

Maharagama Urban Council

Colombo 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 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 12 September 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 Maharagama Urban 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 matters were observed.

- (a) Provision for audit fees had not been made for the years 2016 and 2017.
- (b) The sum of Rs. 99,450 receivable as Value Added Tax and Nation Building Tax on behalf of the land given on lease for car park had not been brought to account.
- (c) The sum of Rs. 10,420,206 paid for expenditure of January to March 2018 during the year under review had not been shown as creditors in the accounts as at 31 December of the year under review.
- (d) The agreements of 02 contracts had been cancelled and the values amounting to Rs. 665,000 had been shown in the creditors' schedule. As a result, the creditors had been overstated by a similar amount.
- (e) Employees' security deposits of Rs. 90,000 recovered from 18 drivers had not been accounted as employees' security deposits.

1.3.2 Unreconciled Accounts

A difference of Rs. 53,668,753 was observed while comparing the balances of 14 items of accounts in the financial statements with their related balances in the subsidiary registers / schedules.

1.3.3 Accounts Receivable and Payable

Accounts Receivable

- (a) A sum of Rs. 2,167 due since 2012 on behalf of election duties and Rs. 20,000 due as graduate trainee allowances and the salaries reimbursable amounting to Rs. 14,868,518. had not been reimbursed even during the current year.
- (b) The Urban Council had spent Rs. 246,615 on an awareness programme relating to preservation of food arranged for hoteliers. This had not been reimbursed up to May 2018.

1.3.4 Lack of Necessary Documentary Evidence for Audit

Seven items of accounts aggregating Rs.48,148,393 could not be satisfactorily vouched in audit due to non rendition of necessary information.

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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(a) Sub section "c" of Section 165 of the Municipal Councils Ordinance(chapter 255)	Rs. 4,634,760	One percent of the sales value of a block of land sold should be recovered as tax from the seller provided the land is situated within the administrative area of the Urban Council. However, the Council had recoverd 01 percent alone of 10 sales of land during the year under review as estimated by the revenue inspector. The Council had not taken action to compare the difference between the estimated values and the

sales values of land and to make recoveries accordingly.

(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	F.R. 177(1)	442,873		Collection of state revenue should be deposited immediately as possible or daily. However, the arrears of rates collected by distraining officers had been deposited in the Council after long delays.
(ii)	F.R. 188(2)	9,325		Action had not been taken regarding 01 unrealized cheque and 03 money orders.
(iii)	F.R. 396(d)	607,704		Action had not been taken regarding 65 cheques issued, but not presented for payments for over 06 months.
(c)	Paragraph 3.1 of the Public Administration circular No.30/2016 of 29 December 2016	-		Consumption of fuel by vehicles of the Council had not been tested.
(d)	Treasury circular No.842 of 19 December 1978.	-		A register of fixed asset had not been maintained.
(e)	Paragraph 3.3 of the State Accounts Circular No 01/2012 of 05 January 2012	19,132,459		Community based organizations should not be involved in more than 04 contracts at the time of awarding the contract. However, the contract had been awarded, in contravention of the requirement.

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.192,717,964 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 192,729,139.

2.2 **Financial Control**

The current account No. 607629 had been closed in August 2015. However, a nominal value of Rs.2,052,258 had been shown in the accounts even during the year under review.

2.3 Revenue Administration

2.3.1 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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	95,506	87,236	70,300	54,627	89,615	97,995	70,328	60,045
Rent	19,206	7,399	5,254	2,145	19,685	18,594	15,761	6,837
Licence Fees	1,602	-	1,226	-	1,072	1,023	948	307
Other Revenue	257,780	-	368,753	-	224,886	350,751	347,241	178,502

2.3.2 Rates and Taxes

- (a) The Council had failed to recover 19 percent of Rs. 84,270,534 billed for the year under review amounting to Rs. 16,428,062.
- (b) The arrears of rates as at 31 December 2016 amounted to Rs. 57,304,852. However, only Rs.19,230,383 of this had been recovered during the year under review. As such, 66 percent of it amounting Rs.38,074,469 remained as arrears.
- (c) The balance of arrears of rates as at 31December 2017 amounted to Rs. 54,502,531. Of this, a sum of Rs. 3,652,240 was due from 41 units of rates exceeding Rs. 50,000.

2.3.3 Rent

A sum of Rs. 4,220,613 was due from 176 stalls as at 31December 2017. Of this, Rs. 4,102,367 was due from 134 stalls ranging for a period of 03 to 97 months.

3. Operating Review

3.1 Performance

(a) Work Abandoned

- (i) Two projects valued Rs. 400,000 to be executed under the decentralized aid had been cancelled due to lack of funds and transfer of funds to another project.
- (ii) Four projects valued at Rs. 2,871,115 to be executed under the general fund had been cancelled showing reasons such as occurrence of protests, transfer of funds to another project, weather changes and the process of acquirement not completed.

(b) Delays in carrying out duties

- (i) Five projects valued at Rs. 9,500,000 had not been completed as a result of not obtaining provision from the Ministry of Provincial Councils and Local Government.
- (ii) Forty one projects valued at Rs. 55,079,556 which had been executed by utilizing general funds had been abandoned due to weather changes and due to expiry of the agreed period.
- (iii) A sum of Rs. 14,401,828 had been spent from the funds of the Council and the funds of the Provincial Council from 2012 to 2017 to renovate the Pepiliyana

playground. However, action had not been taken even by end of the year under review to complete renovations and to make use of it.

(c) Solid Waste Material Management

- (i) Segregated garbage of 2,340 tons and 31,827 tons of garbage which had not been segregated had been handed over to the Karadiyana garbage sector during 2017. The segregated garbage was 7.3 percent of the garbage not segregated. The Council had to pay Rs. 23,870,250 in excess as the collection of garbage had not been managed properly.
- (ii) The Council had 38 vehicles for transport of garbage. In spite of this, a sum of Rs. 998,850 had been paid during 2017 for obtaining transport services from 04 private institutions.

3.2 Management Inefficiencies

(a) Dishonoured Cheques

Cheques amounting to Rs. 15,698 given by rate payers and 03 cheques given for advertisement board charges valued at Rs.212,472 had been dishonoured. However, action had not been taken to recover these amount.

(b) Manitenance of Street Lamps

The stroes had issued 7369 electric bulbs during 2017. However, the number of street lamps fixed during the year could not be identified as the lamp posts had not been numbered and due to lack of proper maintenance of registers. The guaranteed period of electric bulbs had become questionable.

(c) Value Added Tax

The accounting of Value Added Tax (VAT) was not correct. As a result, a sum of Rs. 10,853,753 had been shown as receivable. Action had not been taken to settle these transactions.

3.3 Human Resources Management

- (a) The information relating to the cadre of the Council as at 31 December 2017 appear below.

Category of Employee	Approved Cadre	Actual Cadre	No. of Vacancies	Surplus Cadre
Senior Level	05	03	02	-
Tertiary Level	02	01	01	-
Secondary Level	90	75	15	-
Primary Level	287	269	18	-
Others	-	30	-	30
Total	-----	-----	-----	-----
	384	378	36	30
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The following observations are made.

- (i) Filling of 36 vacancies by end of the year under review had failed. 30 other posts were in excess. (casual, temporary, substitutes)
- (ii) The activities of the Council could not be efficiently and effectively done due to the existence of 02 vacancies in the senior level.
- (iii) An employee who had been recruited and permanently appointed in terms of Public Administration Circular No. 25/2014 of 12 November 2014 had not been included in the permanent cadre even by end of the year under review. As such, the salaries paid to that employee could not be reimbursed.

(b) Employees' Loans

According to the financial statements, the balance of employees' loans as at 31 December 2017 amounted to Rs. 35,414,692. Of this, the amount recoverable from 39 employees amounted to Rs. 1,515,167. The follow up action taken regarding these employees who had vacated posts, gone on transfers, expired etc., during the period 1988 to 2017 was at a weak level.

3.4 Operating Inefficiencies

The following matters were observed

- (a) Properties should be assessed every 5 years and rates recovered accordingly. However, properties had not been assessed after 2008.
- (b) The Urban Council could cancel the lease agreement whenever a lessee defaults payment for over 06 months. However, action had not been taken by the Council to cancel the rent agreements of stalls which had delayed payments for 06 to 97 months and

to acquire them. Also, penalty at the rate of 10 percent had not been recovered whenever the rent had not been paid on the due dates.

- (c) According to Section 8:1 of the lease agreement of the Godigamuwa Florists belonging to the Urban Council, the amount due to the Council on the basis of number of days a body had been kept in the parlour had not been recovered.
- (d) A register had not been maintained showing details of street lamps maintained by the Council, the roads where those lamps had been installed and the lamp posts bearing numbers.

3.5 Assets Management

3.5.1 Assets not Entered in Registers

- (a) The Urban Council had not maintained a register for land and buildings. As such, the correctness of the extent of crematoriums surveyed in 2015 and 2016 could not be confirmed. Title deeds or vesting documents relating to the crematoriums had not been furnished for audit.
- (b) The register of inventories had not been properly maintained. Donations to the Council from outsiders had not been entered in registers.

3.5.2 Safety of Assets not Confirmed

Flagstaffs of the Council issued to external parties and return of such issues had not been entered in registers.

3.5.3 Assets not Acquired

- (a) Two tractors and a trailer of the National Housing Development Authority given to the Maharagama Urban Council by the Homagama Predeshiya Sabha in 2002 had not been acquired by the Council.
- (b) The Council had not acquired the water bowser valued at Rs. 535,000 given to the Council by the Ministry of Local Government, Western Province on 23 May 2017.

3.5.4 Idle / Under Utilized Assets

- (a) Two vehicles recommended for disposal by the board of survey of 2016 had not been disposed of.
- (b) Action had not been taken to dispose of, a tractor lying in a condemned condition.

3.5.5 Annual verification of Goods /Stocks

Excesses and shortages as per board of survey of the current year had not been properly noted and a final report prepared accordingly.

3.5.6 Vehicle Utilization

Fuel consumed and the distance travelled had not been entered in the daily running charts. Log books had not been properly maintained.

3.6 Identified Losses

- (a) One hundred and eighty nine library books valued at Rs. 51,672 had been issued to 122 members during the period 2010 to 2017. These had not been returned.
- (b) A vehicle of the Council had met with an accident on 03 November 2017. The estimated value of the loss amounted to Rs. 500,000 as per preliminary report This had not been disclosed in the financial statements.

4. Accountably and Good Governance

4.1 Budgetary Control

The following matters were observed.

- (a) Subsequent to the transfer of provisions among items of revenue and expenditure during the year, variances ranging from 0.65 percent to 352.66 percent were observed between the budgeted and the actual revenue and expenditure on 17 instances showing that the budget had not been utilized as an efficient instrument of management control.
- (b) No expenditure, whatsoever, had been incurred from 147 expenditure heads containing the budgeted provision of Rs. 24,822,000.

4.2 Internal Audit

Activities had not been properly organized so as to fulfil the objectives and functions of the internal audit division. Action had not been taken to function as an independent division free from the financial and administrative activities of the Council and to furnish copies of internal audit reports to the Auditor General.

4.3 Audit and Management Committees

At least one meeting per quarter should be held by the Audit and Management committees in terms of paragraph 06 of the circular No.DMA/2009/1 of 09 June 2009 of the Department of Management Audit. However, only 01 meeting had been held in 2017.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Secretary 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) Overstatements in accounts. (ii) Omissions in accounts.
(b) Revenue Administration	(i) Arrears of revenue not being properly recovered. (ii) Assessment of tax not done on due dates.
(c) Budgetary Control	(i) Lack of feasibility in the preparation of revenue estimates. (ii) Significant variances in items of revenue and expenditure.
(d) Fixed Assets and Stock Control	(i) Register of fixed assets not updated and maintained. (ii) Lack of proper maintenance of register of stocks. (iii) Lack of proper conduct of board of survey
(e) Debtors and Creditors Control	(i) Inadequacy in confirmation of balances. (ii) Non settlement of balances of arrears.
(f) Internal Audit	(i) Lack of proper internal audit. (ii) Non rendition of internal audit reports to the Auditor General.