

Maharagama Urban Council

Colombo District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements for the year under review had been presented to audit on 06 July 2011 and the financial statements for the preceding year had been presented for the audit on 09 July 2010.

1:2 Opinion

In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Maharagama Urban Council for the year ended 31 December 2010.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

The accounting deficiencies observed in the accounts in terms of assets and liabilities are given under the instances and values in the following Table.

	Effect on the Accounts			
	Assets		Liabilities	
	Number of Instances	Value	Number of Instances	Value
		Rs.'000		Rs.'000
Understatements in the Accounts	03	1,767	01	11,816

1:3:2 Unreconciled Control Accounts

The balances of 12 items of account according to the relevant Control Accounts totalled Rs.293,981,055 whereas according to the subsidiary registers/ records, the balances of those accounts totalled Rs.257,047,932.

1:3:3. Unsettled Accounts

The balances of accounts relating to 04 items of account totalling Rs.3,457,309 continued to be brought forward without being settled. Even though this matter was referred to in my reports for the preceding years, no action whatsoever had been taken thereon.

1:3:4 Lack of Evidence for Audit

(a) Unanswered Audit Queries

Replies to 02 audit queries had not been furnished by 30 June 2011 and the values of quantifiable transactions relating to those audit queries accounted to Rs.59,274,655.

(b) Non-submission of Information for Audit

Transactions totalling Rs.86,659,080 could not be satisfactorily vouched in audit due to the non-submission of the required information to audit.

1:3:5 Non-compliances

Non-compliance with 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

(i) Section 162(1)(A) of the Urban
Councils Ordinance (Cap 255)

The Council had not recovered a sum of
Rs.368,800 from 16 advertising
hoardings by 12 January 2011.

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

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- (a) Financial Regulation 387 A overdraft balance existed in the official Bank Account of the Council throughout the year 2010.
- (b) Financial Regulation 395(c) The Bank Reconciliation Statements from November 2008 to December 2010 had not been prepared even by 05 August 2011.
- (c) Financial Regulation 757(2) Reports of the Board of Survey had not been furnished to audit.

2. Financial and Operating Review

2:1 Financial Result

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.37,003,872 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.6,767,738 for the preceding year.

2:2 Financial Control

2:2:1 Bank Overdraft Interest

Bank overdraft interest amounting to rs.2,713,169 had been paid due to obtaining Bank overdraft exceeding the favourable balance of the Official Bank Account of the Council from July 2005 to 31 December 2010.

2:2:2 Bank Reconciliations

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- (a) The schedules relating to cheques deposited but not realized totalling Rs.334,200 and cheques issued but not presented for payment totalling Rs.7,096,087 appearing in the last Bank Reconciliation prepared for October 2008 had not been furnished.
- (b) Charges and debits made to the account by the Bank totalling Rs.1,611,700 had not been identified and brought to account while the schedules of those balances as well were not furnished.
- (c) Debit balances totalling Rs.337,157 had not been identified and brought to account.
- (d) Direct receipts totalling Rs.49,679,324 and a sum of Rs.49,387 that should be adjusted to the Environment Account had not been adjusted to the relevant accounts.

:3 Revenue Administration

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

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Chairman is given below.

Item of Revenue	Estimated	2010		Estimated	2009	
		Actual	Cumulative Arrears as at 31 December		Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	83,300	66,414	89,465	71,000	56,272	74,688
(ii) Lease Rents	6,410	7,886	1,525	6,410	6,918	1,991
(iii) Licence Fees	658	240	1,587	2,022	314	1,582
(iv) Other Revenue	187,528	175,423	91,230	141,379	76,455	121,390

It was observed in audit that the amounts presented did not reconcile with the accounts.

2:3:2 Arrears of Trade Stall Rents

- (a) Action had not been taken for the recovery of the arrears of trade stall rents amounting to Rs.427,752 as at 31 December 2010 due from 23 trade stalls of 03 Trading Complexes and a weekly fair at Maharagama.
- (b) According to clause No. 26 of agreements on leasing of trade stalls, the lessee should not sub-lease trade stalls to other parties. Nevertheless 06 trade stalls of Kottawa Public Market had been given on sub-leases.

2:3:3 Investment Revenue

No dividends whatsoever had been received from the year 2006 on a sum of Rs.5,505,190 invested in Lanka Electricity Company (Private) Limited.

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	98,977	80,302	18,675	101,153	75,726	25,427
Others	120,368	144,482	(24,114)	63,190	145,820	(82,630)

Sub-total	219,345	224,784	(5,439)	164,343	221,546	(57,203)
Capital	156,000	50,054	105,946	73,965	85,587	(11,622)
Expenditure						
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Grand Total	375,345	274,838	100,507	238,308	307,133	(68,825)
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2:5 Budgetary Control

 Significant adverse variances were observed between the budgeted revenue and expenditure and the actual revenue and expenditure thus indicating that the budget had not been made use of as an effective instrument of control.

2:6 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.

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff	04	03
Secondary	87	76
Primary	238	184

Out of the approved cadre of 329, there were 66 posts vacant.

2:7 Assets Management

 2:7:1 Staff Loan Recoverable

 (a) The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.33,527,149 and an age analysis had not been furnished.

(b) Loan and advance balances receivable from employees transferred out amounting to Rs.2,292,403 had been carried forward over a number of years as no action had been taken for recovery.

2:7:2 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.183,807,253 and an age analysis had not been furnished.

2:7:3 Assets not Surveyed

The value of assets not supported by Physical Checks/Board of Survey Reports and computed at book value as at 31 December 2010 amounted to Rs.141,484,022.

2:7:4 Stores Control

Differences existed between the value appearing in the stock book and the bin cards in respect of stocks of electrical goods valued at Rs.1,372,380 appearing in the stock books.

2:7:5 Register of Fixed Assets

Particulars of lands and buildings had not been recorded at the Registers of Fixed Assets furnished to audit.

2:8 Operating Inefficiencies

Payment of Taxes

The following observations are made.

- (a) According to the letter dated 20 August 2009 of the Commissioner General of Inland Revenue addressed to the Commissioners of Local Government, the Returns on the Nation Building Tax should be furnished on quarterly basis. Nevertheless, sundry services supplied by the Council during the period June to December 2009 had not been furnished to the Commissioner General of Inland Revenue.

- (b) The tax for a quarter should be paid in three installments but the tax amounting to Rs.212,582 collected during the period June to December 2009 had been retained in the General Deposit Account without being remitted to the Commissioner General of Inland Revenue up to date of audit on 13 August 2010.
- (c) According to the letter of the Commissioner of Inland Revenue dated 27 July 2011 a penalty payable by the Council amounting to Rs.1,192,760 had been imposed for the non-payment of Valued Added Tax for the third quarter of the year 2005 and first three quarters of the year 2007. But the Sabha had not taken any action thereon.

2:9 Performance

2:9:1 Special Project on Eradication of Dengue

- (a) The Special Project on Eradication of Dengue implemented by the Council did not cover the Health Administration Division, Mirihana.
- (b) The Monthly and Quarterly Reports in terms of the letter No.(WP) LGD/03/01/09/01 dated 19 May 2009 of the Commissioner of Local Government had not been prepared and submitted after October 2010.

2:9:2 Maintenance of Funerary Rites and a Funeral Parlour at the Godigamuwa Cemetery

- (a) An interim report on the Project had not been prepared in accordance with the letter No. LGD/06/05/U13 dated 16 February 2010 of the Commissioner of Local Government, Section 153 of the Urban Councils Ordinance and the Project Report.
- (b) The Chairman had not entered into an agreement containing the matters referred to the Section 38 of the Urban Council Ordinance with the service supplier.

- (c) The Council had decided that in accordance with the recommendation of the Finance and Policies Committee dated 18 October 2010 that 10 per cent of the price comprising expenditure and dividends charged by the supplier for the funerary services should be collected. The service supplier had supplied services in connection with the funerals of 47 persons during the period August to December 2010 and paid a sum of Rs.166,800 to the Council. The Council had not carried out follow up action to ensure the accuracy of that revenue.

2:10 Contract Administration

Constructions

- (a) Installation of a Netting Fence around the Pragathipura Volley Ball Court and Supply of Electricity

- (i) The contract for the execution of the above contract had been awarded to the Pragathipura 524 A Rural Development Society on 27 November 2009 for a consideration of Rs.573,780. According to the Payment Reports on this work a sum of Rs.288,000 had been paid under the Item No.10 to the contractor for the supply of 3,200 squarer feet of netting of 2"x2" size of gauge 10, installation between the posts, welding and fixing with bolts. A physical inspection carried out on 12 January 2011 revealed that only 2,868.75 square feet a netting had been supplied and installed thus indicting an overpayment of Rs.29,813.
- (ii) Even though a sum of Rs.28,800 had been spent for supply and installation of wire and Rs.6,500 for installation of 02 flash lamps, electricity supply to the volley ball court had not been obtained.
- (b) Concreting of the Mid Section of the Access Road to the Vivekarama Temple – Maharagama Railway Avenue

The contract for the execution of the above work had been awarded on 09 November 2010 to the Pamunuwa Rural Development Balakaya for a consideration of Rs.187,500. The physical inspection carried out on 12 January 2011 revealed that the concrete road surface to a length of 52 feet had been eroded exposing $\frac{3}{4}$ " metal.

- (c) Modernization of Old building of the Council at Rukmalgama as a Day Care Centre
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Even though the contractor Rukmalgama West Rural Development Society had been paid a sum of Rs.54,000 on 14 May 2010 for planting 08 Red Palms in the land where the building is situated, at the rate of Rs.6,750 per plant, Rs.5,200 per pant had been paid to the Godigamuwa Rural Development Balakaya on 15 October 2010 for planting the same kind of plants around the Godigamuwa Funeral Parlour. Thus, it was observed that an overpayment of Rs.12,400 had been made.

2:11 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) Assets Mangement