Instances	Value
			Rs.		Rs.		Rs.		Rs.
(a)	Overstatements in the Accounts	02	1,064,820	01	581,703	--	--	--	--
(b)	Understatements in the Accounts	02	1,095,218	--	--	01	430,548	01	3,417,958
(c)	Omissions in the Accounts	01	1,424,551	01	4,602,690	--	--	01	423,637
(d)	Classification Errors	01	209,970	--	--	--	--	--	--

- (b) Even though separate schedule in accordance with the format appearing in the Manual of Accounting Instructions for Municipal Councils No. LGD/TR/2/25 should be prepared for all assets other than lands and presented with the balance sheet, the schedules of particulars of office equipment and buildings had not been prepared and presented.

1:3:3 Unreconciled Control Accounts

A reconciliation of the balances of 09 items of account totalling Rs.561,745,235 appearing in the financial statements with the balances appearing in the subsidiary registers and records relating thereto revealed differences. The differences totalled Rs.6,726,729.

1:3:4 Accounts Payable

- (i) The creditors balances as at the end of the year under review totalled Rs.76,362,675 and balances totalling Rs.28,395,877 had lapsed for over 03 years.
- (ii) The balances of refundable deposits as at the end of the year under review totalled Rs.35,651,536 and revenue deposits and tender deposits amounting to Rs.2,172,100 and Rs.258,750 respectively had been brought forward from the year 2002 without any change. Out of the sundry deposit balances amounting to Rs.30,704,571 a sum of Rs.19,759,231 related to periods ranging from 03 to 18 years. The pensions deposit balance amounted to Rs.1,115,531 and out of that balances amounting to Rs.188,849 related to periods from the year 1986 to 2007.

1:3:5 Lack of evidence for Audit

The following observations are made.

(a) Unanswered Audit Queries

- (i) Replies to 15 audit queries issued in connection with the year under review, had not been furnished even by 12 September 2011 and the value of quantifiable transactions relating to those audit queries amounted to Rs.36,222,542.
- (ii) Out of the audit queries issued during the 02 preceding year replies to 05 audit queries had not been furnished even by 12 September 2011.

(b) Non-submission of Information to Audit

Transactions totalling Rs.420,957,088 could not be satisfactorily vouched in audit due to the non-submission the required information to audit.

1:3:6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the provisions of the following laws, rules and regulations and the management decisions were observed during the course of audit.

Reference to Laws, Rule, Regulations and Management Decisions -----	Non-compliance -----
(a) Municipal Councils Ordinance (Cap. 252) ----- Section 218	A report on the administration of the Council for each year should be presented to the Council together with the financial statements as early as possible after the close of the financial year. An Administration Report for he year under review had not been prepared and presented.
(b) Financial Regulations of the Republic of Sri Lanka -----	
(i) Financial Regulation 210(i) and (ii)	Benefits of discounts amounting to Rs.38,201 in respect of the period January to September of the year under review had been lost due to the failure to settle the water bills in a manner to receive the discounts.

A fee of Rs.7,105 for the delayed settlement of water bills and a fee of Rs.26,880 for the reconnection of disconnected water supply had been paid due to the delayed settlement of water bills.

- (ii) Financial Regulation
371(2)

Action in terms of the Financial Regulation referred to had not been taken in the grant and settlement of advance for various purposes to the officers and institution. The unsettled balances of advances as at 31 December 2010 totalled Rs.775,203.

(c) Circulars

- (i) Public Administration
Circular No.8/97 of 03
February 1997 and
Circular No.L/G/9/97
dated 19 February 1997 of
the Chief Secretary
(Western Province)

The approval of the Secretary to the Ministry on the recommendation of the Head of the Division/ Department should be obtained for the payment of overtime exceeding 80 hours per mensem. Nevertheless, payment for overtime ranging from 80 hours to 200 hours per mensem had been made in the year under review without obtaining such approval.

- (ii) Public Administration
Circular No. 9/2009 of 16
April 2009 and Circular
No. LGD/02/23/01/01/01
dated 20 July 2009 of the
Western Provincial
Commissioner of Local
Government.

Whenever overtime and holiday pay, payable outside the specified duty hours are paid on the basis of time, such time should be confirmed by finger print machines. Nevertheless payments had been made without using such machines for marking the times of arrival and departure.

- (iii) Treasury Circular No. 829
of 29 November 1976.

Even though the Form General 35(a) should be issued for the payment of overtime to all employees, the Council had not complied with that requirement.

2 Financial and Operating Review

2:1 Financial Results

According to the financial statements presented, for audit the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2010 amounted to Rs. 36,966,222 as compared with the excess of revenue over the recurrent expenditure amounting to Rs.226,667,836 for the preceding year.

2:2 Financial Control

2:2:1 Cash at Bank

The following observations are made.

- (a) Instead of taking action in terms of Financial Regulation 396 on 375 cheques valued at Rs.2,338,497 issued from the year 2001 to 2008 but not presented to the Bank for payment, those cheques had been disclosed under sundry deposits in the financial statements.
- (b) According to the Bank Reconciliation Statement for December of the year under review, action in terms of Financial Regulation 396 had not been taken on 60 cheques valued at Rs.153,178 which had not been presented to the Bank and lapsed for more than 06 months.
- (c) Action in terms of Financial Regulations 189 and 486 had not been taken on 17 dishonoured cheques valued at Rs.186,721.

2:3 Revenue Administration

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

Summarized information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year furnished by the Mayor is given below.

Item of Revenue	2010			2009		
	Estimated	Actual	Cumulative Arrears as at 31 December	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	160,570	156,102	209,617	148,013	126,028	192,369
Lease Rents	15,975	15,043	7,000	2,572	12,489	2,839
Licence Fees	11,760	11,967	612	14,775	16,993	818
Other Revenue	205,310	205,310	--	391,306	391,306	--

2:3:2 Trade Stall Rents

The following observations are made.

- (a) Arrears totalling Rs.3,424,365 were due as at 31 December 2010 from 259 lessees of the Trading Complexes at Dehiwala, Mount Lavinia, Kohuwala, Saranankara, Karagampitiya and Rathmalana. That balance included an arrears balance of Rs.2,346,037 relating to the preceding year. Nevertheless, the Council had not taken action against the lessees in terms of clauses 17 and 19 of the lease agreements.
- (b) Even though 05 trade stalls of the Trading Complexes at Mount Lavinia, Dehiwala and Saranankara for which lease rent had not been paid had been taken over in the years 2006 and 2007, the attention of the Council had not been paid even up to the end of the year under review for the recovery of the arrears due thereon amounting to Rs.98,407 and to lease out in trade stalls.

- (c) Three trade stalls from the Trading Complexes at Mount Lavinia and Dehiwala had been released by the Council to 03 external individuals with effect from 05 August 2008 to run businesses without recovering rent.
- (d) The lease periods of 04 Trade Stalls of the Trading Complexes at Kohuwala and Mount Lavinia had expired in October 1996, June 2004, June 2006 and June 2008 respectively. Action for entering into new lease agreements had not been taken even up to 30 June 2011.

2:3:3 Building Rents

The following observations are made.

- (a) The rents on the building owned by the Council used for the maintenance of the Dehiwala Police Station and the Saranankara Police Post had not been paid over periods exceeding 10 years. The arrears as at the end of the year under review totalled Rs.1,246,448.
- (b) A sum of Rs.901,957 up to the end of the preceding year and a sum of Rs.1,128,163 as at the end of the year under review had been receivable from the lessees of 13 other buildings.

2:3:4 Trade Licence Fees

Out of the 991 trade stalls identified in the year under review for the issue of Trade Licences, such licences had been issued only to 99 of those Trade Stalls. As such 892 Trade Stalls had been remaining businesses without obtaining licences. Nevertheless, cash for the licence fees had been collected from those institutions.

2:3:5 Business Tax

Out of the 2,169 institutions identified in the year under review for the recovery of Business Tax, such tax had been recovered only from 1,883 institutions. Tax had not been recovered from 286 institutions and the arrears as at the end of the year 2010 amounted to Rs.611,935. Legal action had been initiated for the recovery of the arrears of tax for the year under review from 63 institutions.

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	543,395	447,720	95,675	509,275	435,932	73,343
Others	302,939	267,237	35,702	273,319	269,926	3,393
	-----	-----	-----	-----	-----	-----
Sub-total	846,334	714,957	131,377	782,594	705,858	76,736
Capital Expenditure	136,179	23,138	113,041	59,202	67,054	(7,852)
	-----	-----	-----	-----	-----	-----
Grand Total	982,513	738,095	244,418	841,796	772,912	68,884
	=====	=====	=====	=====	=====	=====

2:5 Budgetary Controls

Significant variances were observed between the budgeted and the actual revenue and expenditure even after the transfer of provisions between the Heads of Revenue and Expenditure during the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

2:6 Surcharges

The following observations are made.

- (a) According to the surcharges imposed by me in terms of the provisions of Section 226(1) of the Municipal Councils Ordinance (Cap. 252) against the persons responsible, the value of surcharges recoverable as at 31 December 2010 amounted to Rs.1,106,576.
- (b) I propose to impose surcharges in the future in connection with transactions valued at Rs.11,347,473.

2:7 Human Resources Management

Approved and Actual Cadre

Information on the approved and the actual cadre of the Council as at 31 December 2010 is given below.

Grades of Employees	<u>As at 31 December 2010</u>	
	Approved	Actual
-----	-----	-----
Staff Grade	30	21
Secondary Grade	240	209
Primary Grade	1,428	1,371
Others (Casual Temporary)	--	23
	-----	-----
	1,698	1,624
	=====	=====

The following observations are made.

- (i) No-pay leave of 6,754 days had been obtained in the year under review by 241 officers/ employees.

- (ii) According to the information made available to audit the existing vacancies in 30 Categories of Employees had been 110 including 15 vacancies in 11 Categories of Employees approved under the Cadre Plan, wherein there were no officers/ employees.
- (iii) Salaries had been paid to 16 employees deployed in excess of the approved cadre under 12 categories of employees and 08 employees of 03 posts not included in the approved cadre.
- (iv) The copies of letters of appointment, confirmation, transfers, promotions, retirements / dismissals, salary increments approved, deferment of salary increment and conversion of salaries of officers/ employee of the Council had not been furnished to the Auditor General in terms of Section 2.10 of Chapter vi of the Establishments Code.

2:8 Assets Management

2:8:1 Idle and Underutilised Physical Resources

Information revealed at the audit test checks of idle and underutilized physical resources is given below.

- (a) Four winchin valued at Rs.4,991,140, four had tractors valued at Rs.458,600, a wheel backhoe machine valued at Rs.9,342,000, two mini excavators valued at Rs.11,200,000, two kid steers valued at Rs.4,129,940, two road rollers valued at Rs.1,625,000 and 02 road rollers, the value of which was not furnished had been idling over 06 years, 03 to 04 years, 02 years, 09 months and 02 years respectively due to lack of drivers.
- (b) Eight finger print machines purchased for R.387,408 and Rs.258, 272 in the year under had been idling without being used for recording the times of arrival and departure of employees.
- (c) The lathe machine valued at Rs.1,960,564 transferred by the Sri Lanka Land Reclamation and Development Corporation on 18 February 2005 had been idling for over 05 years due to the lack of an operator.

2:8:2 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.22,733,200 and out of that balances amounting to Rs.11,170,474 were old between 01 year to 03 years while balances amounting to Rs.1,992,651 had been older than 04 years.

2:8:3 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.133,498,327. Out of that, balances of property, motor vehicle and distress loans totalling Rs.2,250,966 and balances of special, festival and other advances totalling Rs.653,556 remained without being recovered over a long period. The attention of the Council had not been paid even during the year under review for the recovery of such balances.

2:8:4 Assets not Surveyed

The value of assets not supported by Boards of Survey Reports and computed at the book valued as at 31 December 2010 amounted to Rs.513,266,168.

2::9 Motor Vehicle Utilization

(a) The Council had a fleet of 204 motor vehicles and machines and 19 vans had been deployed in service on hire basis. The following observations are made in this connection.

(i) Thirty four labourers having driving licences had been deployed as drivers due to the unavailability of permanent drivers.

- (ii) Even though 15 motor vehicles had met with accident in 17 instances in the year under review, investigations into the accidents had not been carried out in term of Financial Regulation 104 and reports furnished to the Auditor General.
 - (iii) Even though surveys of motor vehicles and their equipment should be conducted in terms of Financial Regulation 1647(b) the requirement had not been complied with.
 - (iv) According to clause 07 of the agreements entered into with the owners of the hired motor vehicles, an average of 80 kilometres should be run per day. The hire charge specified per day had been paid even for running less than the specified distance.
- (b) Even though the Municipal Councillors receive a fuel allowance of Rs.6,000 per menum in terms of provisions of the Notification published in the Gazette Extraordinary No.1400/25 of 08 July 2005 eighteen Councillors had used 02 motor vehicle of the Council for running 11,195 kilometres. Nevertheless action in terms of the Treasury Circular letter No. FIN 211 dated 17 March 1982 had not been taken for the recovery of the expenditure incurred thereon and the surcharge of 25 per cent computed thereon.

2:10 Identified Losses and Damage

A financial loss of Rs.151,600 comprising Rs. 135,000 had been incurred due to the destruction of 03 finger print machines, each costing Rs.45,000 resulting from irregular use and Rs.16,600 spent on the repairs to one machine.

2:11 Operating Inefficiencies

The following observations are made.

- (a) The release of a sum of Rs.17,205,903 withheld had been rejected due to the failure to fulfill the criteria introduced by the Department of Local Government for the release of 15 per cent of the salary reimbursement withheld.

- (b) Out of the Survey Plans and Building Plans submitted for approval 300 and 157 applications respectively had remained as at the end of the year under review. Out of that 71 Survey Plans and 28 Paneling Plans represented those submitted in the preceding year.
- (c) Instead of recovering no-pay leave in full in the month itself or in the month following in terms of Treasury Circular No. 810 of 26 July 1971, action had been taken for the recovery in installments.
- (d) In terms of Section 10 of the Employees' Provident Fund Act, No. 15 of 1958 as amended by the Amendment Act, No. 56 of 1981, an amount equivalent to 8 per cent of the total earnings per mensum of an employee should be recovered and remitted. Nevertheless, 9 per cent of the salary had been recovered even from periods prior to the year 1980 and credited to the Fund without approval. Even though the contributions made to the Fund had been brought back after the employees entitled to Employees' Provident Fund benefits were granted permanent and pensionable status, only 8 per cent out of the 9 per cent recovered from the employees had been paid to them.

2:12 Management Inefficiencies

The following observations are made.

- (a) Whenever an employee deployed on contract /casual basis are appointed to a permanent and pensionable post, the Council should obtain the 3 per cent contribution made to the Employees' Trust Fund in respect of the contract / casual period. Nevertheless, the Council had not taken to obtain the contributions made to the Fund by such employees appointed to permanent and pensionable posts from the inception of the Fund in the year 1981 up to the year 2011.

- (b) Despite the vacancies existing in the respective posts, 05 employees of the Council in the posts of Public Management Assistants, Drivers, Security Guards and Labourers had been released to the Office of the Chief Secretary of the Provincial Council. A sum of Rs.1,063,914 had been paid as their salaries for the year 2010 without obtaining the particulars of attendance, leave and no-pay leave of those employees.
- (c) The 02 storeyed building and the premises at Palliadora had been made available to the National Youth Services Council without entering into an agreement and without recovering rent, over a long period for the conduct of fee charging courses.

2:13 Contract Administration

2:13:1 Implementation of Projects

A summary of the development projects implemented in the year under review in the area of authority of the Council is given below.

	Number of Project Agreements signed	Estimated Value	Amount received	Amount Spent	Numbr of Projects completed	Number of Uncom- pleted Projects	Cancelled Projects
	-----	-----	-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.			
Provincial Council Grant Projects	02	619,964	17,985	561,479	02	--	--
Council Fund Projects	22	24,692,829	--	17,414,345	20	01	01

2:13:2 Constructions

The following matters were observed at the site inspections of the works executed by the Council in the year, carried out on 03 and 07 December 2010.

- (a) Even though the work on a portion of the underground pipeline on the Gemunu Mawatha had commenced on 25 October 2010 it was observed that the hume pipes had developed cracks even before the completion of the work.
- (b) Even though spreading metal and tarring of the Attidiya Temple Road had been completed in August 2010, it was observed at the inspection that metal had surfaced on the road and potholes had developed.
- (c) Even though 16 hume pipes 9 inches tall and 8 feet long had been issued for the installation of underground hume pipes in the section from Assessment No. 25/1 to 25/6 of the Ratmalana Railway Station Road, only 10 hume pipes had been used for the work. Information on 05 hume pipes was not furnished while 01 pipe had been abandoned at the site.
- (d) Even though the work on tarring of the Balapokuna Purana Vihara Road had been completed on 07 May 2010, metal had surfaced and potholes developed on the road.
- (e) Even though the work on tarring the Kohuwala Priya Mawatha had been completed on 10 June 2010, the road surface had been eroded and potholes developed.
- (f) The work on the underground fuel tank installed near the Vehicle Washing Unit at Attidiya had been completed at the agreed cost of Rs.360,000. Even though a period of over 02 years had elapsed by 31 May 2011 it had not been possible to utilize it for the purposes of the Council due to the prevailing defects.

2:14 Internal Audit

The following observations are made.

- (a) The work of the Internal Audit Unit had not been organized in accordance with the provisions of Financial Regulation 133(1) and (2) of the Democratic Socialist Republic of Sri Lanka.
- (b) Action in compliance with the provisions of Financial Regulation 134(1), (2) and (3) had not been taken with regard to the following matters.
 - (i) Functioning as a Unit independent of the financial and administrative affairs of the Council.
 - (ii) Preparation of the Internal Audit Programmes with the concurrence of the Auditor General.
 - (iii) Furnishing copies of Internal Audit Reports to the Auditor General.

2:15 Corporate Plan, Annual Action Plan and Annual Performance Report

Even though the following plans and reports should be prepared in terms of paragraph 5 of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance, those had not been prepared.

- (a) Preparation of the Corporate Plan at least for a period of 03 years.
- (b) Preparation of the Annual Action Plan in conformity with the Corporate Plan.
- (c) Preparation of the Annual Performance Report by the specified dates in comparison with the Corporate Plan and paying attention to the instructions in the Public Finance Circular No. 402 and No. 402(i) and furnishing to the respective institutions.

3. Systems and Controls

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

- (a) Accounting
- (b) Financial Control
- (c) Internal Audit
- (d) Budgetary Control
- (e) Revenue Administration
- (f) Assets Management
- (g) Cadre Management
- (h) Debtors and Creditors Control

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