

Ratnapura Municipal Council

Ratnapura District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 08 April 2012 and the financial statements for the preceding year had been presented on 22 March 2012. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 21 January 2014.

1:2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Ratnapura Municipal Council for the year ended 31 December 2012 presented for audit.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

The following observations are made.

- (a) The Ratnapura Guest House belonging to the Municipal Council is administrated by the Urban Development Authority and 70 percent of the management fees amounting to Rs.2,682,419 recoverable from the Urban Development Authority for the period 2010 to end of the year under review had not been accounted for, under debtors. During the year under review, the said revenue had been understated in the accounts by Rs.925,559.
- (b) Although the Urban Development Authority had taken action to retain 50 per cent of the Guest House Management Fees for settling the loans on projects implemented within the Municipal Area through the Urban Development Authority, the adjustments concerned had not been shown in the ledger accounts.
- (c) Billing of rates and taxes, warrant charges and additional debits for the year under review was Rs.25,229,948. However, the amount accounted was Rs.24,311,409 resulting in an understatement of Rs.918,539 in accounts.

- (d) The opening balance of arrears the Rats and Taxes Account was Rs.21,861,507. However, the opening balance of arrears was Rs.22,147,954 as per computer printouts of 2012.
- (e) The years receipts of rates and taxes was Rs.26,143,339'. However, a sum of Rs.25,332,439 had been accounted for, through journal entry No. 10.
- (f) The property loan interest reimbursement revenue of the year under review was Rs.1,304,323. However, the revenue of March amounting to Rs.101,308 alone had been accounted for, as revenue. Accordingly, the years revenue had been understated by Rs.1,203,019 and a sum of Rs.1,095,249 had been included in the Employees' Loans Account.
- (g) The reimbursement of interest on property loans amounting to Rs.1,295,024 with reference to the previous years should have been accounted for, in the Property Loan Interest Reimbursement Account. But, it had been accounted for, in the Employees' Loan Account. Accordingly, the balance of the Employees' Loan Account had been understated by a similar amount.
- (h) Although a sum of Rs.1,191,125 had been accounted for, as prepayments in the ledger accounts, there were no such prepayments.
- (i) Bills had not been prepared for fees for parking buses at the main Bus Stand receivable from the Sabaragamuwa Bus Company for the year under review and the previous year accounting to Rs.360,000.
- (j) The minimum key money received for the year under review on behalf of properties of the Municipal Council given on lease amounting to Rs.4,677,179 and the minimum key money of Rs.2,600,000 on behalf of the land adjoining the public latrine of Pulugupitiya had not been accounted for, as revenue of the year under review. Instead, it had been shown in the Miscellaneous Deposits.
- (k) A sum of Rs.1,392,000 should have been credited on behalf of Revenue Head No. 10371(2) Members' Allowances for the year under review. However, a sum of Rs.1,152,000 alone had been shown as revenue in the accounts after deducting Rs.240,000 as on motor cycle loans.
- (l) According to the letter of the Chef Executive officer of the Local Loans and Development Fund dated 24 July 2012, the loans relating to the Public Market

Access Road and the Project for construction of the multipurpose building as at end of the year under review was Rs.37,553,724. However, the balance was Rs.28,002,506 as per relevant account.

- (m) The sum of Rs.13,002,117 received during the year under review for constructing the access road and the multipurpose building under the Loan Aid of the Asian Development Bank had not been credited to revenue.
- (n) Court fines and stamp fees should be accounted for, on accrual basis. However, the sum of Rs.16,701,616 received during the year under review on behalf of the previous year had been credited to the revenue of the year and as such the revenue for the year under review had been overstated by a similar amount.
- (o) The stamp fees of November and December of the year under review had not been identified. Out of the amount identified, no information had been disclosed in the financial statements with reference to a sum of Rs.11,097,970. Further, the stamp fees of Rs.7,189,966 relating to June to December of 2011 had not been disclosed in the accounts as revenue receivable.
- (p) An expenditure of Rs.11,735,400 had been incurred on purchasing the official vehicle of the Mayor. Of this, a sum of Rs.7,000,000 had not been debited to the relevant object and the expenditure of the Sabha had been understated by the said value.
- (q) A difference of Rs.1,075,112 was observed between the values appearing in the balance sheet and the registers with reference to the employees' loans, dishonoured cheques and interim advances (Advances) as at end of the year under review.
- (r) Audit test checks revealed a difference of Rs.2,580,501 between the total of balances aggregating Rs.15,131,125 and Rs.13,394,027 with reference to 13 Revenue Objects for the year 2012.
- (s) The actual receipts from debtors during the year under review was Rs.30,806,900. However, a sum of Rs.30,712,524 alone had been accounted for, in the Revenue Debtors Account.

- (t) The votes ledger of the Council had not been updated and maintained. As a result, test checks carried out in audit revealed a difference of Rs.365,642,482 with reference to 61 objects.

1:3:2 Lack of Evidence for Audit

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(a) Unreplied Audit Queries

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Replies had not been furnished for 33 audit queries by 31 December 2012. The computable transactions subjected to those audit queries were valued at Rs.348,606,901.

(b) Non-Rendition of Information to Audit

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Transactions aggregating Rs.117,377,383 could not be satisfactorily vouched in audit due to non-rendition of necessary information to audit.

2 Financial and Operating Review

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2:1 Financial Results

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According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Council for the year ended 31 December 2012 was Rs.17,168,213 as compared with the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs.9,281,551.

2:2 Unsettled Accounts

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The balances of long term debtors accounts remaining unsettled as at 31 December 2012 was Rs.69,382,992.

2:3 Bank Reconciliation

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- (a) Action had not been taken in terms of Financial Regulation 396(d) of the Republic of Sri Lanka with regard to 77 cheques amounting to Rs.2,173,164 which had lapsed a period of 6 months since the dates of issue.
- (b) Action had not been taken to recover the revenue due or to take legal action in this regard with regard to 06 dishonoured cheques aggregating Rs.302,179 pertaining to a period of 1 to 5 years.

2:4 Revenue Administration

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2:4:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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The information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review, as presented by the Mayor, appear below.

	Source of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
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		Rs'000	Rs.'000	Rs.'000
(i)	Rates and Taxes	22,319	26,436	19,807
(ii)	Lease Rent	48,211	36,606	11,605
(iii)	Licence Fees	2,665	2,027	638
(iv)	Other Revenue	16,874	23,830	--

2:4:2 Rates and Taxes

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Out of the revenue from rates and taxes for the year under review, a sum of Rs.128,525 had been written off under the waiver of poor relief taxes on a decision made by the Council without the approval of the Minister.

2:4:3 Lease Rent

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The following observations are made.

- (a) According to the Register of Lease Rent, there were 452 units of premises of lease. However, it could not be satisfied in audit whether it was an updated information. Meanwhile, during the year under review, land had not been valued for fixing the lease and agreements had not been entered into. Forty-two agreements alone had been entered into. It was observed that the lease rate was very minor, such as, 37 cents, 75 cents etc., per quarter.
- (b) Out of the land lease rent recovered for 103 out of 452 units, there were arrears Rs.3,041,966 by the first quarter, with reference to arrears exceeding Rs.5,000.
- (c) Out of the above 452 units, billing for 22 units had been suspended for a long time. No reasons for such suspension was observed in audit. A sum of Rs.30,146 was due from those 22 units.

2:4:4 Other Revenue

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The following observations are made.

- (a) The arrears of stall rent as at end of the year under review was Rs.571,965.
- (b) No action had been taken to recover the sum of Rs.766,405 being 20% of the management fees receivable from the Ratnapura Guest House belonging to the Council for the year under review and the previous years.
- (c) Revenue from fees obtained for parking buses for a period of 7 years from 2003 to 2012 due to the Municipal Council from the Sabaragamuwa Bus Company amounted to Rs.1,320,000.
- (d) Arrears of rent from the New Luckshmi Cinema Hall building was Rs.697,500. No action had been taken to settle this even during the year under review.

- (e) No action had been taken to recover the fees of Rs.450,605 due from Ratnapura Bus Hall Latrine for April and May 2012 from the lessee concerned. A water meter had not been fixed for the latrine system. As a result, water charges had not been computed and recovered from the lessee.
- (f) During the year under review, no revenue had been obtained from six out of 49 stalls of the public market belonging to the Municipal Council.

#### 2:4:5 Court Fines and Stamp Fees

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The court fines and stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2012 had not been identified and accounted for.

#### 2:5 Surcharges

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- (a) A sum of Rs.124,467 was recoverable as at 31 December 2012 with regard to surcharges levied by me against those were responsible. in terms of provisions in 226(1) of the Municipal Councils Ordinance (Chapter 252).
- (b) I propose to levy surcharges in future with regard to 9 transactions aggregating Rs.15,004,761.

#### 2:6 Irregular Transactions

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The following observations are made.

- (a) During the month of May 2012, 500 bags of cement had been purchased for Rs.400,000 without necessity.

- (b) While settling the fuel advances, the numbers of vehicles should be indicated in the bills produced. However, a sum of Rs.57,341 had been paid on behalf of fuel without indicating the numbers of vehicles.
- (c) During the year under review 500 chairs valued at Rs.2,340,000 had been purchased from a private firm as per specifications furnished by the Municipal Engineer.

The said 500 chairs were not according to specifications. However, the officers had recommended payments by stating in the receipt orders that they were upto specifications.

## 2:7 Contract Administration

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- (a) Although it was estimated in 2012 to implement 43 projects with an estimated cost of Rs.14,575,609, all the projects had not been implemented.
- (b) A record relating to materials received and used should be maintained at worksites. However the records relating to usage of 326 bags of cement purchased for Rs.273,840 on 24 May 2012 had not been furnished to audit.

## 2:8 Operating Inefficiencies

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The following observations are made.

- (a) Ad hoc imprests should be settled immediately after the work for which it has been granted is completed in terms of Financial Regulation 371 of the Republic of Sri Lanka. However, action had not been taken to settle advances aggregating Rs.17,942,664 given on 9 instances during 1990 to 2010, even by 10 June 2013, the date of audit.
- (b) Action had not been taken to write off the balances aggregating Rs.24,175,270 relating to arrears of electricity charges and the Electrical stores Account without identifying them, on a decision made by the Council. These had not been identified even during the year under review.



- (c) A provision of Rs.5,066,085 had been transferred to 4 objects during the year under review without any approval.
- (d) Balances of distress loans amounting to rs.823,919 were due from 55 employees who had gone on change of station transfers.
- (e) The Luxmi Cinema Hall belonging to the Municipal Council remained alone for several years. Attention had not been paid to utilize the building situated in the economically vehicle area for beneficial economic activities.
- (f) Lapsed deposits valued at Rs.458,450 had been shown in the balance sheet as non-moving current assets without being settled in terms of Financial Regulation 571 of the Republic of Sri Lanka.
- (g) During the year under review, fifty six applications had been forwarded to dispose of the dangerous trees in terms of the Municipal Councils Ordinance (Chapter 252) 136(b). 16 trees relating to the applications had been cut and disposed of. Ten dangerous trees had been disposed of, by the Municipal Council on its own expenses. But no action had been taken to recover the sum of Rs.444,915 due to the Municipal Council in this regard. The revenue concerned had not been disclosed with the financial statements of the year under review at least.

2:9 Human Resources Management

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The following matters are observed.

- (a) There should be some specific work in order to obtain services on adhoc basis and the relating expenditure and the period of commencement and end of such work should be estimated and furnished. However, without doing so, 74 employees had been recruited on an adhoc basis to the buildings division under decision No.154 of the general meeting held on 28 December 2011 and salaries aggregating Rs.5,002,775 had been paid to them by August 2012.
- (b) While recruiting employees for government services on temporary, casual, substitute and contract basis, recruitments should be based on legal services agreement applicable to the permanent post which had fallen vacant. However it was observed that without entering into proper service agreements, 167

employees had been recruited during the year under review and a sum of Rs.14,453,098 had been paid as salaries.

- (c) It was revealed at audit test checks that while paying salaries to casual and substitute employees on daily basis, there were instances where the computations relating to number of days worked by each employee differed from the actual number of days worked.
- (d) Seven appointments had been made without obtaining the approval by the Department of Management Services for 5 categories of posts in the Municipal Council Reimbursement of salaries had been made for these posts.
- (e) According to the approved cadre of the Council, the number of vacancies were 89. However, 201 employees had been recruited on casual substitute and contract basis. By doing so, 112 employees had been recruited in excess with reference to three vacant posts as stipulated provisions in circulars No. 01/2010 and No. 2010 of 16 November issued by the Chief Secretary.
- (f) During the years 2010, 2011 and 2012 expenditure inventory to Rs.17,008,859, Rs.19,202,064 and Rs.29,193,687 had been incurred from the funds of the Council for employees recruiting on casual, substitute and contract basis without the approval of the Chief Secretary and the Department of Management Services. Further, the employees recruited had been engaged in services not relevant to their posts.

## 2:10 Waste Materials Management

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The following observations are made.

- (a) Waste materials collected within the 22 km range of Ratnapura Municipal Limits and within the 15 km range of bye roads are disposed of at the Kenadola area. It was revealed that the waste material collected and brought to the place of disposal had been pushed down the staff at the spot. These waste materials had now been set on fire polluting the environment with adverse gases. Action had not been taken to minimize such situation, if any.

- (b) A sum of Rs.2,355,000 had been spent based on an estimated cost of Rs.4,391,264 for constructing the Kanadola Waste Material Disposal Centre under the Municipal Council Waste Material Management Project. However, it was a failure as it had not been properly maintained and it was revealed the excreta bought for disposal too had been disposed at the place where waste materials are disposed for the last 5 years or so. About 70-75 cubes of excreta were being disposed of, by the Municipal Council every month apart from the excreta bought from Kuruwita area at the same place in an open air space.

It was observed that this badly effects health of the public and the environment as well.

- (c) It was observed that the Kenadola Waste Material Disposal premises exceeding 25 acres which belongs to the Council had been sued by squatters and it was observed that the Municipal Council had not constructed protective fences to protect the property or to drive away the squatters.

### 3. Systems and Controls

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Special attention of the Council is needed in respect of the following areas of control.

- (a) Accounting
- (b) Budgetary Control
- (c) Financial Control
- (d) Revenue Administration
- (e) Contract Administration\
- (f) Assets Management
- (g) Human Resources Management
- (h) Waste Material Management