

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 to audit on 31 March 2017 and the financial statements for the preceding year had been presented on 31 March 2016. The report of the Auditor General for the year under review had been forwarded to the Municipal Commissioner of the Council on 11 September 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Ratnapura Municipal Council as at 31 December 2016 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following matters are observed.

- (a) Even though, a sum of Rs.860,113 payable to Development Construction and Machinery Authority had been deducted by the Sabha in receiving remittances of stamp fees receivable to the Sabha for the period from September to December 2014, the adjustments had not been made to creditors and arrears of revenue relating to that.
- (b) The balance of arrears of rent recoverable from a Cinema Hall belonging to the Sabha had been shown as Rs.551,000 in the statement of financial position. But according to the computation of the Sabha that balance amounted to Rs.697,500, thus the debtors had been understated by Rs.146,500. In addition to that, fines amounting to Rs.1,081,125 which computed on the arrears of fees had not been brought to account.

- (c) According to the Register of Nation Building Tax, the tax payable for the month of December in the year under review amounted to Rs.95,081. Nevertheless, it was brought to account as Rs.228,375 and as such the liabilities had been overstated by Rs.133,294.
- (d) Even though, the stamp fees totalling Rs.123,148 relating to the last quarter of the year under review had been remitted to the Department of Inland Revenue during the year 2017, that had not been accounted under current liabilities.
- (e) In terms of the letter No.29/06/24 of the Director General of the Urban Development Authority dated 31 August 2006, 50 per cent of the rest house rent receivable to the Council had been compensated from July 2004, for the loan amounting to Rs.54,565,853 granted under the loans of the Asian Development Bank for the project of construction of the Bus stand and the Trade Complex. Nevertheless, the adjustments thereon had not been made in the financial statements.
- (f) Even though, the arrears of interest payable as at 31 December 2016 according to the balance confirmations of the Local Loans Development Fund in respect of the loan for the Development of Weralupa Road amounted to Rs.11,390,805, that value had not been brought to account.
- (g) The fixed assets totalling Rs.962,925 purchased under various Objects and stores advances during the year under review had not been capitalized through the Revenue Contribution to Capital Outlay Account.
- (h) Due to under provisions of creditors by Rs.3,593,295 in the year under review, the current liabilities had been understated by similar amount.
- (i) The value of the dishonoured cheques in the year under review amounted to Rs.1,029,487 and the receipts thereon amounted to Rs.897,222 as per the Register of dishonoured cheques, but it had been entered as Rs.795,393 and Rs.697,362 respectively in the dishonoured cheques account.

- (j) Revenue totalling Rs.622,478 received in the year 2017 in respect of 07 Revenue Heads had not been brought to account as arrears of revenue in the year under review.

1.3.2 Unreconciled Control Accounts

The following observations are made.

- (a) The differences between the balances of 04 current accounts and 02 savings accounts of the Sabha as per financial statements and the balances as per the summarized cash books totalled Rs.6,661,260.
- (b) The difference between the balances of 43 items of accounts as per financial statements as at the end of the year and the balances as per subsidiary registers totalled Rs.118,116,962.
- (c) Even though, the balance of the unsettled advances as per the advance register as at the end of the year under review amounted to Rs.561,986, that balance as per financial statements amounted to Rs.2,868,074, thus a difference of Rs.2,306,088 was shown.
- (d) Even though, the arrears of revenue of rest house rent as at the end of the year under review had been shown as Rs.10,532,114 in the statement of financial position, the arrears of revenue as per the relevant register amounted to Rs.10,437,572, thus an unreconciled difference of Rs.94,542 was shown.
- (e) Even though, the value added tax should have been remitted to the Department of Inland Revenue relating to the last quarter of the year under review as per the Register of the Value Added Tax amounted to Rs.2,799,077, that was shown as Rs.3,655,618 as per the financial statements, thus an unreconciled difference of Rs.856,541 was shown.

1.3.3 Lack of Written Evidence for Audit

The following matters were observed.

- (a) The balance confirmations for Urban Development Authority project loans amounting to Rs.1,559,433 and Local Loans Development Fund (Tractor) loans amounting to Rs.600,254 had not been furnished.
- (b) The information relating to the confirmations of 03 account balances totalling Rs.5,090,349 remained brought forward for over a long period had not been furnished to audit.

1.3.4 Non-compliance with Laws, Rules and Regulations etc.,

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

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

- | | |
|---|---|
| (i) Financial Regulation 571 | Action had not been taken even by August 2017 on 06 deposits totalling Rs.37,485,459 remained brought forward from the year 1997. |
| (ii) Financial Regulations 756 and 757 | A Board of Survey had not been conducted for the year under review and the preceding year and further actions had not been taken on shortages identified in the Board of Survey conducted in the year 2014. |

- (iii) Financial Regulation 1645 The Daily Running Charts in respect of 04 vehicles belonging to the Sabha had not been furnished to audit.
- (b) Chapter XIX of the Establishments Code.
- (i) Sections 4.2 and 4.3 The criteria of selection had not been followed in selection of Government Officers to provide official quarters and a standard application form had not been prepared so as to disclose all matters which to be considered for selection.
- (ii) Section 5.7 If an officer rejected the occupancy in an official quarters entitled to his post and occupancy of another officer instead of him had not been approved by the authorized officer, the rent should be recovered from the officer who rejected the quarters considering that the officer had occupied the quarters. Nevertheless, action had not been taken accordingly in respect of 02 official quarters.
- (c) Circular of the Commissioner of the Local Government No.2009/01 dated 09 March 2009.
- (i) Paragraph 1.5 Even though, the assessed lease rent should be revised at least once in 05 years, the lease rent for the trade stalls of Ratnapura Public Market had not been revised since 19 years.

(ii) Paragraph 1.10

Three trade stalls of Ratnapura Public Market which given on long term lease rent by the Sabha had been given to another persons named by the former lease holder while the tenders had not been called to lease the trade stalls again.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs.71,376,984 as compared with the revenue over recurrent expenditure of the preceding year amounting to Rs.46,579,450, thus indicating an improvement of Rs.24,797,534 in the financial results as compared with the preceding year.

2.2 **Analytical Financial Review**

Increase of 03 items of revenue by Rs.23,627,947 and decrease of 02 items of expenditure by Rs.5,658,473 had mainly attributed to the improvement of financial results by Rs.24,797,534.

2.3 **Revenue Administration**

2.3.1 **Estimated Revenue, Actual Revenue and the Arrears of Revenue**

The information relating to the estimated revenue, actual revenue and the arrears of revenue, furnished for the year under review appears below.

| Item of Revenue | Estimated | Actual | Accumulated Arrears as at 31 December |
|------------------------|------------------|----------------|--|
| ----- | ----- | ----- | ----- |
| | Rs.000' | Rs.000' | Rs.000' |
| Rates and Taxes | 36,500 | 34,424 | 29,505 |
| Lease Rent | 62,996 | 54,059 | 24,410 |
| Licence Fees | 6,092 | 1,845 | - |
| Other Revenue | 380,018 | 354,498 | 48,645 |

2.3.2 Performance in Collection of Revenue

A comparison of the estimated revenue of the year under review with the revenue collected showed a decrease in the revenue collected with regard to the revenue items such as lease rent, licence fees, warrant charges and fines and the other revenue as compared with the estimated amount by 23 per cent, 70 per cent, 82 per cent, 42 per cent respectively.

2.3.3 Rates

The balance of arrears of rates as at 31 December 2016 amounted to Rs.29,504,918 and the actions taken by the Sabha for recovery of arrears of rates had remained at a poor level.

2.3.4 Lease Rent

The following matters were observed.

- (a) Arrears of house rent totalling Rs.54,072 had remained receivable, as at 31 December 2016 from six official quarters belonging to the Sabha.
- (b) As per the Register of trade stalls rent, arrears of rent totalling Rs.2,899,420 receivable for a period from 06 months to 33 months from 57 trade stalls of Ratnapura Public Market as at 31 December 2016 had not been recovered even by April 2017. Even though, reminders had been issued for recovery of arrears of rent, further actions had not been taken in terms of the condition 4 of the lease agreement.
- (c) A balance of arrears of trade stalls rent totalling Rs.1,759,525 had remained receivable in respect of 07 trade stalls of the Kudugalwatta Trade Complex as at 31 December 2016 and a sum of Rs.291,930 only had been recovered out of that by July 2017. Further, 03 trade stalls in the upper floor of the trade complex had been closed and 03 trade stalls had been utilized as goods stores contrary to the condition 7.2 of the lease agreement.

- (d) Action had not been taken even by August 2017 to recover arrears of trade stall rent amounting to Rs.626,535 to be recoverable from old lease holders in respect of 02 trade stalls of Ratnapura Public Market.

3. **Operating Review**

3.1 **Performance**

Even though, fifteen works had been proposed to be executed under the funds of the Council totalling Rs.86,600,000 as per the Budget of the year 2016, no work whatsoever had been implemented by 31 December 2016. Thirteen works which were not under budgeted works had been implemented by incurring funds of the Sabha amounting to Rs.11,672,684.

3.2 **Management Inefficiencies**

The following matters were observed.

- (a) The approval for the foreign travel had not been obtained in accordance with the provisions of the Public Administration Circular No.21/2007 dated 11 September 2007 on behalf of an officer of Grade II of the Management Assistant Service for the participation of a conference held in Malaysia from 02 to 04 March 2016.
- (b) The rectifications had not been made in respect of the operating inefficiencies disclosed through 05 internal audit reports issued by the Internal Audit Officer during the year under review. Details appear below.

| Reference to Internal Audit Query | Deficiency Observed |
|--|---|
| ----- | ----- |
| (i) RMC/අවිනි/007 | Not carried out further investigations on repairs of the official quarters made by the occupant of the official quarters through personal expenses. |

- | | | |
|-------|---------------|--|
| (ii) | RMC/අවිනි/008 | Non recovery of 01 per cent of the annual revenue of the business places as license fees in terms of Sub-section 2 of Municipal Council Ordinance 247 (a). |
| (iii) | RMC/අවිනි/008 | Non recovery of arrears of revenue for parking of hiring vehicles. |
| (iv) | RMC/අවිනි/018 | Action not taken according to the Municipal Council Ordinance relating to the unauthorized construction of 3 storied building constructed by the lease holder in the place on which situated World Trade Centre of Church Road Ratnapura which given on lease irregularly. |
| (v) | RMC/අවිනි/028 | Action not taken according to the Municipal Council Ordinance relating to the land named Pulungupitiya Palpolawatta and Pulungupitiya Public lavatory given on lease irregularly and unauthorized constructions of buildings. |
- (c) The Cinema hall belonging to the Sabha situated in the Ratnapura Town had been given on lease validating the contract period from 01 May 2001 to April 2006. But, the lease holder had maintained the cinema hall without being validated the period from May 2006 up to 21 April 2010 and the total arrears recoverable from the lease holder as at 31 January 2010 amounted to Rs.1,953,000. Further, the relevant files had been handed over to a lawyer on 02 September 2010 to institute legal actions to recover these arrears amount. However, legal actions had not been instituted even by March 2017 and the arrears amount had not been received by the Sabha.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) The urban park constructed adjacent to Kaluganga river by incurring a sum totalling Rs.2,822,902 in 04 instances from the year 2007 to the year 2010 by the Sabha under the provisions of the Ministry of Sabaragamuwa Provincial Road Development, Rural Infrastructure and Tourism had dilapidated due to shrubs grown. As such the instructions had been given by the Secretary to the Ministry of Provincial Road Development Rural Infrastructure Facilities and Tourism on 21 September 2010 to the Mayor of the Ratnapura Municipal Council to maintain above park properly and to utilize for the welfare of the people of the area. Nevertheless, the execution of necessary actions to utilize the urban park effectively had been neglected by the responsible persons even by 02 March 2017. Further, the following matters were observed at the physical audit examination carried out.
- (i) The main gate which had been fixed for the protection of the urban park had been kept fully opened and the locks of the main gate had been removed.
 - (ii) The covering of green colour net, fixed around the urban park was removed off in one place and the net covering in 02 places faced to the road was broken and the park was remained in unprotected position.
 - (iii) A temporary hut had been constructed by a gang of beggars of the town within the urban park.
 - (iv) Even though, the expenditure had been made to fix sports equipment, concrete benches in this place when constructing as an Urban park in the year 2010, no sports equipment whatsoever was made available in the playground.

- (v) The stones laid in the premises of the urban park were not observed and the shrubs had grown throughout the land.

- (b) The actions of the Sabha were not in a satisfactory position relating to the activities taken contrary to the lease agreements entered into with trade stall owners who had taken the trade stalls of the Public Market on lease.

- (c) On the request made by external persons to maintain a business in 2 places near the stair case of the upper floor of the Trade Complex of Kudugalwatta, 2 trade stalls had been constructed according to the Decision' No 6.5 of the Sabha dated 08 May 2015 to give on rent subjected to the conditions recommended by the Committee on Finance, Corporate Activities and Law. The Municipal Engineer had signed the agreements on the decision of the Sabha dated 30 July 2015 and the instructions had been given to subject clerk to implement the other relevant work. Nevertheless, the subject clerk had not taken action accordingly even by April 2017, and it was revealed in audit that, a business had been maintained in one trade stall for a period over one year without being paid any lease rent to the Sabha and a lease rent had been paid to an another external party.

- (d) In issuing construction materials from the stores for the works executed on the direct labour basis during the year under review by the Council, a loss totalling Rs.86,580 had been incurred due to issuing materials more than the requirement.

- (e) All immovable properties in the authoritative area of the Council should have been assessed once in 05 years to recover rates and taxes. Nevertheless, it was revealed that, the rates had been recovered as per the assessment of the rates made in the year 1997, and the implementation of the assessment on rates made in the year 2005 had been delayed by the Municipal Council and the Finance Committee in 2 instances and a decision had been taken in the meeting of the Council held in 30 July 2013 to carry out a new assessment.

Accordingly, it was informed to the Department of Valuation in April 2014 for a new assessment. Even though, the Department had called the required information from the Council, in March 2017 the Council had failed to furnish relevant information even by July 2017. The Provincial Valuer had informed to the Municipal Commissioner on 12 July 2017 that the valuation could not be implemented during the year 2017 due to delay of providing required information for revisions of the rates.

3.4 Irregular Transactions

Despite that an official quarters had been given to a former Revenue Officer of the Municipal Council, the adjacent land plot of the official quarters in extent of 17.43 perches including all properties situated in that land had been given on ground rent method of occupation in the year 1999. It was revealed at the field audit inspection carried out on 24 August 2016, that a permanent house had been constructed in that land portion. Further, a road with a length of 240 feet to access that land had been constructed by incurring Rs.314,181 in the year under review. No any other beneficiary had used this road and Council funds had been utilized for the advantage of one person without being utilized for the maximum productivity.

3.5 Identified Losses

A sum of Rs.69,345 had been paid in June 2016 to publish a tender advertisement of the Sabha in 03 newspapers and a sum of Rs.20,868 had been paid in September 2016 to publish a notification to cancel above advertisement without a proper and reasonable reasons and as such a loss of Rs.90,213 had been incurred by the Fund of the Council.

3.6 Contract Administration

Even though, the bids had been invited in the year 2015 relating to the work for improvement of 1st floor of the Town Hall Ratnapura (laying tiles, air conditioning and repairing lavatories) for which contracted value amounting to Rs.5,598,069, the work had not been completed even by August 2017 and the following matters were observed on the above work.

- (a) According the acceptance letter of the tender dated 02 February 2016, the date to be commenced the work had been shown as 16 February 2016. Nevertheless, the signing of the agreement had been delayed up to 04 July 2016.
- (b) Even though, the work should be commenced on 16 February 2016, the handing over the town hall to the contractor had been delayed up to 01 May 2016, and as such the date to be commenced above work had been delayed by 2 ½ months.
- (c) The date of the contract had been extended up to 25 December 2016. The air conditioners of the town hall had been fixed by 29 August 2016 and a sum of Rs.3,718,220 had been paid thereon. But the other requirements for operations of the air conditioners had not been implemented and those machines had remained idle even by August 2017.

3.7 Solid Waste Management

The following matters were observed at the field test carried out relating to the Waste Management Centre, Kanadola belonging to the Sabha.

- (a) The waste such as plastic bottles, polythene and coconut shells which could be sold, out of the solid waste not decayable had been taken out and stored and the remaining material had been dumped in an open area.
- (b) Even though, the compost fertilizer had been produced by using vegetable materials which removed off from public market and the hotels of the town, the garbage bags collected from the houses had been disposed of to the open land with slopes in that place without making any separation. It was observed in audit, that this position may be a reason to arise an extensive problematic situation environmentally and socially.
- (c) The solid waste not decayable such as glass bottles, electric equipment, computer accessories had been dumped around the garbage yard and a risk of increasing mosquitoes was shown due to water collected in those waste.

- (d) Three machineries received in the year 2016 from the Central Environmental Authority to recycle the garbage had remained idle. Even though, the buildings for the above project had been constructed, the activities on recycling process had not been commenced.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters were observed

- (a) The entire provision made for 51 Objects totalling Rs.41,100,000 had not been utilized in the year under review.
- (b) Out of the provisions totalling Rs.31,670,100 made for 23 Objects in the year under review, the provisions ranging from 83 per cent to 99.8 per cent had been saved.

4.2 Unresolved and Unreplied Audit Queries

The following matters were observed.

- (a) Replies for 31 audit queries had not been furnished by 31 December 2016. The value of quantifiable transactions of those amounted Rs.73,096,371.
- (b) The rectifications had not been made even by 31 July 2017 on the following observations pointed out relating to the paragraphs included in the Report of the Auditor General on the financial statements of the Municipal Council, Ratnapura for the year ended 31 December 2015.

Reference to the Audit Report

(i) 2.2.4

Audit Observation

Not issuing licenses for Rest house Ratnapura for the years 2013, 2014 and 2015.

(ii) 4.1 (c)

Unavailability of adequate physical and human resources in extinguishing unit.

5. Systems and Controls

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

System

(a) Accounting

(b) Revenue Administration

(c) Assets Control

(d) Contract Administration

(e) Budgetary Control

Observation

(i) Omissions in the accounts.

(ii) Not identifying the due revenue.

(iii) Non-reconciliation of financial statements and subsidiary registers.

Non-recovery of due revenue.

Unauthorized constructions in the lands belonging to the Council.

Long delays in constructions.

Savings on provisions.