

Negombo Municipal Council

Gampaha District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 29 March 2017 and the report of the Auditor General on the financial statements had been forwarded to the Municipal Commissioner on 26 October 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Negombo Municipal Council give a true and fair view of the financial position as at 31 December 2017 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 accounting deficiencies were observed.

- (a) Two cheques valued at Rs.349,933 as appearing in the register of dishonoured cheques had not been included in the financial statements.
- (b) Cheques for Rs.913,572 received for rates and miscellaneous revenue had been dishonoured and had not been brought to account as debtors again. As such, the arrears of rates and the arrears of miscellaneous revenue as at 31 December 2017 had been understated in the accounts by Rs.461,297 and Rs.452,275 respectively.
- (c) Books of 04 libraries valued at Rs.5,500,227 as at 31 December 2017 had not been brought to account. Meanwhile, the value of stocks in a library had been overstated in the accounts than its actual value by Rs.1,618,922.
- (d) The revenue collected during 2014 to 2016 from the Hamilton canal boat allied services amounting to Rs.1,740,970 had been brought to account as revenue of the year under review.
- (e) The sum of Rs.175,452 payable for the year under review had not been brought to account as creditors.

- (f) The rates received in advance during the previous year amounted to Rs.7,859,300. However, Rs.7,010,892 had been brought to revenue of the year under review. As such, revenue from rates had been understated by Rs.848,408.
- (g) The correct value of discount reported by the head office and the sub offices amounted to Rs.5,541,526. However, Rs.7,676,857 had been written off against the rates account. As a result, the revenue from rates had been understated by Rs.2,135,331 and the discount allowed had been overstated by a similar amount.
- (h) The Decentralized and Provincial Council Aid of Rs.10,460,231 received during the year under review in respect of the previous year had been brought to account as revenue of the year under review.
- (i) Provision for creditors had not been made as at 31 December 2017 for 79 projects valued at Rs.45,025,617 for which agreements had been entered into during the year under review.
- (j) The decentralized and provincial council aid of Rs.34,660,142 receivable for the year under review had not been brought to account as revenue of the year under review.

1.3.2 Unreconciled Accounts

- (a) The balances of 07 items of accounts as at 31 December 2017 as per accounts and the balances of schedules as at that date differed by Rs.20,126,189.
- (b) A difference of Rs.2,014,288 was observed between the financial statements and the registers maintained with regard to 05 items of revenue of the year under review.

1.3.3 Accounts Receivable and Payable

Accounts Receivable

- (a) Out of the dishonoured cheques of Rs.1,538,573 as at 31 December 2017, 84 cheques valued at Rs.1,298,850 ranged from 5 to 25 years. Action had not been taken to settle them.
- (b) Action had not been taken to identify and settle 12 cheques valued at Rs.281,589, the numbers and owners of which could not be identified.
- (c) Out of the sundry debtors of Rs.4,315,735 as at 31 December 2017, a sum of Rs.2,578,048 had exceeded 10 years. Action had not been taken to recover them.

1.3.4 Lack of Evidence for Audit

Stock of stores worth Rs.61,348,204 could not be satisfactorily verified in audit due to non-
rendition of schedules.

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear
below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
(a) Municipal Councils Ordinance 247(a)	-	Not exceeding 1 per cent of the annual revenue should be recovered from hotels, canteens and lodgings as licence fees. However, contravening this requirement, fees had been recovered on the basis of number of rooms.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		

(i) F.R.110(1)	-	Although a register of losses and damages had been maintained, details of damages had not been entered therein.
(ii) F.R. 396	449,709	Action had not been taken regarding 49 cheques valued at Rs.449,709 issued as at 31 December 2017 and remaining unrepresented for payments for over 06 months.
(iii) F.R. 571	923,961	Action had not been taken to settle the balances over 02 years lying in the Miscellaneous Deposits Account as at

- (iv) F.R. 1645 - The Commissioner had not signed the daily running charts of the cab at the fire extinguishing unit, whenever he uses it.
- (c) Administrative Circular
No.01/2016 of 29 February 2016
of the Western Province Chief
Secretary

- (i) Section 1.2.2 - An officer entitled for official vehicle is not entitled to use a vehicle of the fleet. However, the Commissioner had used another vehicle in addition to the official vehicle on identical days
- (ii) Section 1.2.3 - The Municipal Commissioner had obtained fuel for the vehicle he used in addition to his official vehicle.
- (iii) Sub Section 1.3.2 of Section 1.3 - The head of the institution could determine the monthly fuel limits of the vehicle fleet on the basis of the necessity of duties. However, in addition to 3 vehicles of the fleet, the Commissioner himself had determined the fuel limits for his official vehicle vide the letter of the Municipal Commissioner No.NMC/2/5/390 of 24 November 2017.

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 2017 amounted to Rs.173,281,595 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.130,889,540.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	149,069	163,911	151,189	106,455	152,399	158,772	152,311	103,794
Rent	26,427	34,959	33,671	17,276	22,884	26,501	24,835	15,973
Licence Fees	45,384	67,431	67,431	3,879	40,128	45,815	45,542	9,779
Other Revenue	259,679	221,196	221,196	7,155	230,050	205,212	204,900	9,564

The following observations are made.

- (a) The estimates revenue from rates had decreased by 02 per cent during the year under review as compared with the previous year. The bills for the year under review had increased by 10 percent than the estimated revenue from rates and as such feasible estimation had not been made.
- (b) The arrears of revenue from rent had increased during the year under review as compared with the previous year.

2.2.2 Rates and Taxes

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- (a) Out of the arrears of Rs.125,395,698 as at 01 January 2017, 37.55 per cent amounting to Rs.470,832,027 had been recovered.
 - (b) Assessment of rates had not been made for the hotel bearing Rate No.355 at Division No.05 during 2014 to August 2018. Rs.33 only had been recovered as rates for the year 2014. Action had not been taken to make permanent assessment even by 2017. Rs.675,278 per quarter had been recovered based on a temporary assessment.
 - (c) Rates at the rate of Rs.2,531 had been recovered from a vehicle sales centre bearing Rate No.772, at Division No.12 during the year 2014. Later, it had been revised as a tourist hotel with reception hall. However, the rates recovered remained as Rs.2,531 up to 2017.
 - (d) An authorized building had been constructed in the premises bearing Rate No.169, Colombo Road at Division No.08, Later, a rate number had been fixed and rates had been recovered on a temporary basis. The respective division had not taken action against the unauthorized construction while it was being constructed.
 - (e) Test checks were carried out relating to recovery of rates from hotels at Divisions No.04 and No.05 as downloaded from the internet. Accordingly, it was observed that the percentage of rates applicable to houses had been applied for recovery of rates from 28 hotels/business establishments.

2.2.3 Rent

Stall Rent

- (a) The arrears of money further due from tenders from 36 stalls of the Sabha as at 31 December 2017 amounted to Rs.19,616,279. The arrears of rent from 216 stalls amounted to Rs.3,674,183. Legal action had not been taken to recover this amount.
- (b) According to the condition No.05 stipulated in the tenders relating to stalls given on rent at the shopping complex building denoted A, it had been stated that if the second party

declares that the stalls were not necessary, the stalls should be handed over to the Council accordingly. However, the rights had been transferred from one person to another continuously without any accepted tender procedures. 102 stalls of this building had been given on rent since 1987 and the rent had not been recovered on the basis of assessment made in 2006. The recoveries had been made on the basis of a decision made by the Council. As a result, the revenue deprived of, for the period of 2006 to 2017 at the rate of Rs.298,925 per month amounted to Rs.40,653,800.

2.2.4 Licence Fees

(a) Trade Licences

- (i) Legal action had not been taken against 08 institutions belonging to the Negombo office which owed Rs.28,414 as trade licence fees for conducting business during the year under review.
- (ii) According to a list down loaded from the internet, 81 out of 153 hotels, canteens and lodgings approved by the Ceylon Tourist Board which operates within the authoritative area of the Council had not obtained licences.

(b) Business Tax

Five business establishments belonging to the Negombo office had conducted business without paying business tax. The Council had not taken legal action to recover Rs.16,962 from them.

2.2.5 Other Revenue

- (a) The garbage disposal revenue estimated for 2017 amounted to Rs.2,500,000. However, the amount recovered amounted to Rs.365,000. As a result, the estimated target had not been achieved.
- (b) The vehicle parking charges for vehicles parked at the road close to the Kamachchoda fish stall belonging to the Council had been collected by the Wellaweediya Church. Approval for transfer of this rights of the Council to external parties/institutions had not been furnished for audit.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Municipal Councils Ordinance such as regularization and control of matters

relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

(a) Action Plan

Twenty five functions included in the action plan of the year under review had not been executed.

(b) Duties not Fulfilled

(i) The Council had cancelled 18 contracts valued at Rs.9,546,311 for which agreements had been entered into.

(ii) Eight projects valued at Rs.5,000,000 planned to be executed by the Council through the 2017 budget had not been performed.

(c) Sustainable Development Target

The Council was unaware of the 2030 Agenda relating to sustainable development objectives of the United Nations.

3.2 Management Inefficiencies

(a) According to the register of public complaints, 78 out of 85 complaints made in 2016 and 86 out of 101 complaints made in 2017 had not been resolved. Even the register had not been updated.

(b) The Council had not taken action against 12 houses constructed in a land close to Kamachchodaya pola which belonged to the Municipal Council.

3.3 Operating Inefficiencies

(a) Tiles with a length of 1 feet and a breadth of 1 feet fixed in the 24' x 38' feet open space of the bus stand had become loose. Further, an identical tenderer had been awarded the No.23 stall and the upper stall. He had broken the concrete slab in order to build a stair case to reach the upper floor and had covered the said portion with hardboard. The Council had not taken any action, whatsoever, in this connection.

(b) The officers of the Council had taken action to cut the rare type of trees such as Gammalu trees, Paramara trees and certain other trees which were in the Negombo Rajapakse garden under the pretext of clearance of dangerous trees without the permission of the Divisional Secretary and the District Forest Officers. The Gammalu trees had been cut into pieces and 28 pieces only had been numbered and packed without allowing room for measuring the length in millimetres. Paramara trees with large circumference had been

assessed at Rs.32,675 and had been removed by 23 February 2018. There were no reports to show the number of pieces of the tree cut down. All the other work except cutting the trees could have been performed by the labourers of the Council. In spite of this, an estimate for Rs.69,000 had been prepared as labour charges in this regard.

- (c) Fourteen out of 15 stalls of the F building of Negombo shopping complex, one stall of the ground floor of the shopping complex of the new bus stand, 06 stalls of the first floor, open space of the second floor, 03 stalls of the D building of shopping complex and 07 unoccupied ground space of the Council had been given on rent to outsiders from 2002 to the year under review without signing agreements.
- (d) Stalls of the A building of the shopping complex had continuously been exchanged among lessees since 1986 without calling for tenders. While giving these stalls on rent the Council had afforded facilities by introducing conditions so as to facilitate exchange of stalls. 10 out of 54 stalls were subjected to test checks and it was observed that there were 3 to 7 instances where those stalls had been exchanged among individuals.
- (e) Block of lands belonging to the Council had been given on lease to private sector for constructing stalls. Stalls had been constructed in 25 blocks of land by 18 July 2018. Opportunity had been given to construct stalls in 11 empty space of land alone, after calling for tenders. Plans had not been approved for construction of stalls and certain constructions had reached the stage of third floor, by now.
- (f) The maximum value of the tender received during the lease of Kaaamachchodaya Wednesday Fair for the year 2017 amounted to Rs.18,252,000, The successful tenderer had rejected to accept the tender. As such, the lease of fair had been awarded to the second tenderer for Rs.13,572,000. As a result, revenue amounting to Rs.4,680,000 had been deprived of. In order to minimize the loss caused as a result of the rejection of tender by the first tenderer, the management decided to confiscate Rs.500,000 out of the security bond of Rs.1,000,000. But, the Council could not recover the amount as it had not stipulated/shown conditions in its request for calling for tenders so as to make legal bindings with tenderers.
- (g) The maximum tender received for lease of the Kamachchodaya Sunday Fair in 2017 amounted to Rs.22,816,500. The successful tenderer had rejected to accept the tender on 15 December 2016 and the second tenderer was awarded the tender for Rs.18,603,000 depriving the revenue of Rs.4,213,500 to the Council. In order to minimize the loss caused by the first tenderer's rejection to accept the tender, it had been decided to confiscate Rs.500,000 out of the security bond of Rs.1,000,000 of the bank as decided by the committee of management on 31 December 2016. But, the Council could not recover the amount as it had not stipulated/ shown conditions in its request for calling for tenders so as to make legal bindings with the tenderers.

- (h) The lessee of the Saturday Night Fair 2017 had unilaterally cancelled his agreement on 10 June 2017. The loss caused to the Council in this connection amounted to Rs.1,304,928. Without considering the loss, the management committee which met on 20 July 2017 had decided to release his tender deposit and subsequently Rs.1,672,312 had been released on 27 August 2017. The Council could not recover the amount as it had not stipulated/shown conditions for the tender. The tenderer had not been blacklisted for breach of agreement. As such, he had quoted prices for the quotations called for, for the second time.

3.4 Assets Management

3.4.1 Board of Survey

- (a) Action had not been taken to identify the properties of the Council by conducting verifications.
- (b) One hundred and twenty seven vehicles of the Council had not been subjected to verifications during the year under review.

3.4.2 Security of Assets not Confirmed

- (a) Encroachers had constructed buildings for private usage at the common land of 25.4 perches at Ramani Mawatha, Negombo and at the common land of 01 rood and 20.5 perches at Ridee Valley Road.
- (b) The Council was not in possession of title deeds for 100 out of 334 land belonging to it.

3.4.3 Idle Aseets

The building belonging to the Council where the Nena Sela functioned in the vicinity of the Thalduwa Pre school had been abandoned without being used.

3.5 Uneconomic Transactions

The Kamachchodaya Week End Fair had been constructed in 2013 by the Provincial Road Development Authority under the provisions made by the Ministry of Economic Development. A sum of Rs.151,025,802 had been spent to construct 04 new buildings in this fair and to repair the old building and to purchase necessary equipment for the latrine. One of the 04 new buildings and a portion of the old building repaired remained without usage due to severe shortcomings and 216 clothing racks and 95 vegetable racks remained without usage even by 28 August 2018. Further, these buildings had not been maintained although a maintenance and guarantee period of 10 years commencing from end of 2013 was in existence. 30 major deficiencies had been reported at the time of completion of construction of the week end Fair. These had not been attended to even by 27 October 2017.

3.6 Irregular Transactions

Cheques had been drawn in favour of external institutions before receipt of goods and the cheques so drawn had been handed over to certain officers denoting it as advances paid. Subsequently, the advances had been settled while making payments to those institutions. 363 such cheques issued since 1986 amounted to Rs.17,028,297. These had not been settled. Test checks revealed that the delay in obtaining goods for 06 such cheques issued ranged from 01 to 05 years.

3.7 Procurement

3.7.1 Procurement Plan

The Council had not prepared a procurement plan for the year under review.

3.7.2 Supplies and Services

- (a) The evaluation committee had recommended a security firm for providing security services to the Negombo Municipal Council including other places for 03 years from 01 January 2015 to 31 December 2017. The bank bond for Rs.10 lakhs had not been obtained as required by condition No.8 of the agreement. According to condition No.15, security should be furnished for not less than Rupees ten lakhs by a liability deed of the Sri Lanka Insurance Corporation. However, a security deed for Rs.100,000 valid till 29 January 2015 alone had been obtained. The first tenderer had been selected on the basis of considering that the salaries of the officer in charge had decreased by Rs.35 and the increase of Rs.9 in the salaries of the security guard as a small increase in salary than the prices quoted by the second tenderer, as recommended by the technical evaluation committee. Figurewise, the payments needed to be made were in respect of 124 officers in charge and 1,100 security guards and as such the Council had lost Rs.200,160 for the 3 year period.
- (b) The evaluation committee had recommended a private company which had quoted Rs.280,000 for cleaning the main bus stand and its surroundings for 03 years from 03 October 2014 to 03 October 2017, after considering the quotations furnished and the eligibility etc., But, the finance committee had neglected the recommendations and had selected another institution which had quoted a higher price of Rs.392,157 causing a loss of Rs. 4,620,862 to the Council at the rate of Rs.112,157 for 03 years. According to condition No.02 of the agreement, an inspector and four labourers should be engaged on duties during day time and 04 labourers should be engaged on duties at night. However, an on the spot inspection made on 29 September 2017 revealed that a supervisor and 03 labourers had been engaged on duties during the day time and a supervisor and 04 labourers had been engaged on duties at night. Further, according to Section 10 of the

agreement, the third floor and the hall should be cleaned daily till such time the third floor is given on lease to the third party. However, this had not been done.

- (c) Quotations had been called for, to select a consultancy firm to construct the library building of the Municipal Council. It had not been published in the newspaper advertisements that preference would be given to consultants residing in the Negombo area. However, the finance committee had given such preference and had selected the consultancy firm selected for the project executed in 2012 for the public library as well in 2013 and an agreement had been entered into accordingly. Three per cent of the estimated value of the consultancy fees was expected to be paid in 06 instalments and a sum of Rs.3,656,534 had been paid for 04 stages. At this stage, the above consultancy firm had been instructed on 07 June 2015 to prepare another plan in such a manner so that the library could contain commercial facilities. Accordingly, an agreement had been entered into to revise the consultancy fees from 3 per cent to 6 per cent and the consultancy fees had increased by Rs.5,922,995 from Rs.5,223,620 to Rs.11,146,615 for which recommendations of the technical evaluation committee had not been obtained. The Council had not acted in a planned manner before entering into the agreement and as such the Council had lost the above amount by 20 September 2017.

3.7.3 Contract Administration

- (a) The entire sewage system of the Kurana Major Raj playground constructed in 2000 had collapsed by the year 2010. In this connection, a firm had been selected in 2014 on the recommendations made by the technical evaluation committee. At this stage, another firm had furnished a project proposal. Both had not been executed and quotations had again been called for, after 02 years and an agreement had been entered into with the firm selected in January 2014 for executing the work for Rs.10,378,500 including VAT. This agreement signed on 10 October 2016 required the work to be completed in 03 months. The Council had lost Rs.3,907,800 with a delay of 02 years as a result of not taking decision on time. Due to the delay, the Council and a private institution had disposed of, waste water at the Water Supply and Drainage Board at Ekala, Ja Ela from Kurana since the year 2014 for which the Council had totally paid Rs.10,153,475. This project had been extended to 10 April 2017. But, the Council had failed to complete the construction of sewage system even by 31 December 2017. The sum of Rs.517,500 paid to the National Water Supply and Drainage Board upto May and July 2017 had become a loss to the Council.
- (b) Significant variances were observed between the estimated cost and the actual cost estimates of the contractor with regard to 06 items of work relating to the construction of an official quarters for the Municipal Commissioner. The estimated value was Rs.5,285,603. The quantity analysis of the contractor had not been called for in this connection as per provision in 7:9:11(a) Procurement Guidelines. The technical evaluation committee had called for explanations for other variances, except these 06 items on 30 March 2017. However, this had not been furnished to audit. Further, the

contract was expected to be completed within 06 months of signing the agreement. However, the contract had not been completed up to 20 July 2018. The contractor had required extension of time stating reasons for certain shortcomings that occurred while preparing the estimates and extension of time had been granted till 02 January 2018 without considering the provisions in 8.14.1 of the procurement procedures. However, demurrages had not been recovered. Although extension of time had been granted for the contract, action had not been taken to extend the validity period of the performance bond. Although the contract had been completed by 03 August 2018, 20 shortcomings such as, tiling, installation of accessories to doors and windows and installation of electrical equipment were observed.

- (c) An agreement had been entered into with a private firm for disposal of garbage for 03 months, from 01 September 2014 to 01 August 2017 at Kochchikade area and the amount payable was Rs.1,755,600, Rs.1,843,380 and Rs.1,935,549 respectively. According to the agreement, security bond for 5 per cent of the total annual amount should be obtained from a recognized state commercial bank and furnished. However, such a security bond for Rs.1,053,360 had been obtained for the first year and the same security had been obtained for the remaining 02 years. This agreement had been renewed upto 31 July 2018 during which period a security bond had not been obtained.

4. **Accountability and Good Governance**

The financial statements for the year under review had been furnished on 12 April 2018.

5. **Systems and Controls**

Deficiencies observed regarding systems and controls were brought to the notice of the Commissioner from time to time. Special attention is needed in respect of the following areas of control.

System	Deficiency
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(a) Accounting	(i) Lack of accounting. (ii) Existence of differences among balances.
(b) Revenue Administration	(i) Action not being taken to recover advances and arrears. (ii) Attention not being paid to obtain new sources of revenue.
(c) Project Administration	(i) Weakness in selection of constructions.

- (ii) Deficiencies in constructions.
- (d) Vehicle Control
 - (i) Lack of verification of vehicles
 - (ii) Investigations not being held regarding accidents to vehicles
- (e) Assets Control
 - (i) Lack of action regarding safety of assets.
 - (ii) Allowing room for unauthorized usage of public property.