

Dehiwala Galkissa Municipal Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 30 March 2012 and the financial statements for the preceding year had been presented on 31 March 2011. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 16 October 2012.

1.2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Dehiwala Galkissa Municipal Council had maintained proper accounting records for the year ended 31 December 2011 and except for the effects on the financial statements of the matters referred to in my report, the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Dehiwala Galkissa Municipal Council as at 31 December 2011 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The ambulance worth Rs.7,400,000 obtained as gift in the year 2007 had been accounted as Rs.740,000.

1.3.2 Unreconciled Control Accounts

A difference of Rs.12,218,151 was observed while reconciling the balances of 7 items of accounts aggregating Rs.482,028,719 appearing in the financial statements with the balances of the subsidiary registers and the balances in the reports.

1.3.3 Accounts Payable

The following observations are made.

- (i.) Included in the balances of expense creditors amounting to Rs.78,095,155 were balances of creditors amounting to Rs.699,074 pertaining to a period of 3 to 4 years and balances of creditors amounting to Rs.18,838,855 exceeding 06 years.
- (ii.) The balances of refundable deposits as at the end of the year under review aggregated Rs.34,469,003. Balances of revenue deposits and tender deposits amounting to Rs.2,172,100 and Rs.258,750 respectively continued to be brought forward since 2002 without change. Further, out of the balances of miscellaneous deposits of Rs.29,985,792, a sum of Rs.17,531,745 belonged to a period ranging from 2 to 20 years. The balance of pension deposits amounting to Rs.189,014 belonged to the period ranging from 1996 to 2008.

1.3.4 Lack of Evidence for Audit

(a.) Unreplied Audit Queries

Replies had not been furnished even as at 30 September 2012 for 18 audit queries issued during the year under review. The computable transactions subjected to those queries amounted to Rs.7,475,077. Further, replies had not been furnished for 17 audit queries issued within the 02 previous years.

(b.) Non rendition of information for Audit

Transactions aggregating Rs.363,246,411 could not be satisfactorily vouched in audit due to non-rendition of necessary information to audit.

(c.) Non rendition of paid vouchers

Eight paid vouchers valued at Rs.240,899 had not been furnished to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Council for the year ended 31 December 2011 was Rs.35,284,460 as compared with the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs.36,966,222.

The Council was dissolved on 10 August 2011. However, allowances to members had been paid for the period 10 to 31 August 2011 and the period 01 to 19 October and the total amount paid was Rs.280,645 made up of Rs.149,484 and Rs.131,161 respectively. This had not been reimbursed by the Commissioner of Local Government too.

2.2 **Bank Accounts**

The following observations are made.

- (a.) Instead of taking action in terms of Financial Regulation 396 of the Republic of Sri Lanka with respect to 374 cheques issued during 2001 to 2008 totalling Rs.2,315,002 remaining unrepresented to the bank for payments, these had been accounted under miscellaneous deposits.
- (b.) According to the bank reconciliation statement of December of the year under review, action had not been taken in terms of Financial Regulation 396 of the Republic of Sri Lanka with regard to 11 cheques aggregating Rs.253,281 too remaining unrepresented to the bank for over 06 months.
- (c.) Action had not been in terms of Financial Regulations 189 and 486 of the Republic of Sri Lanka with regard to 11 dishonoured cheques aggregating Rs.82,896.

2.3 **Revenue Administration**

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

Information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review, as presented by the Chairman, is shown below.

Item of Revenue	Estimated	Actual	Accumulated arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
i. Rates and Taxes	157,101	159,976	231,396
ii. Lease rent	15,948	15,963	8,024
iii. Licence Fees	20,516	16,793	2,567
iv. Other Revenue	221,612	220,517	147,267

2.3.2 Weaknesses in collection of Revenue

The following observations are made.

- (a.) No revenue had been collected during the year under review from the estimated revenue of Rs.4,010,000 of 06 items of recurrent revenue under the Revenue Head 05.
- (b.) The Council was unable to earn 50 to 96 percent of the targeted revenue of 08 items of revenue, 25 to 50 percent of the targeted revenue of 09 items of revenue and 10 to 25 percent of the targeted revenue of 08 items of revenue.
- (c.) Twenty two percent of rates and taxes of the previous year alone had been recovered during the year under review as compared with that of the previous year and none of the lease rent arrears had been recovered during the year under review. Only 65 percent of the rates and taxes, lease rent and licence fees for the year under review were able to be collected.

2.3.3 Other Revenue

A sum of Rs.154,107 had not been recovered from 2007 on behalf of the Galie bowser supplied to government institutions.

2.3.4 Rent of Trade Stalls

The following observations are made.

- (a.) The arrears of balances due as at 31 December 2011 from 370 lessees of trade stalls of the trade complexes at Dehiwala, Galkissa, Kohuwala, Saranankara, Karagampitiya, and Ratmalana amounted to Rs.3,187,194. The arrears of tax amounting to Rs.3,075,608 too had been included in the arrears. The Council had not taken action to recover arrears in terms of conditions 17 and 19 of the lease agreement.
- (b.) The period of lease agreement of 4 stalls at the trade complexes Kohuwala and Galkissa had ceased in October 1996, June 2004, June 2006 and June 2008 respectively. Action had not been taken to enter into new agreements even as at 30 June 2012.

2.3.5 Rent of Building

The following observations are made.

- (a.) Rent had not been paid for over 11 years for the buildings where the Dehiwala Police and the Saranankara Police Posts function. The arrears as at end of the year under review aggregated Rs.1,338,848.
- (b.) A sum of Rs.1,128,584 and a sum of Rs.1,497,501 were recoverable as at end of the previous year and as at end of the year under review respectively from lessees of 17 other buildings.

2.3.6 Notice Board Charges

A total sum of Rs.2,504,783 made up of Rs.2,189,265 as notice board charges and Rs.315,518 as tax thereon were due as at 31 December 2011 on behalf of the year 2011.

2.3.7 Trade Licence Fees

Trade licences had been issued to 111 trade stalls alone out of the 914 trade stalls which had been identified for issue of trade licences during the year under review. Accordingly, 803 trade stalls had operated without obtaining licences. However, recoveries for trade licences had been obtained from those stalls.

2.3.8 Business tax

During the year under review, 4,666 institutions had been identified for recovery of business tax. Of these, 1919 institutions alone had paid tax. Tax had not been recovered from 2,747 institutions. The balances of arrears as at end of 2011 was Rs.2,567,000. Legal action had been initiated to recover arrears of tax from 127 institutions.

2.4 Assets Management

2.4.1 Account Receivable

The balances of accounts receivable as at 31 December 2011 amounted to Rs.46,772,557. The balances of accounts exceeding 04 years aggregated Rs.2,403,130.

2.4.2 Idle and Underutilized Physical Resources

The details revealed at audit test checks relating to idle and underutilized physical resources appear below.

- (a.) Four Winwin machines valued at Rs.4,991,140 remained idle for over 07 years.
- (b.) Sports equipment valued at Rs.3,021,376 purchased during the year under review had not been distributed among physical training centres, childrens' park and sports clubs even as at end of the year under review.
- (c.) A stock of manufactured drugs presently worth Rs.73,217 distributed among ayurveda centres within the authoritative area of the Municipal Council could not be used as their period of validity had expired.

2.4.3 Employees' Loans Recoverable

The balances of Employees' loans and advances recoverable as at 31 December 2011 aggregated Rs.131,594,471. The attention of the Council had not been drawn to recover the long outstanding balances aggregating Rs.2,978,202 included in those balances.

2.5 Transactions without Adequate Authority

The following observations are made.

- (a.) According to the Public Administration Circular No.13/2008(iv) dated 09 February 2011, the approved number of litres of petrol/ diesel for a vehicle of a departmental head or an officer of similar status is 140 litres. However, the Municipal Commissioner had exceeded the approved number of litres in 2011 by obtaining 1283 litres.
- (b.) No pay leave should be fully recovered during the month or the ensuing month as per provisions in the Treasury Circular No.810 dated 26 July 1971. Instead, action had been taken to recover it in instalments.

2.6 Irregular Transactions

A sum of Rs.282,188 had been overpaid, made up of Rs.185,352 in 2010 and Rs.96,836 in 2011, exceeding the mileage entitled while paying the expenditure on travelling of

municipal members contravening the provisions in Section 2 of the Gazette Notification No.1400/25 dated 08 July 2005 issued by the Chief Minister, Western Province.

2.7 Surcharges

The following observations are made.

- (a.) According to the surcharges enforced by me against the persons responsible under provisions in Section 226(1) of the Municipal Councils Ordinance (Chapter 252), the value of surcharges recoverable as at 31 December 2010 was Rs.1,106,576.
- (b.) It is proposed to impose surcharges in future with regard to the transactions valued at Rs.11,347,473.

2.8 Transactions of a Contentious Nature

Two two storied buildings and its premises belonging to the Council at Palliyadora had been given to the National Youth Services Council for a long time for conducting fee levying courses without entering into agreements and without receiving rent.

2.9 Operating and Management Inefficiencies

The following observations are made.

- (a.) According to the provisions in Section 218 of the Municipal Councils Ordinance, the administration report of the Council of each year should be presented to the Council along with the financial statements after the end of the financial year, as early as possible. However, the administration report for the year under review had not been prepared and the financial statements too had not been presented to the Council.
- (b.) A main procurement plan and procurement calender should be prepared in terms of Section 02 of Chapter 4 of the Procurement Guidelines and the instructions in specimens 4.2.1, 4.2.2 and 4.2.3 of the Procurement Guidelines should be followed in this connection. However, it was observed in audit that the Council had not prepared procurement plans and time tables for activities connected with constructions.

- (c.) Unsettled advances as at 31 December 2011 amounting to Rs.1,416,507 had not been settled in terms of Financial Regulation 371 of the Republic of Sri Lanka.

2.10 Budgetary Control

The following observations are made.

- (a.) No expenditure had been incurred from the budgetary provisions amounting to Rs.1,398,000 and Rs.95,875,000 respectively estimated under 17 recurrent objects and 17 capital objects.
- (b.) Savings in recurrent objects ranging from 50 to 97 per cent were observed in 20 objects, 25 to 50 percent in 9 objects and from 10 to 25 percent in 16 objects under Programme 05.
- (c.) The budgeted provisions of 10 objects had exceeded the limits by Rs.10,127,000.
- (d.) During the year, transfer of provisions had been transferred among Income and Expenditure heads. In spite of this, significant variances were observed showing that the budget had not been utilized as an efficient instrument of management control.

2.11 Corporate Plan, Annual Action Plan and Annual Performance Reports

According to Paragraph 5 of the letter of the Director General of the Department of Public Finance No.PF/R/2/2/3/5(4) dated 10March 2010, the following plans and reports should be prepared. However, these had not been prepared.

- (a.) Preparation of a corporate plan for a period of at least 03 years.
- (b.) An action plan prepared in accordance with the corporate plan.
- (c.) The annual performance report to be prepared and forwarded to the respective institution on the specified dates by reconciling it with the action plan with reference to the instructions shown in the Public Finance Circulars bearing Nos.402 and 402(i).

2.12 Internal Audit

The following observations are made.

- (a.) The activities of the internal audit division had not been organized as per provisions in 133(1) and (2) of the Financial Regulations of the Democratic Socialists Republic of Sri Lanka.
- (b.) Matters such as,
 - I. to function as a unit free from financial and administrative activities of the Institution.
 - II. to prepare the internal audit programme with the consent of the Auditor General.
 - III. to forward copies of internal audit reports to the Auditor General had not been attended to as referred to in F.RR 134(1), (2) and (3).

3. Systems and Controls

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

- (a.) Accounting
- (b.) Internal Audit
- (c.) Budgetary Control
- (d.) Revenue Administration
- (e.) Assets Management
- (f.) Debtors' and Creditors' Control
- (g.) Human Resources Management