

**Maharagama Urban Council**

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**Colombo District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year 2018 had been presented for audit on 01 April 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 31 May 2019 and on 31 July 2019.

**1.2 Qualified Opinion**

In my opinion, except for the effects of the matters shown under the basis for qualified opinion 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 2018 and its financial performance for the year ended in accordance with Generally Accepted Accounting Principles.

**1.3 Basis for Qualified Opinion**

**(a) Accounting Deficiencies**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(i) Due to non-accounting of the opening stock balance, pharmaceutical purchases and not accounting of issuance of Liyanagoda Free Ayurveda, the supply and equipment account by Rs. 48,554, income assistance account by Rs. 46,761 and final stock balance by Rs. 479,581 had been understated.	Transactions should be correctly accounted.	Accept. Corrected by journal entries.
(ii) Stock balance was understated by Rs.741,372 due to non-adjustment of fuel stock valued at Rs. 282,699 and industrial goods amounting to Rs.458,673 .	Accounting should be done correctly.	Accept. Industry inventory balance is adjusted for stock balance and included in the Schedule. Only calculation is missed.

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| (iii) | Two compactors valued at Rs. 29,384,000 were obtained from Department of Local Government on the basis of charging to stamp duty, for the year 2018. Although capital expenditure of Rs.7,108,250 should be accounted the total value accounted as capital expenditure, the capital expenditure had been overstated by Rs.22,275,750. | Fixed assets need to be correctly accounted for. | Accept. Corrected by the journal entries. |
| (iv)  | A difference of Rs. 355,000 was observed as a result of adjusting the Provincial Council loan account and the recoverable utility service account by Rs. 8,122,000 instead of the total value of the stamp duty, amounting Rs. 8,477,000 recovered.   | Transactions should be correctly accounted.      | Accept. Corrected by the journal entries. |
| (v)   | The compactors valued at Rs.29,384,000 obtained on credit basis had been credited to general stock account instead of being credited to contribution from revenue to capital outlay account the stock balance had been understated by that amount.  | Transactions should be correctly accounted.      | Accept. Corrected by the journal entries. |
| (vi)  | Two tractors and two trailers obtained on credit basis in 2017 had not been for accounted for stamp fees received amounting Rs.1,368,750. As a result, the vehicle account, capital expenditure account, arrears of stamp duty account, and   | Transactions should be correctly accounted.      | Accept. Corrected by the journal entries. |

	contribution from revenue to capital outlay account had been understated.		
(vii)	The dividends amounting to Rs.3,364,200 received in respect of the year 2017 for investing shares in an electric private company, had been credited to the shares investment instead of being credited to another income account, the investment account had been understated and the deficit overstated.	Transactions should be correctly accounted.	Accept. Corrected by the journal entries.
(viii)	A sum of Rs. 1,304,376 payables to a private company for the transport of garbage had not been accounted as creditors.	Payable should be accounted as creditors.	A part of the waste transport has been handed over to a private company, and amount payable to that company had been settle against each other.
(ix)	Fixed deposit interest receivable amounting to Rs.1,380,519 for the previous year received in 2018 not been accounted in fixed deposit interest account, Therefore fixed deposit interest receivable had been overstated by that amount.	Transactions should be correctly accounted.	Corrected by the journal entries.

**(b) Unreconciled Accounts**  
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**Audit Observation**  
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Balance relating to 10 items have been excess by Rs.15,687,855 and less by Rs.10,121,317 in the financial statements when

**Recommendation**  
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Action should be taken to reconcile the differences in the related balances and to rectify accounts.

**Comments of the Accounting Officer**  
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Accept. Schedules and adjustments will be made in the future.

comparing with the balances in the supporting registers/schedules of the financial statements.

**(c) Lack of Necessary Documentary Evidence for Audit**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Nine items of accounts aggregating Rs.55,249,396 could not be satisfactorily vouched in audit due to non-availability of necessary information.	Schedule or necessary information should be submitted to confirm the balances.	All adjustments and schedules will be made in the accounts.

**1.4 Non-compliance**

**1.4.1 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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

<b>Reference to Laws, Rules Regulations and Management Decisions</b>	<b>Non-compliance</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) Sub- section “c” of Section 165 of the Urban Council Ordinance (Chapter 255)	Action had not been recover the difference between the estimated value and the actual selling value of the plots of land.	Action should be taken in accordance with Sub-section (c) of Section 165 of the Urban Council Ordinance (Chapter 255)	Letters have been sent informing the time period of payment of the difference between the estimated value of the 17 land sales and the actual selling value of the remaining plots of land. Action will be taken in the future.

(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka -----			
Chapter XXIV ,Sections 4.4 and 4.5	Action had not been taken to recover from the sureties or pension gratuity when the staff loans were not arrears.	Action should be taken in accordance within Chapter XXIV,4.4 and 4.5.	Accept. Letters have been sent to person in arrears. Action had been taken to recover the loans.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----			
F.R. 188 (2)	Action had not been taken for a cheque deposited amounted Rs. 9,325 but unrealized and three money orders	Should be act in accordance with the FR 188 (2)	Unrealized cheque amounting to Rs.3,000 realized in the month of May bank reconciliation, Action is underway to solve money orders of Rs.6,488.
(d) Public Administration Circulars -----			
Section 2 II and V of the Public Administration Circular No. 09/2009 of 16 April 2009	Field officers had not been report the arrival and departure by the fingerprint machine.	Should act in accordance with the circular No. 09/2009 of 16 April 2009.	Adhered to Section 2 ii and v of the circular by the field officers and to confirm their arrival and departure through finger print machine on their two working days of the week.
(e) Other Circulars -----			
Paragraph XXI of the Circular No. WP/LGD	Quarterly report had not been submitted to the	Should be act in accordance with	Accept. Steps have been taken to send

/01/2012 of the  
Commissioner of Local  
Government (WP)  
dated 11 July 2012

Commissioner of Local  
Government on the  
decisions taken by the  
Planning Committee  
relating to unauthorized  
constructions and  
reclamations.

circular No. WP /  
LGD / 01/2012 dated  
11 July, 2012.

quarterly reports to  
the Commissioner  
of Local  
Government.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2018 amounted to Rs.62,788,166 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.192,717,964.

### **2.2 Financial Control**

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#### **Audit Observation**

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

#### **Recommendation**

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Action should be taken to settle.

#### **Comments of the Accounting Officer**

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Since there are some issues in this account which cannot be solved and the inquiry report has been submitted to the Committee on Public Accounts. Action is being taken to write off its remaining balance.

## **2.3 Revenue Administration**

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### **2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue**

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

Source of Revenue	2018				2017			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	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	102,506	109,778	109,821	61,387	95,506	87,236	70,300	54,627
Rent	21,167	26,334	25,012	4,487	19,206	7,399	5,254	2,145
Licence Fees	1,203	-	1,602	-	1,602	-	1,226	-
Other Revenue	260,565	-	31,834	-	257,780	-	368,753	-

### 2.3.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) For the year under review billed revenue was Rs.89,080,916 and the Council had failed to recover Rs.21,010,791 or 23 per cent.	Action should be taken to recover the annual billed amount.	Accept. A number of measures have been taken to recover the relevant rates and accordingly, these recoveries have been made.
(b) The balance of arrears of rates as at 31 December 2017 amounted Rs.61,996,522, and collected amounted Rs.21,329,019 with in the year under review and the Council had failed to recover 66 per cent of rates amounting Rs.40,667,503.	Action should be taken to recover the arrears of rates.	Accept. Action has been taken to recover the arrears.
(c) Although business tax balance was Rs.267, 685, the Council had failed to recover 75 per cent or Rs.201, 685.	Action should be taken to recover the balance of business tax.	Accept. Legal action is being taken to collect business tax as at 31 December 2018.

### 2.3.3 Rent

----- <b>Audit Observation</b> -----	----- <b>Recommendation</b> -----	----- <b>Comments of the Accounting Officer</b> -----
(a) A sum of Rs.4,422,994 was due from 161 trade stalls as at 31 December 2018 those are in the range of 01 to 74 months.	Action should be taken to recover arrears.	Accept. 26.2 per cent of the arrears and 50 files were referred to the lawyer. Reminders have also been sent to the Attorney-at-Law and letters are being prepared according to the register to recover the arrears.
(b) The agreements relating to 17 trade stalls belonging to the Urban Council had not been signed.	Action should be taken to sign the agreements.	Accept. Action has already been taken regarding the agreement.
(c) According to the agreements or valuation reports, new agreements should be signed by the end of the period, but 100 agreements had not been renewed.	Action should be taken to sign the agreements promptly.	Accept, Action is being taken to update the agreements considering new assessment. At present updating f in going on.

## 3. Operating Review

### 3.1 Performance

#### (a) Abandoned Activities

----- <b>Audit Observation</b> -----	----- <b>Recommendation</b> -----	----- <b>Comments of the Accounting Officer</b> -----
(i) Six projects valued at Rs.1,300,000 to be implemented under the decentralized aid had been canceled, due to the reason that	Projects should be carried out in accordance with the plan.	Accept.



projects being transfer to the Divisional Secretariat.

(ii) Sixteen projects valued at Rs.17,650,000 with the aid of the Provincial Council had been cancelled due to the reason of transfer of funds to another project. Projects should be carried out in accordance with the plan. Accept.

(iii) Project under the ‘ Sukitha City’ to be implemented valued at Rs.912,958 had been cancelled due to the reason of road disputes. Proper investigations should be carried out to resolve issues and implement projects. Accept.

**(b) Delays in Execution of Activities**  
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(i) Fifty three projects valued at Rs.40,945,740 under the general fund had not been completed and due to bad weather, delay in coming with agreement and lack of provisions. The remaining projects should be completed. 31 projects had been implemented.

(ii) A sum of Rs.17,795,849 had been spent from the Fund of the Provincial Council and the Fund of the Council from 2012 to 2018, to renovate the Pepiliyana Playground. However, action had not been taken even by end of the year under review to complete renovation and to make use of it. Action should be taken to complete the project and use. Opened to the public.

**(c) Solid Waste Material Management**  
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(i) Segregated garbage of 4602 tons and 32028 tons of garbage which had not been segregated had been handed over to the Karadiyana garbage yard during the year 2018. The segregated garbage was 14.36 per cent of the non-segregated garbage. Garbage collection should be managed properly. Accept. Steps have been taken for garbage management at present.

Collection of garbage had not been properly managed and as such the Council had to over paid Rs.24,020,737 .

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| (ii) In spite of the Council having 31 vehicles and 26 drivers for transport of garbage. A sum of Rs.3,260,940 had been paid during 2018 for obtaining transport service from a private institution | Garbage transport costs should be minimized. | Accept. |
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### 3.2 Management Inefficiencies

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) Six cheques valued at Rs.62,159 given by rate payers and three cheques valued at Rs.212,472 given by advertisement board charges had been dishonored, but action had not been taken to recover those amount.	Action should be taken to recover money from dishonored cheques.	The case has been referred to the council attorney for defamation.
(b) The fixed deposit value had been decreased by Rs.3,985,767, due to non-adjustment of interest, relating to five fixed deposit of which interest was reinvested.	Interest should be reinvested.	Accept. Corrected by journal entries.
(c) In accordance with sub-section 14 (1) (a )of the Planning and Building Regulations 2008-2020 issued by the Urban Development Authority, plan should be approved within eight weeks from the date of registration of the application. But there was a delay in approving plans from 108 dates to 706 dates.	Ensure compliance with planning and building regulations issued by the UDA	Accept.

### 3.3 Human Resources Management

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Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) <b>Vacancies of employee</b> ----- Vacancies by end of the year under review were 52. The activities of the Council could not be carried out efficient and effectively due to the two vacancies in the senior level post.	Action should be taken to fill the vacancies.	Informed to fill the vacancies.

### (b) Staff Loans

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Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(i) Action had not been taken to recover the loan balance of Rs.285,728 of 5 officers who had been transferred since 24 months to 144 months.	Action should be taken to recover the loans.	Loan balances of the officers who have been transferred are charged in installments as at 31.12.2018
(ii) Action had not been taken to recover the outstanding loan balance of Rs.1,074,375 from 42 officers, who had been deceased / retired / left the service.	Action should be taken to recover the loans immediately.	Accept. Out of that Rs.299,970 had been recovered. The rest will be recovered in due course.

### 3.4 Operating Inefficiencies

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Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Properties should be assessed every 5 years and rates recovered accordingly. However properties had not been assessed after the year 2008.	Properties should be assessed once in 5 years	Valuation revisions are currently underway and 95 per cent of the work has been completed. The new valuations are to be implemented from January 2020.

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| (b) | The Urban Council has the power to cancel the lease agreements, whenever a lessee defaults payment for over six months. However, action had not been taken by the Council to cancel the rent agreements trade of stalls which had delayed payment for 6 to 97 months and to acquire them. | Rent agreements should be complied with                         | Accept. At present, letters have been sent to the existing shops asking them to pay the arrears. The files are referred to the Attorney General for further action of relating to arrears files. |
| (c) | Although Obtaining Assessment Numbers or Change of Names in Abstract (Astharekka) had to be completed within two weeks as per the Citizen's Charter, there work delay from 5 to 124 days.   | Action should be taken always to comply the Citizen's Charter . | Accept. There are practical problems for delays. Taking action to minimize the delays.   |

**3.5 Asset Management**  
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**3.5.1 Assets not Entered in the Registers**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
The Urban Council had not maintained a register for land and building and register of inventory properly.	Need to be updated registers regularly.	Even though a land and building register is maintained, it is not in the format specified by the audit. A land and building register will be prepared at the expected level. Accept. Inventory registers have not been maintained properly. Action will be taken to rectify the shortcomings pointed out by the audit and maintain inventory registers.

### 3.5.2 Assets not Acquired

Two tractors and a trailer belonging to the National Housing Development Authority, had been given to the Maharagama Urban Council by the Homagama Pradeshiya Sabha in 2002 had not been acquired to the Council.

Action should be taken to acquire vehicles.

Accept. Letters have been sent to the National Housing Development Authority (NHDA) for several times regarding the tractors and trailers owned by the Homagama Pradeshiya Sabha from 2001 and to be acquire to the Maharagama Urban Council.

### 3.5.3 Annual Board of Survey Inventory/ Stock

#### Audit Observation

A final report prepared had not been and adjustment were not been made to the stock balance according to the excesses and shortages as per board of survey of the current year.

#### Recommendation

A final report on excesses/ shortages should be issued according to the board of survey.

#### Comments of the Accounting Officer

Accept. Report will be submitted as shown by the audit.

### 3.6 Identified Losses

#### Audit Observation

- (a) One hundred and ninety nine library books valued at Rs.57,006 had been issued to 119 members during the period 2010 to 2018, these books had not been returned.
- (b) A vehicle of the Council had met with an accident on 3 November 2017, and the estimated value of the loss amounted to Rs.500,000 as per

#### Recommendation

The library books should be brought back or be charged from members.

#### Comments of the Accounting Officer

Accept. Action has been taken to return more books than last year as a result of informing the in members at the year of 2019.

Should be disclosed in Financial Statements.

The current position of this issue will be notified in the Accounting Principles at the time of submission of accounts for 2019.

preliminary report, and it had not been disclosed in the financial statements.

#### **4. Accountability and Good Governance**

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##### **4.1 Budgetary Control**

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###### **Audit Observation**

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The Budgetary Provision had not generated any income from budgeted 10 revenue heads amounting to Rs.32,833,000, and no expense was incurred by 141 expenditure heads amounting to Rs.45,264,000 during the year under review.

###### **Recommendation**

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According to the budgetary allocation, the maximum targets should be achieved.

###### **Comments of the Accounting Officer**

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Accept. It was decided to construct a garment market and an apartment complex but the project was failed project. Due to that 30 million could not be earned. Further it was also expected to get insurance claim and earn money and also not worked out and no income received from that recurrent heads. Some headings are added with small value, because. if the budgeted head is removed from the budget, it will not be possible to create a re-budget.

##### **4.2 Internal Audit**

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###### **Audit Observation**

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Activities had not been properly organized so as to fulfill 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

###### **Recommendation**

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The Internal Audit Division should be established independently

###### **Comments of the Accounting Officer**

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The internal audit reports will be arranged to submit to the Auditor General in the future as indicated by the Audit.

Council and to furnish copies of internal audit reports to the Auditor General.

### 4.3 Audit and Management Committees

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#### Audit Observation

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A minimum of one meeting per quarter should be held by Audit and Management Committees. In terms of paragraph 6 of the circular No. DMA / 2009/1 of 09 June 2009 of the Department of Management Audit. However, only two meeting had been held in 2018 by the Council .

#### Recommendation

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Action should be taken in accordance with paragraph 06 of the circular.

#### Comments of the Accounting Officer

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Since the transfers have been made periodically during the year, it will not be able to carry out the task properly. It will be held in the future.