

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 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 03 April 2014. The Auditor General's Report relating to the year under review was sent to the Mayor of the Council on 10 August 2015.

1.2 Opinion

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

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following deficiencies are observed.

- (a.) While Property Loans Interest Income and Salary Reimbursements amounting to Rs. 98,504 and Rs, 14,601,634 receivable respectively at the end of the year under review had not been accounted as income for the year, that revenue for December of the preceding year received during the year under review amounting to Rs.86,838 and Rs.1,814,628 had been accounted as revenue for this year.

- (b.) Members Allowances Reimbursement Revenue relevant to December of the preceding year received during the year under review amounting to Rs. 116,000 had been accounted as a revenue for the year under review.
- (c.) Although the Revenue Billed in respect of Kudugalwaththa stalls rent and shopping complex rent was Rs. 534,235, it had been accounted as Rs. 562,410.
- (d.) Revenue Billed relevant to 02 Revenue Heads for the year under review had not been accounted as revenue for the year and therefore, revenue for the year had been understated in a sum of Rs.454,541.
- (e.) When accounting Planning Committee revenue, receipts of Unauthorized Service Charges amounting to Rs.100,000 had been accounted as receipts of Processing Charges Revenue resulting a change of Revenue Heads.
- (f.) While Stamp Fees Revenue of Rs. 13,537,102 received relevant to the preceding year had been accounted as revenue for the year under review, Stamp Fees Revenue Receivable for April to December of the year under review had not been identified and not accounted.
- (g.) Although the Value added Tax to be remitted to the Department of Inland Revenue relevant to the final quarter of the year under review was Rs. 1,684,492, a sum of Rs. 2,641,252 had been accounted as liabilities.
- (h.) Although Nation Building Tax to be remitted to the Department of Inland Revenue relevant to December month of the year under review was Rs. 16,980, a sum of Rs.301,843 had been accounted as liabilities.

- (i.) Revenue received in advance amounting to Rs. 55,103 in respect of the year 2015 relevant to leasing out lands belong to the Council had been understated in the accounts in a sum of Rs.55,103.
- (j.) Value of three motor cycles amounting to Rs. 445,559 purchased by the Council during the year under review had been accounted as a Staff Loan. In addition to this, a sum of Rs.1,530,951 transferred from Staff Loans Bank Account to the General account for operational expenses during the year under review had been accounted as a payment of staff loans.
- (k.) Receipts amounting to Rs. 122,170 relevant to the year 2015 relevant to 06 Revenue Heads had been accounted under Other Revenue in Arrears.
- (l.) Although the expenditure incurred under Stores Advance Account during the year under review was Rs. 32,136,267, it had been accounted as Rs. 32,534,733, by understating value of stock in hand in a sum of Rs. 398,466.
- (m.) While the Cash in Hand Balance at the beginning of the year under review had been shown as Rs. 1,006,303 in the Main Ledger, a sum of Rs. 944,264 had been credited to the General Cash account through journal entries. Any information was not submitted with regard to the need for making journal entries of this nature.
- (n.) Although the Cash in Hand balance as at 31 December 2014 was confirmed as Rs.123,234, a sum of Rs. 717,947 had been shown as the Cash in Hand balance in the statement relating to the financial position. Any clarification had not been with regard to this difference of Rs. 594,713
- (o.) Fixed Assets valued at Rs. 1,677,484 purchased under the Stores Advance Account during the year under review had not been capitalized.

- (p.) Library books valued at Rs. 27,965 received as donations during the year under review had not been capitalized.
- (q.) Following discrepancies were observed when the balances shown as at end of the year under review in the financial statements relevant to the bank accounts are compared with the balances shown in the relevant cash-books.

Account Number	Name	Balance According Cash-Book	Balance According Accounting statement	Difference
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		Rs.	Rs.	Rs.
1015721	General Account	831,035	1,214,194	383,159
2161282	Development Account	524,309	686,263	161,954
8153561	Planning Account	1,415,168	1,418,865	3,697
73524973	Staff Loans Account	1,773,108	1,744,725	28,383

- (r.) Provision had not been made under Creditors amounting to Rs. 2,411,309 relevant to the year under review.
- (s.) Although a sum of Rs. 19,630,951 had been transferred to the General Account from 05 bank accounts through the Internal Loan Account during the year under review, only a sum of Rs.12,600,000 had been recorded through the Internal Loan Account. Since each entry had been recorded through the Internal Loan Account to the General Account, it is not possible to exist a balance in the Internal Loan Account. However, a balance of Rs. 32,103,872 had been shown in that account at the end of the year under review.
- (t.) Staff Loan interest received amounting to Rs.739,765 had been accounted as receipt of staff loan installments instead of accounting under the relevant Revenue Head.

- (u.) Loan Installments of Rs. 2,939,856 and Loan Interest of Rs. 3,535,138 totalling Rs. 6,474,994 had been paid during the year under review relevant to the loan of Rs. 42 million obtained for the Ratnapura Access Road and the Construction of Multi-Purpose Building Projects under the Asian Development Bank Loan Assistance No. 2201. However, the amounts accounted as loan installments and loan interest under the relevant Expenditure Head had been totalled Rs. 3,897,040, as Rs. 2,229,237 and Rs. 1,667,803 respectively. Any acceptable clarification was not furnished as to how the balance sum of Rs. 2,577,954 was accounted.
- (v.) According to the letter of confirmation of the loan relevant to the loan of Rs. 12,656,450 obtained for development of Ratnapura Veralupe Road under the Asian Development Bank Loan Assistance No. 1632, interest payable amounting to Rs. 3,920,888 as at 31 December 2014 had not been accounted as accrued expenditure.
- (w.) A sum of Rs. 8,000,000 transferred from Special Savings Account for Revenue Collection to the General Administration Account during the year under review had not been recorded in that account.
- (x.) The Nation Building Tax totalling Rs. 33,387 paid during the year under review had been deducted and accounted from that tax recovered by the Council.
- (y.) Although material valued at Rs. 11,250 had been issued to the Health Section during December month of the year under review, that value had been accounted under 02 items of expenditure not included in the estimate for the year under review.

1.3.2 Non-reconciled Control accounts

- (a.) A difference of Rs. 6,791,488 was observed between the balances relevant to 11 items of accounts, according to the Financial Statements as at 31 December 2014 and the Subsidiary Registers.
- (b.) When the Votes Ledger is compared with Financial Statement, non-reconciliations amounting to Rs.898,919 relevant to 07 items of accounts were observed.

1.3.3 Lack of evidence for audit

Following observations are made.

- (a.) Although the Asian Development Bank Loan Capital of Rs. 54,566,853 and the Urban Development Section Project Loan account of Rs. 1,559,433 had been shown as the Loan Capital of 56,126,286 in the statement relating to the financial position, confirmations relating to those loan balances were not furnished to audit.
- (b.) A schedule containing details relating to Deposits valued at Rs. 6,511,802 existing over a long period was not furnished to audit.
- (c.) Creditors Register of the preceding year was not furnished to audit to confirm the opening balance of Rs. 67,368,392 of Expense Creditors.

2. Financial Review

2.1 Financial Results

Following observations are made.

- (a.) According to the Financial Statements presented, excess of recurrent expenditure over operational revenue of the Council for the year ended 31 December 2014 amounted to Rs.21,719,263 as compared with the corresponding excess of

recurrent expenditure over operational revenue for the preceding year amounted to Rs.579,358.

- (b.) It had been a constant feature of adjusting revenue and expense items of account not accounted in prior years and making adjustments in the accounts of subsequent years through the Accumulated Fund annually. Under these circumstances, financial results relating to those years year under review in forthcoming years could not be ruled out in audit.

Year	Financial Results	Adjustments to the Accumulated Fund		Financial Results after adjustments
		Debits	Credits	
	Rs.	Rs.	Rs.	Rs.
2013	(33,715,528)	14,585,117	5,729,096	(42,571,549)
2012	16,251,538	2,343,200	10,742	13,919,080
2011	(4,089,542)	1,817,490	1,907,722	(20,361,310)

2.2 Analytical Financial Review

While the operational deficiency for the year under review had been increased in a sum of Rs. 21,139,905 when compared with the preceding year, it was observed as an increase of 3649 per cent. It was mainly due to the decrease in the revenue on account of Rates, License Fees, Warrant Charges, Fines and Other Revenue by 09 per cent, 01 per cent, 03 per cent and 14 per cent respectively and increase in the expenditure on Salaries and Allowances, Travelling Expenses, Supplies and Equipment, Repairs to Capital Assets, Transport and Communication and Pension payments by 21 per cent, 03 per cent, 14 per cent, 07 per cent 10 per cent and 88 per cent respectively 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
		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	31,100	32,467	22,027
(ii)	Lease Rent	66,413	42,889	17,325
(iii)	Licence Fees	2,443	1,908	-
(iv)	Other Revenue	76,441	50,192	1,019

2.3.2 Performance in Revenue Collection

When Estimated Revenue is compared with Actual Revenue, a decrease by 35 per cent, 22 per cent, 12 per cent, 90 per cent and 31 per cent respectively were reflected relating to revenue collected as Lease Rent, License Fees, Service Charges, Warrant Charges and Fines Other Revenue.

2.3.3 Lease Rent of Stalls

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- (a.) While a sum of Rs. 3,713,816 was due to be recovered from 126 Stalls in Public Fair belong to the Urban Council, out of 99 stalls of those, number of stalls in arrears for more than Rs.50,000 per stall were 23 stalls and the amount due was about Rs.1,615,837.
 - (b.) Any step had not been taken to recover Lease Rent Revenue of Rs. 551,000 due from the Luxamie Cinema Hall belongs to the Council for the period from May 2006 to 31 December 2014.

2.3.4 Other Revenue

Although CTB Bus Parking Fees amounting to Rs. 1,680,000 and Rest House Rent amounting to Rs. 6,914,015 were due to be recovered to the Council over a long period, action had not been taken up to now either to recover that revenue or to take legal action.

2.3.5 Court Fines

Action had not been taken to identify and account the amount of Court Fines Receivable for the period from September to December 2014.

3. Operating Review

3.1 Dormant Accounts

There was a balance of Rs. 1,415,167 in the dormant bank account of the Planning Committee as at the end of the year under review.

3.2 Apparent Fraudulent Transactions

It had been disclosed in the Report of Municipal Commissioner dated 23 June 2015 that financial misappropriations amounting to Rs. 2,657,041 have taken place due to corrupt practices such as alteration of receipts, misplacing, alteration of schedules etc., by the officers of the Council.

Although a new receipt book should be issued only after issuing all receipts in a receipt book, 35 receipt books issued to officers referred to above had not been returned back to the office.

3.3 Operational Inefficiencies

(a.) Land with Salupilisala

Although according to the Tenement List, the Land with Salupilisala surveyed by a Licensed Surveyor during the year 1929 was about 23.5 perches in extent, that land had been leased out to a Co-operative Textile Society Union through the Lease Deed No. 38286 dated 23 August 1969, having mentioned that it is 35 perches in extent and later it had been decided to get it transferred back to the Council according to a decision taken on 08 September 2009 at General Council Meeting.

Value of the two storied building as at that date had been assessed as Rs,1,530,000 and out of that Rs. 765,000 had been paid as first payment. Although Licensed Surveyor had reported on 23 September 2012 that the extent of the land with the building handed over to the Municipal Council is in extent of 4.95 perches, any step had not been taken to get back the balance portion of land to the Municipal Council.

(b.) Leasing out the Salupilisala Building and the Land

Tenders had been called for leasing out the above property on the basis of assessment of Rs.10,000,000 dated 05 September 2013 by publishing paper advertisements in two instances incurring an expenditure of Rs. 169,008.

- (i.) Although a tender application for a value of Rs. 10,002,000 had been submitted by one bidder with the signatures of two employees of the Municipal Council as witnesses, the above building had been leased out to that bidder through a tender board decision without the signatures of the tender board members.
- (ii.) Although the building should be modified and maintained according to the conditions of the agreement, on 13 May 2014 that building had been demolished and removed breaching the conditions in the agreement and construction of a new building had been commenced. However, approval had been granted to the building application submitted for that, deviating from the formal procedure for approving plans.
- (iii.) At the physical inspection carried out on 13 January 2015, it was revealed that construction works of the ground floor was in progress having laid foundation for construction of the building in the above land.
- (iv.) Although orders had been issued to remove the unauthorized constructions existing in that place after leasing out the above building and the land on 13 May 2014, it was observed that those orders had not been carried out and that the Council had to incur a legal expenditure of Rs.30,000 due to failure in proper follow up with regard to the above unauthorized Construction.

(c.) Lawyers' Fees

It had been decided pay a monthly fee of Rs. 12,000 to attend to all legal works and court works to a lawyer and pay a daily fee of Rs. 300 for appearing in court. Accordingly, the service of a female lawyer had been obtained.

In spite of paying a monthly allowance to the lawyer in terms of the agreement, a sum of Rs.70,000 too had been paid to her in two instances at the rate of Rs. 35,000 for appearing in court works. In spite the fact that a specific format had been introduced by the Local Government Department for lease agreements, a sum of Rs. 614,115 too had been paid for the lease agreement prepared by the female lawyer.

4. Accountability and Good Governance

4.1 Budgetary Control

Total provision of Rs. 84,888,320 relevant to 36 Items of Expenditure had not been utilized for any activity.

4.2 Audit Queries not resolved and responded.

Replies had not been furnished to 34 audit queries as at 31 December 2013, value of which could be computed, amounted to Rs.343,641,728.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Budgetary control
- (c.) Revenue Administration
- (d.) Utilization of Assets