

Dehiwala Mount Lavinia Municipal Council
Colombo District

1 Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year 2016 had been submitted on 30 March 2017 while the financial statements for the preceding year had been submitted on 01 June 2016. The report of the Auditor General for the year 2016 was issued to the Municipal Commissioner on 28 September 2017.

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 2016, its financial performance 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 accounting deficiencies had been observed in audit.

- (a) The entire amount of fines totaling Rs.38, 058,207 which had been recovered relating to all court cases had been shown as the income of the council without being settled the amount belonging to the council.
- (b) Although it had been expected to introduce a Software system for institutional resources planning during the year under review, any expenditure had not been incurred and any activity had not been fulfilled. As a result value of creditors had been overstated by Rs.9, 152,800 and the surplus of the income and expenditure account had been understated by Rs.10, 000,000.
- (c) The value of the dishonored cheques amounting to Rs.707, 324 had been shown in the financial statements under the current assets and according to the dishonored cheques register it was Rs.971, 632. Accordingly current assets had been understated by Rs.264, 308 in the financial statements.
- (d) The receivable amount of Rs.85, 563 as at 31 December 2016 for disposal of garbage from National Zoo had not been shown in the financial statements. Hence the current assets [other receivables] had been understated by the same amount.
- (e) Although a sum of Rs.46,952,956 should be paid to the Waste Management Authority for disposal of garbage for the year 2016, according to the financial statements expenses for the year was Rs.47,307,277 thus the expenditure and creditors had been overstated by Rs.354,321.

- (f) Although the reimbursable amount of interest of property loan which should be recovered from the Department of Local Government as at 31 December 2016 was Rs.874,373, it had been shown in the financial statement as Rs.371, 005 thus Rs.503, 368 had been understated.
- (g) According to the schedules presented to audit the total value of over recovered staff loan as at 31 December 2016 was Rs.304, 197 and the said balance had not been shown under the current liabilities of the balance sheets. Hence current liabilities had been understated by the same amount.
- (h) Although a sum of Rs. 20,000,000 had been provided for the fire equipment of the Jayasinghe Memorial Hall which had been expected to commence during the year under review, it had not been utilized. Hence the capital expenditure and the value of creditors had been overstated.
- (i) The value of fixed assets and the value of depreciation had been understated by Rs.2,734,163 and Rs.389,108 respectively.
- (j) The value of four vehicles transferred to the council by external parties had not been assessed and taken into account.

1.3.2 Unreconciled control accounts

- (a) When comparing the total of balances of 14 items of accounts amounting to Rs.655, 312,647 shown in the financial statements with relevant subsidiary registers and records, understatement of Rs.26, 679,027 and overstatement of Rs.9, 306,579 were observed.
- (b) According to the outstanding income report presented to the commissioner of local government as at 31 December 2016, the outstanding balance of 5 items of miscellaneous income was Rs.292, 360,119. However it had been shown as Rs.348, 732,242 in the financial statements thus difference of Rs.56, 372,123 was observed.

1.3.3 Accounts Receivable and Payable

- (a) Action had not been taken to recover the value of dishonored cheques amounting to Rs.968, 185 which had been received to the council since the 2002 to 2016.
- (b) The outstanding balance of staff loan consisted with vehicle, distress, festival and special loans as at 31 December 2016 was Rs.4, 891,554 and it had been remained unsettled over a period of a year.
- (c) According to the Financial Regulation 570 and 571, the deposits over than a period of two years should be credited to the government revenue. However the value of deposits which had not been credited as at 31 December 2016 was Rs.21, 009,391.

- (d) Action had not been taken to recover the interest on property loans amounting to Rs.121, 456 relating to the year 2006 and 2007 from the Department of Local Government.
- (e) Outstanding council allowances amounting to Rs.6, 379,000 relating to the years 2013, 2014 and 2015 had not been reimbursed even up to 31 December 2016.
- (f) Action had not been taken to identify and recover the outstanding rent of meat stalls brought forward from the year 2014 amounting to Rs.2, 356,017 which had been included in the miscellaneous income.

1.3.4 Lack of evidence for audit

The receivables and payables aggregated to Rs.138, 842,749 could not be satisfactorily vouched due to non-availability of relevant evidence.

1.3.5 Unauthorized Transactions

Contrary to the section 188(1) of the Municipal Council ordinance, a sum of Rs.235, 000 had been incurred in the year 2015 for the supply of uniforms to the officers who participate to the monthly council meeting. However, those money had not been recovered during the year under review.

1.3.6 Non compliances with Laws, Rules and Regulations

The following non compliances were observed.

Reference to Laws Rules and Regulations	Amount Rs.	Non Compliances
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a) Section 218,286[a][chapter 252] of the Municipal Council Ordinance		Report on the administration of the council after the end of each financial year should be presented to the council along with the financial statements by the Municipal Commissioner. However such report had not been repaired for the year under review.
b) Establishment cord of the Democratic Socialist Republic of Sri Lanka		

I. XXIV[13.6]	145,150	Although the festival advances can be paid once in a period of 12 months, contrary to that requirement festival advances had been paid to 10 employees of the council who had not completely recovered the previous loans.

II. Sub section 2:1 of Chapter VIII	<p>Overtime allowances had been payed without presenting any report to confirm the work done or without mentioning in the overtime application.</p> <p>Overtime allowances had been obtained by drivers mentioning that they had engaged in the duty until 10pm, even though vehicle had been parked at the yard after the assigned duty.</p>	
III. Sub section 3:1 of Chapter VIII	<p>Money should be incurred for overtime work on special occasions that only there were no any other solution to fulfill those duty. However the council had paid overtime for the employees of the council continuously for their normally assigned duties.</p>	
<p>c) Financial regulations of Democratic Socialist Republic of Sri Lanka(F.R)</p> <p>-----</p>		
I. 104[2][3][4]	<p>Five accidents took place in the year 2015 had not been reported to the Auditor General and primary and complete reports had not been prepared.</p>	
II. 110	<p>Register for loses and damages had not been maintained.</p>	
III. 177(1)	26,495	<p>Although the collected income should be banked daily or as soon as possible, daily collected parking fees had been banked in considerable delays.</p>
IV. 188(2)	48,683	<p>Action had not been taken relating to five checks which had been deposited as at 31 December 2016 but not realized and two money orders.</p>
V. 341		<p>Details of counterfoil books issued had not been recorded in a register as further GAN 20 format.</p>
VI. 342		<p>Instances were observed that counterfoil books had been issued without taking over the counterfoil books previously issued.</p>

VII. 371(5)	440,169	Advances should be settled on or before 31 December of the year of advance issued. However a total balance of advance amounting to Rs.440,169 had been remained un-settle.
VIII. 396(d)	103,810	Actions had not been taken even up to 30 May 2017 in connection with 27 cheques over 6 months aggregating Rs.103,810 which had been issued but not presented as at 31 December 2016.
IX. 1653		Although the milometers should be repaired when those were out of order, milometers of 31 vehicles had been out of order in the council over a number of years.

d) Circulars

Commissioner of (wp) local government's
circular No:WP/LGD/01/2012 dated 11July
2012

I. Paragraph (xvi)

Although planning committees should be conducted more than 2 hours of time allowances had been paid for planning committees which had been conducted in less time.

II. Paragraph (xxi)

A quarterly report relating to the decisions taking regarding unauthorized constructions and filling had not been furnished to the assistant commissioner of local government.

Paragraph (2) of the public administration circular
No 41/90 dated 10 October 1990

Fuel consumption of the vehicles owned by the council had not been tested.

Paragraph 1:2:13 of the Administration circular No:
01/2016 dated 29 February 2016

There should be a concurrence of the council to decide the maximum limit of fuel allocated for the assigned vehicles which are used by Mayors/ Chairmen. However decision had been taken by the council to use unlimited amount of fuel for three posts of the council.

2. Financial Review

2.1 Financial Results

According to the financial statements presented the revenue for the year ended 31 December 2016, in excess of the in the recurrent expenditure of the council amounted to Rs. 349,470,297 whilst against to it the expenditure in excess of the recurrent revenue of the previous year amounted to Rs. 312,450,626

2.2 Revenue Administration

2.2.1 Performance of Collecting Revenue

The Summarized information on the actual revenue and revenue in arrears presented to audit in respect of the year under review and the preceding year are as follows.

Source of Revenue	2016			2015		
	Actual Sum to be Collected	Actual Sum Collected	Arrears for the Year	Cumulative Arrears as at 31 December	Actual sum to be Collected	Cumulative Arrears as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	363,007	202,934	160,934	3,519	364,509	344,899
Lease Rent	17,966	13,752	4,214	9,845	17,299	9,874
License fees	40,546	20,232	20,314	33,296	25,813	21,916
Other Revenue	406,242	356,794	49,448	413,704	355,081	404,048

According to the information furnished to audit the cumulative outstanding balance of receivable rates as at 31 December 2016 was Rs.3, 519,000. However outstanding balance only for the year 2016 was Rs.160, 073,000. Thus it was questionable that the cumulative balance had been shown as 3,519,000.

2.2.2 Rates

The following observations are made

- According to the information presented to audit the rate income estimated for the year under review was Rs.342, 743,498. Nevertheless only a sum of Rs.230, 296,826 represent 67% had been recovered during the year.
- The outstanding balance of rate debtors as at the end of the previous year was Rs.341, 029,867 and out of that only a sum of Rs.169, 197,413 represent 50% had been recovered.
- The number of rate units valued more than 50,000 which had included in the outstanding rate balance of Rs.306,489,840 as at 31 December 2016 was 1148 and the receivable balance of rates there on was Rs.149,294,346.
- The outstanding rate balance as at the end of the previous year was Rs.341, 029,867 and out of that a sum of Rs.8, 641,540 had been written-off without obtaining an approval.
- A sum of Rs.505, 798 had been written off without obtaining relevant confirmation and evidence out of the receivable value of rates for the period from the year 2013 to 2016 relating to 10 units of the same building belongs to the same person on the recommendations of the special management committee held on 8 November 2016.
- According to the section 240(3) of the Municipal council ordinance the grace period granted for deduction of rates should begin at the date of which the notice is received that

the building is vacant and end at the date of resettlement. However rates had been relating to periods before the date of notice was received. Further evidence had not been obtained to confirm the lawfulness of those write-offs.

2.2.3 Business Tax

- (a) Although a sum of Rs.15, 000,000 had been estimated as business tax for the year under review, according to the bill it was Rs. 22,205,859. Out of that only a sum of Rs. 5,573,055 represent 25 per cent had been recovered.
- (b) out of the business tax debtor balance of Rs.21,458,368 as at 31 December 2015, only a sum of Rs.5,695,625 represent 27 per cent had been recovered during the year under review.

2.2.4 Income from Garbage

Possibility for processing legal for recovering outstanding garbage fees was not available due to non-availability of agreements between the council and the business places. Due to the reason of that actions had not been taken to recover the outstanding garbage fees as per the council decision No.08 (10) 35 dated 18 November 2003 and the instructions of the finance committee, the outstanding balance as at 31 December 2016 was Rs.1,886,150.

2.2.5 Stamp Fees

- (a) According to the accounting policy presented along with the financial statements, accrued income of stamp fees relating to the transactions of land transfers taken place during the previous year should be considered as the income for the accounting year. However a sum of Rs. 267,888,706 received from the transactions of land transfers relating to the years 2012, 2013, 2014 and 2015 had been taken in to account as the income of the year.
- (b) Although the budgeted stamp fees income for the year under review was Rs.240,000,000, whatever income had not been received during the year under review.

2.2.6 Court Fines

- (a) Although the budgeted income of court fines for the year 2016 was Rs.33, 227, 000, the actual income for the year was Rs.210, 581.
- (b) Actions had not been taken to recover the outstanding income of court fines amounting to Rs.116, 173,231 receivable relating to the years 2012, 2013, 2014 and 2015. According to the terms of the Court Fines and Fine Accreditation Ordinance No. 04 of 1994, requests should be made within 5 years beginning from 31 December of the year which had recovered fines. However requests had not been made so.

3. Operating Review

3.1 Operating Inefficiencies

The following observations are made.

(a) Advertising Board Income

According to the notice of enactment of fees for displaying advertisements for the year 2016 in the part IV(a) of the gazette of Democratic Socialist Republic of Sri Lanka No: 1929 dated 21 August 2015, fees should be charged for displaying advertisements and banners in the jurisdiction of the council. However fees amounting to Rs.510,700 relating to 35 permanent advertisement boards displayed in both sides of the Galle road beginning from the William junction to Jayalanka hardware had not been recovered.

(b) Stall rent

I. Number of stalls belongs to the council was 371 approximately and according to the financial statements, income for the year 2016 was Rs.6, 224,259. Rent for 247 stalls out of 371 had been remained outstanding and there was no agreements entered with lessees of number of stalls already rented out. Further actions had not been taken to renew agreements which had been expired.

II. The following observations were made relating to renting out stalls of the Karagampitiya public fair.

- Leasing agreements had not been signed relating to 19 stalls of the Karagampitiya public fair.
- Action had not been taken to amend monthly rental after estimating per 03 years. Hence monthly rental of Rs.50 had been charged over a long period for stalls.
- The receivable outstanding rent relating to 20 stalls as at 31 December 2016 was Rs.12, 273. According to the method followed by the council it should not be allowed to accumulate the rent for 03 months. However action had not been taken by the council to eliminate stall keepers who had not paid the rent. Further actions had not been taken to register the names of stall keepers, employees and agents and 8 stalls had been Sub leased.
- Sum stalls had been closed without caring out business and the room No: 6 had been used as a residence by a person. Further some stall had been repaired by residents without obtaining permission.
- According to the stall list presented to audit, it had been mentioned that the No: 24 is a one stall. However there were 3 stalls under 3 rate numbers in that place and stall keepers had extended stalls and new constructions had been done. Any step had not been taken by the council regarding those unauthorized constructions.

(c) Vehicle Utilization

I. There were 13 condemned vehicles belongs to the council and some vehicles out of that had been underutilized for a period from 2 months to 5 years. Further revenue

license and insurance fees had been paid for 3 vehicles over the period of those were underutilized.

- II. Two vehicles had been reserved for the Mayor and 2941 petrol liters had been utilized over the period of 6 months from January to June 2016
- III. Two vehicles had been used to provide services for the vehicles which were out of order and according to the running charts most of days of each month these two vehicles had been used for distress services. In a period of three months of the year under review 750 liters of fuel had been used for the distress service of these two vehicles and the departure or arrival of these vehicles had not been mentioned in running charts.

(d) **Conducting body building centers**

A sum of Rs.5,043,650 had been incurred in the year 2015 for purchasing equipment for 20 body building centers situated within the jurisdiction of the council. However there were deficiencies such as officers in charge of those centers were not skilled persons, inventory registers were not being updated, nonavailability of inventory items physically, actions were not being taken to register members etc.

(e) **Disposal of garbage**

- I. Proper plan had not been prepared by the council for disposal of garbage for the year under review.
- II. According to the records of vehicles relating to disposal of garbage to the Karadiyana center of the waste management authority for the months of August and September, 56.95 tons of garbage had been transported by 12 vehicles which had not been used by the council and a sum of Rs.66,064 had been paid to the waste management authority.
- III. As a result of collection of garbage had not been properly managed, the council had to pay an overpayment of Rs.21,886,585 due to disposal of 94% out of the entire amount as mixed garbage.

3.2 Transactions in contentions nature

Employees who had not been comply with the combination of the committee according to the paragraph (XIII) of the commissioner of local government (WP) No: WP/LGD/01/2012 dated 11 July 2012 had been made to participate to committees and a sum of Rs.104,000 had been paid for the period from January to August of the year under review.

3.3 Identified losses

The following observations are made

- (a) Salaries and allowances amounting to Rs.1,413,903 had been paid to an interdicted employee for the period which he had not reported for duty from 11 November 2011 to April 2016 and actions had not been taken to recover those money even up to the end of the year under review.

- (b) Fines for delays and replacement charges amounting to Rs.100,442 had to be paid for stalls of the supermarket Mount Lavinia because it had been assigned to pay water bills without fixing separate meters for each stalls. Out of the said payment a sum of Rs.44,344 had been paid by the council.
- (c) Fines for delays of paying electricity bills amounting to Rs.132,343 had to be paid due to negligence of officers of the council for the period of the year 2014 to 2016. However according to the Financial Regulations 210(2), if any charge had to be paid due to delays of making payment, it should be recovered from the responsible officers. Yet those money had not been recovered from the officers.
- (d) Out of the recoverable income of garbage of Rs. 3,302,101 as at 1 January 2016, an outstanding amount of Rs. 1,524,026 had been written off to the accumulated fund.

3.4 Uneconomic Transactions

The following observations are made.

- (a) Although the water bills should be paid by the residents, water bill of the official residents of the deputy mayor up to July 2016 amounting to Rs. 87,845 had been paid by the council due to non payment of the bill by the resident and actions had not been taken to recover those money from relevant parties.
- (b) A sum of Rs.29,785 and Rs. 8,275 had been paid by the council for water and electricity respectively used for the constructions of dental clinic at Mount Park, Mount Lavinia. However those money had not been recovered from the contractor.
- (c) Although overdraft facilities should not be obtained from state bank accounts, the council had obtained overdraft facility through the current account maintained in the People's Bank and a sum of Rs. 131,839 had been paid as interests there on.
- (d) Agreements had been signed twice with a private institution within the period of 10 months from 1 September 2015 for water proofing activities and renovations there on relating to the Ayurveda building at Dharmapala mawatha and two contracts had been awarded at value of Rs.1,110,200 represented the total sum of each contract value of Rs.530,875 and Rs. 579,325. Nevertheless necessary renovations had not been done properly.

3.5 Idle and Underutilized assets

The following observations are made.

- (a) Eleven vehicles owned by the Council were out of order in a period from 10 to 21 months though actions had not been taken to repair and use even up to 30 May 2017.

- (b) Eventhough 13 vehicles owned by the Council were not in use over a long period,actions had not been taken to repair or despose.
- (c) Actions hsd not been taken to earn an income by leasing 3 stalls already taken over and 27 sealed stalls which should be taken to the Council.
- (d) A vehicle belong to the Council had met with an accident on 17 January 2015 and was being repaired untill 23 June 2016 thus over a period of 1 year, this vehicle could not be used for running.
- (e) Non moving and expired stock valued at Rs.589,154 had been remained in the stores of the Council.

3.6 Contract Administration

- I. Payments had been made exceeding 10 percent of the contract value for extra and additional works regarding a lot of projects.
- II. Reports of completion of contracts had not been prepared relating to most of projects.

3.7 Staff Administration

Details of Approved and actual cadre of the Council as at 31 December 2016 are given below.

<u>Category</u>	<u>As at 31 December 2016</u>		
	<u>Approved cadre</u>	<u>Actual cadre</u>	<u>vacancies</u>
Staff Grade	35	26	09
Secondary Grade	343	270	73
Primary Grade	1402	1378	24
Others	-	-	-
Contract	23	23	-
graduate trainees	-	01	-
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	1803	1697	106
	=====	=====	=====

Out of 20 officers recruited to the posts of security guards and watchers,11 officers had been attached to other duties. Further the service of a private security service had been obtained to security service of the council and a sum of Rs.15,103,521 had been paid to the private security company during the year 2016.

4. Accountability and Good Governance

4.1 Budgetary Controls

- (a) Even after transferring provisions between the heads of revenue and expenditure in the year 17 instances in which variations ranging from 11 per cent to 98 per cent were observed between the budget and the actual revenue and expenditure, thus observing that the budget had not been made use of as an effective instrument of control.
- (b) Out of the expenditure amounting to Rs. 209,098,000 budgeted for 51 items of expenditure for public welfare no expenditure whatsoever had been incurred in the year under review.
- (c) Out of the revenue amounting to Rs. 545,000 budgeted for 07 items of revenue under 7 Heads of Revenue, no revenue whatsoever had been collected in the year under review.

5 Systems and Controls

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

- (a) Accounting
- (b) Administration of Revenue
- (c) Budgetary Control
- (d) Control of fixed assets
- (e) Control of debtors and creditors
- (f) Management of staff loans