

Dehiwala- Mount Lavinia Municipal Council
Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 01 June, 2016 while Financial Statements relating to the preceding year had been submitted on 30 March 2015. The Report of the Auditor General for the year under review was sent to the Mayor on 30 June, 2016.

1.2 Qualified Opinion

In view of the importance of matters referred to in paragraph 1.3 of this report, my opinion is that the financial statements give a true and fair view of the financial position of the Dehiwala-Mount Lavinia Municipal Council as at 31 December 2015, its financial performance and cash flow for the year then ended in accordance with generally accepted Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) As the creditor allocations for the railway warrants had been underallocated by a sum of Rs. 439,145 in the preceding year, the expenditure of the year under review had been overstated by that sum.
- (b.) According to the Revenue Registers, the revenue receivable from the gully bowser service amounted to Rs. 297,921 as at 31 December, 2015. Nevertheless, it had been accounted as Rs. 39,000 in the financial statements; thus, understating the revenue from the gully bowser service, and the debtor balance of the gully bowser service for the year 2015, by a sum of Rs. 258,921 in the financial statements.
- (c.) The 02 vehicles of the type "*Dimo Batta*" received as donations on 13 September, 2012 from a private institution, had been taken over by the Council on 12 October, 2015, but the value thereof had not been assessed and accounted as fixed assets. No depreciations had been made in respect of the relevant period as well.
- (d.)
 - (i) Contrary to the instructions of the letter of the Commissioner of Local Government (Western Province), dated 20 August, 2014, the value of 4 installments totalling Rs. 353,136 payable for the Cab valued at Rs. 3,178,227 granted by the Department of Local Government to the Council on 29 January, 2013, had not been accounted as being payable. Hence, the Recoverable Utility Services Account, and the Loan Account of the Provincial Councils had been understated by that value in the financial statements.
 - (ii) Furthermore, the sum of Rs. 2,825,091 paid up to 31 December, 2015 as installments, had not been accounted as the value of the Cab, contrary to the instructions of the aforesaid letter. Hence, the Motor Vehicles Account, and the Contributed Capital Input Account had been understated by that value in the financial statements of the year under review.
- (e.) Due to failure in accounting the Entertainment Tax amounting to Rs. 289,234 receivable for the month of December in the year under review, the revenue and the debtor balance of the Entertainment Tax of the year, had been understated by that value.

1.3.2 Non-reconciled Control Account

The following observations are made.

- (a.) When a total sum of Rs. 366,504,545 relating to 12 items of accounts shown in the financial statements were compared with the relevant subsidiary registers and records, overstatements amounting to Rs.3,472,142 and understatements amounting to Rs. 476,728 were observed.
- (b.) According to the Ledger Accounts, the outstanding balance of the miscellaneous revenue receivable as at 31 December, 2015 amounted to Rs. 151,832,233. Nevertheless, it was shown as Rs. 147,774,426 in the financial statements, and hence, the financial statements were understated by a sum of Rs. 4,057,807. Despite being pointed out in the audit report that the said difference had existed even in the financial statements of the preceding year, no remedial action had been taken.

1.3.3 Accounts Receivable

The following observations are made.

- (a.) The employee loan balance comprising the loan categories such as, vehicle, distress, festival, and special, totaled Rs. 3,485,636 as at 31 December, 2015. Those loan balances remained outstanding over a period of more than a year.
- (b.) The member's allowance in arrears with respect to the years 2013, 2014, and 2015 totalling Rs. 7,021,000, had not been reimbursed even as at 29 April, 2016.
- (c.) Action had not been taken even in the year under review to identify and recover the outstanding lease rent of Rs. 2,356,067 of the meat stalls that had been existing from the years prior to 2014 in the receivable miscellaneous revenue.

1.3.4 Lack of Evidence for Audit

In respect of the sum of Rs. 10,854,144 shown in the financial statements as being receivable from the Ceylon Electricity Board, no relevant agreements, letters of confirmation of balances, replies to the reminders sent by the Council, and etc. had been made available to audit.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue collected for the year ended as at 31 December, 2015 in excess of the recurrent expenditure of the Council, amounted to Rs. 312,450,626 whilst the revenue in excess of the recurrent expenditure of the preceding year, amounted to Rs. 297,508,403.

2.2 Financial Control

The following weaknesses in the financial control were observed.

As for the Financial Regulations of the Democratic Socialist Republic of Sri Lanka ;

- (i) In terms of 177 (1) therein, the revenue collected should be banked daily or as soon as possible. Nevertheless, the market fees amounting to Rs. 288,240 collected daily from the daily market in Ratmalana, had been handed over to the Council by the relevant officer once per month.
- (ii) In terms of 188 (2) therein, action had not been taken according to the provisions in respect of 02 money orders, and 05 cheques valued at Rs. 48,683 that had not been realized despite being deposited as at 31 December, 2015.
- (iii) In terms of 371 (5) therein, advances should be settled on or before 31 December, of the year in which the advance had been obtained. However, according to the register of advances, a balance of unsettled advances totalling Rs. 1,129,663 had existed.
- (iv) In terms of 396 (d) therein, action had not been taken even up to 30 April, 2016 on 14 cheques valued at Rs. 813,945 and older than 06 months as at 31 December, 2015 that had not been presented for payment despite being issued.
- (v) In terms of Financial Regulation 570 and 571 of the Democratic Socialist Republic of Sri Lanka, the deposits with a period of 2 years, should be credited to the Government revenue. Nevertheless, the value of the deposits, not so credited, amounted to Rs. 29,787,383 as at 31 December, 2015.
- (vi) Action had not been taken in terms of Financial Regulation 396 (d) of the Democratic Socialist Republic of Sri Lanka on 374 cheques not presented to the bank despite being issued with a total value of Rs. 2,315,002 included in the miscellaneous balances of the financial statements of the year under review amounting to Rs. 72,021,920. Instead, that value had been included in the Repayable Miscellaneous Deposits Account.

2.3 Revenue Administration

2.3.1 Performance of Collecting Revenue

- (i) Information on the actual revenue and the arrears of revenue relating to the year under review and the preceding year as presented by the Mayor, is shown below.

<u>Source of Revenue</u>	<u>2015</u>				<u>2014</u>	
	<u>Actual Sum to be Collected</u> Rs. '000	<u>Actual Sum Collected</u> Rs. '000	<u>Arrears for the Year</u> Rs. '000	<u>Cumulative Arrears as at 31 December</u> Rs. '000	<u>Actual Sum to be Collected</u> Rs. '000	<u>Cumulative Arrears as at 31 December</u> Rs. '000
Rates and Taxes	364,509	200,449	164,060	344,899	339,880	334,643
Lease Rent	17,299	12,894	4,405	9,874	16,973	7,622

License Fees	25,813	19,699	6,114	21,916	39,027	19,193
Other Revenue	355,081	96,745	258,336	540,710	462,188	464,006

2.3.2 Rates

The following observations are made.

- (a.) According to the financial statements reviewed in accordance with the revenue information presented by the Mayor, the revenue from the Rates for the year amounted to Rs. 355,679,879. Nevertheless, a sum of Rs. 163,386,678 remained recoverable as at 31 December, 2015.
- (b.) The outstanding debtor balance of rates amounted to Rs. 330,731,850 by the end of the preceding year, and a sum of Rs. 208,518,437 remained recoverable therefrom as at 31 December, 2015.
- (c.) The Rates in arrears amounting to Rs. 341,029,868 as at 31 December, 2015 comprised 36 locations with Rates in arrears of more than Rs. one million. The balance of the Rates recoverable therefrom amounted to Rs. 69,466,965.
- (d.) In terms of Section 240 of the Municipal Councils Ordinance, rates amounting to Rs. 11,431,669 had been written off under the Decision, No. 08 (01*a) 74 arrived at the general meeting, dated 05 September, 2014 by considering the location of residence, and other reasons. In allowing a remission of the Rates for unattended properties, a field inspection report should be obtained from the Revenue Inspectors to the effect that the relevant properties are unattended. However, such field inspection reports had not been obtained when writing off Rates amounting to Rs. 248,281 in respect of 13 units of Rates in 03 divisions.
- (e.) The Council had sent a final notice on 04 March, 2009 in order to recover the Rates in arrears amounting to Rs. 4,380,683 that remained unrecovered from the year 2002 up to 31 December, 2008 with respect to the property at No.105, Pallidora road, in division 14. In response thereto, the relevant institution had informed on 26 March, 2009 that the Rates could not be paid. However, future action had not been taken in accordance with the final notice sent by the Council. But, in terms of the report presented in this connection by the Municipal Commissioner and the Municipal Accountant (Revenue) on 13 September, 2013, it had been recommended that a remission or writing off for the Rates in arrears of the institution amounting to Rs. 3,710,584 for the period 2003 – 2009, had not been possible in legal terms. By disregarding that recommendation, it had been decided according to the Decision No. 08 (9 b) 01 arrived at the general meeting, dated 07 February, 2014 that only 1/5 of the Rates payable by the institution for the period 2003 – 2012, equivalent to a sum of Rs. 886,200 be recovered whilst the 4/5 of the sum be deducted proportionately.

2.3.3 License Fees

- (a.) (i) As stated in Part iv (b) of the Gazette Notification of the Government of Sri Lanka, dated 19 September, 2014, Trade Licenses should be obtained by all the institutions mentioned therein by paying the relevant fees based on the annual value. Nevertheless, 1285 institutions had not obtained Trade Licenses even up to 31 December, 2015, but no action whatsoever had been taken by the Council in that connection.
- (ii) The number of institutions from which only the license fees had been recovered by the Council without issuing licenses, was 73, and the Council had not taken action for conducting businesses without licenses as well.
- (b.) In terms of the powers vested under Section 26 of the National Environmental Act, No. 47 of 1980 amended by the Act, Nos. 53 of 2000 , and 56 of 1988, the authority to issue Environmental Protection Licenses had been delegated to the Urban Councils with effect from February, 2008 by the Central Environmental Authority established under the said Act, and the period of validity for such a license being issued by the Council is 03 years. Nevertheless, 12 business establishments had not taken action to renew their licenses despite the expiry of the period of validity, but the attention of the Council had not been drawn in that connection.
- (c.) (i) Although a sum of Rs. 15,000,000 had been estimated as revenue through the tax on businesses for the year under review, a sum of Rs. 11,638,580 had been billed for the year 2015. A sum of Rs. 8,618,830 had remained recoverable therefrom as at the last day of the year under review.
- (ii) Of the debtor balance of tax on businesses amounting to Rs. 16,234,038 as at 31 December, 2014, a sum of Rs. 12,839,538 had remained recoverable as at the last day of the year under review.

2.3.4 Garbage Fees

As action had not been taken to recover the garbage fees in arrears following the instructions of the Financial Committee and the Decision No. 08 (10) 35 of the Council , dated 18 November, 2003, the garbage fee in arrears amounted to Rs. 3,302,101 as at 31 December, 2015. As no agreement had been entered into between the Council and the business establishments of which the garbage is disposed of by the Council, legal action could not be taken in connection with the recovery of the garbage fees in arrears.

2.3.5 Stamp Fees

A revenue of Rs. 155,000,000 had been budgeted for the year under review, but no amount whatsoever had been received therefrom in the year. Due to failure in obtaining information relating to the revenue of the stamp fees, by visiting the relevant offices of the Registrar General, accurate information on the revenue from the stamp fees receivable for the year 2015 had not been revealed.

2.3.6 Court Fine Revenue

Although a sum of Rs. 22,500,000 had been budgeted by the Council as revenue from the fines imposed by Courts for the year 2015, the actual revenue for the year amounted to Rs. 100,481 representing only 0.4 per cent of the estimated revenue. Action had not been taken in the year under review to recover the court fine revenue amounting to Rs. 116,173,231 that had remained in arrears with respect to the years 2012, 2013, 2014, and 2015. In terms of the provisions of the Statute No. 04 of 1994 to provide for the transfer of fines and penalties imposed by Courts, requests should be made along with documents certified by the Registrar of the Court that imposed the fines, or an officer named by him only within a period of 5 years from 31 December, of the year in which the fine had been imposed. However, requests had not been made in such a manner.

2.3.7 Stalls Rent

- (a.) It was revealed in the test checks conducted on the lease agreements relating to the Stalls Rent that businesses had been conducted at 07 stalls without signing lease agreements whilst no action had been taken either to sign new lease agreements or renew them with respect to 05 stalls of which the period of agreement had lapsed.
- (b.) Action had not been taken to evict the parties who had illegally occupied the stalls over an extensive period of time.
- (c.) In terms of the lease agreement entered into between the stall owners and the Council, it is illegal to sublease the stalls without consent of the Council, but certain stalls had been subleased.

3. Operating Review

3.1 Solid Waste Management

The following observations are made.

- (a.) Although the agreement between the Council and the Waste Management Authority (Western Province) on the disposal of waste, had lapsed on 31 December, 2014, the Council had not taken action even up to 31Mar 2016 either to renew the agreement or enter into a new one.
- (b.) When disposing garbage at the waste management facility in Karadiyana, a sum of Rs. 266,813 had been paid to the Waste Management Authority in the year under review in respect of 438 tonnes of garbage transported by vehicles not belonging to the Council.

3.2 Irregular Transactions

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- (a.) A sum of Rs. 235,000 had been paid in the year 2015 for providing uniforms for the officers taking part in the monthly general meeting, and those expenses had not been covered under Sections 188 (1)'a' to 's' of the Municipal Councils Ordinance.
 - (b.) The composition of the Planning Committee of the Local Government had been stated in Paragraph (xiii) of the Circular, No. WP/L.G.D./01/2012 of the Commissioner of Local Government (W.P.) , dated 11 July, 2012. However, contrary to that, a sum of Rs. 184,000 had been paid in the year under review to office assistants for their participation in the Planning Committee.

3.3 Identified Losses

A proper financial administration should be maintained in terms of Financial Regulation 128 of the Government of Sri Lanka. However, due to failure in doing so, a draft ranging between Rs. 102,943 to Rs. 53,635,988 had existed in the current account of the Council from time to time during the period, February – December, of the year under review. Hence, a sum of Rs. 211,792 had bene paid as overdraft interest.

4. Accountability and Good Governance

4.1 Budgetary Control

The following observations are made.

- (a.) Even after transferring provisions between the Heads of revenue and expenditure in the year, 17 instances in which variations ranging from 01 per cent to 98 per cent were observed between the budgeted and the actual revenue and expenditure, thus observing that the budget had not been made use of as an effective instrument of control.
- (b.) Of the sum amounting to Rs. 25,843,000 budgeted for 66 Items of expenditure, no expenditure whatsoever had been incurred in the year under review.
- (c.) Of the revenue amounting to Rs. 168,575,000 budgeted for 11 Items of revenue under 07 Heads of revenue, no revenue whatsoever had been collected in the year under review.
- (d.) A sum of Rs. 1,260,000 had been provisioned as creditors in respect of 04 programmes expected to be implemented in the year under review, and shown as an expenditure in the Revenue and Expenditure Account of the year under review. Nevertheless, no expenditure whatsoever had been incurred under those programmes even up to 30 April, 2016, and action had not been taken to gain the expected benefits by implementing the required programmes.

4.2 Idle and Underutilized Assets

The following observations are made.

- (a.) Five vehicles belonging to the Council had remained idle in repairable condition over a period of 06 – 18 months. Action had not been taken even up to 09 June, 2016 to make use of those vehicles by carrying out repairs.
- (b.) A motorcycle valued at Rs. 65,000 purchased in the year 2003, and a bulldozer valued at Rs. 9,248,274 purchased in the year 1999 had remained unusable, but no action had been taken either to repair or dispose them.

4.3 Unresolved and Unanswered Audit Queries

Replies / explanations had not been made available even up to 31 May, 2016 for 07 audit queries issued for the year under review. The value of the calculable transactions involved in the said audit queries amounted to Rs. 8,284,031. No replies had been made available even up to the aforesaid date for 08 of the audit queries issued in the 04 preceding years.

5. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- (a.) Internal Audit
- (b.) Control of Budget
- (c.) Accounting
- (d.) Administration of Revenue
- (e.) Assets Management
- (f.) Control of Debtors and Creditors