

Kalutara Urban Council

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 26 March 2015 while Financial Statements relating to the preceding year had been submitted on 27 March 2014. Auditor General's Report for the year under review was sent to the Secretary to the Council on 08 July 2015.

1.2 Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kalutara Urban Council as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following observations are made.

- (a) Adjustments relating to Pre-payments of Rs. 505,373 (Expenses) made for the ensuing year 2015; during the year 2014 year had not been made in the financial statements.
- (b) Stalls Rent amounting to Rs. 28,600 and Rates amounting to Rs. 753,227 received during the year under review relevant to the year 2015 had not been accounted as Receipts in advance.
- (c) Value of Library Books amounting to Rs.108,537 received as donations during the year under review had not been capitalized.
- (d) Provision for Creditors totalling Rs.352,348 relevant to the year 2014 and past years had not been made during the year under review.

1.3.2 Lack of Evidence for Audit

- (a) Fixed Assets totalling Rs. 6,526,163 shown under Library Books, Furniture and Equipment, Motor Vehicles and Carts , Machinery and Equipment and which were being brought forward since a period prior to the year 1994 had not been identified.

- (b) Five balances of assets totalling Rs. 261,720,638 could not be satisfactorily vouched in audit due to lack of Board of Survey Reports as at 31 December 2014 and relevant schedules.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2014 amounted to Rs.4,778,582 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.9,278,832.

2.2 Financial Control

Following financial control deficits/lapses are observed.

- (a) Expenditure amounting to Rs. 2,740,213 relevant to the year 2013 had not been accounted as Creditors during the preceding year and therefore that expenditure had been adjusted to the Accumulated Fund during the year 2014.
- (b) Assets totalling Rs. 9,067,532 and Liabilities totalling Rs. 11,703,593 relevant to periods prior to the year 2002 had been considered as balances which are not existing to be recovered or to be settled and had been written-off from accounts without approval of the Council.
- (c) Action in terms of Financial Regulation 396 (d) of the Financial Regulations of the Republic of Sri Lanka had not been taken with regard to 06 cheques amounting to Rs. 54,735 issued relevant to the General Cash Account (977) of the Council, but not presented for payments up to 05 June 2015, date of audit.
- (d) The total of loan balances obtained by 75 deceased or vacated service, but not recovered even as at 31 December 2014 amounted to Rs. 369,920.
- (e) According to age analysis presented to audit, 56 per cent or Rs. 20,619,409 of the Creditors payable were balances old more than 05 years while 39 per cent or Rs. 16,259,744 were balances old more than one year as at 31 December 2014.
- (f) While expenditure reimbursable amounting to Rs. 810,383 for 2 road projects constructed under Maga Neguma Project had been refused by the relevant agency, relevant funds had not been reimbursed even up to 06 July 2015 although those claims had been re-submitted.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review as furnished by the Secretary is shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
		Rs. '000	Rs. ' 000	Rs. '000
(i)	Rates and Taxes	28,032	16,179	28,637
(ii)	Lease Rent	9,436	6,521	4,197
(iii)	License Fees	235	213	34
(iv)	Other Revenue	122,707	122,707	-

2.3.2 Rates

Overall Arrears of Rates as at 31 December 2014 was Rs. 27,614,261. Out of these, balances in arrears for than one year due from 6751 rates units had been Rs. 16,292,507.

2.3.3 License Fees, Industrial Taxes and Business Taxes

Trade License balances totalling Rs.37,500 from 38 business entities, Industrial Tax balances totalling Rs.15,975 from 15 businesses and Business Tax balances totalling Rs.460,920 from 239 businesses relevant to the year 2014 were in arrears as at 15 May 2015.

2.3.4 Rest House Rent

Rest House Rent not recovered even as at 12 February 2015 was Rs.750,719.

2.3.5 Advertisements Boards Revenue

Action had not been taken even as at 15 February 2015 to recover Advertisements Boards Charges outstanding amounting to Rs. 238,430 as at 31 December 2014.

2.3.6 Stalls Rent

- (a) A Rent Balance of Rs. 1,192,582 in arrears was due from 36 stalls belong to the Council even as at 20 April 2015.
- (b) When monthly rent of above mentioned stalls is analyzed, rent in arrears were in a range from 3 months to 4 years and 10 months approximately.

- (c) At sample audit checks carried out with regard to stalls rent, it was observed that, stalls rent agreements had not been signed after 1993 and that files too had not been updated.

3. Operating Review

3.1 Improper Transactions

Charging Fees from Pre-school Children

When admitting children to the Pre-school of the Council, a sum of Rs. 45,000 at the rate of Rs. 600 per child had been recovered during the year 2013 without any approval of the Council. It was revealed that charging fees in this manner had been carried on annually during number of years in the past. Following observations are made in this connection.

- (a) While this money had not been deposited in any bank account, money had been retained in the custody of a mother of the pre-school.
- (b) Although it was revealed that the money collected in this manner is incurred for food and other petty expenses connected with the variety entertainment show of the pre-school conducted at the end of the year, any evidence relevant to those expenses were not submitted. A bill for Rs. 36,601 was submitted to audit after 2 ½ months from the date of audit inspection on 12 December 2013 by the Matron of the Council's Pre-school and the mother who had retained the money.

3.2 Contract Administration

Following observations are made.

- (a) Although Council had approved 11 Works to be performed during the year under review, only 03 works had been completed even as at 27 February 2015.
- (b) Although those 3 Works had been finalized during the months of August and October 2014, Work Completion Reports had not been prepared even up to 27 February 2015.
- (c) Three Projects amounting to Rs. 2,950,000 approved under Village to Village Door to Door Project on 03 December 2014 had not been performed.
- (d) Out of 13 Projects amounting to Rs. 7,195,000 continued from the year 2013, only 7 Projects had been performed during the year 2014. Work of 6 Projects had been abandoned half way in February 2015.
- (e) Out of the Projects abandoned, road surface of 3 Projects had been prepared and ABC metal had been laid.

- (f) Block Stones supplied for those 3 roads and another two roads had been stacked on the road sides. The residents of the area stated that those stones were supplied on the road sides 8 months ago.
- (g) Although it had been informed vide letter No. MPS/HYW/MNG/7/GEN/2015 dated 20 January 2015 of the Additional Secretary to the Ministry of Highways and Investments Promotions to finalize works and submit the relevant bills before 13 February 2015 relating to works for which agreements were signed before 31 December 2014 and works not completed, steps had not been taken to finalized works of the roads mentioned above.

3.3 Operational Inefficiencies

Fixed Assets Register had not been maintained with regard to Computer Accessories and Software in terms of Treasury Circular No. IAI/2002/02 dated 28 November 2002.

3.4 Vehicles Control

- (a) Although a full survey should be carried out with regard to vehicles belong to the Council and equipment of those vehicles in terms of Financial Regulation 1647(b) of the Financial Regulations of the Republic of Sri Lanka, such survey had not been carried out after the year 2008.
- (b) While the engine of the Council's Lorry had been repaired having spent Rs. 479,080 and brought the back to the Council on 21 January 2015, the driver had informed that gear systems was in need of repairs as at 23 January 2015. A sum of Rs. 359,310 as an advance being 75 per cent of the charges for repairing the engine too had been paid.
- (c) Volvo Vehicle belongs to the Fire Extinguish Unit of the Council which had been defunct since 20 November 2013 had not been repaired even up to 13 February 2015.
- (d) Although a sum of Rs. 2,610,532 had been spent to repair vehicles belong to the Council during the year 2014, any of those repairs had not been recorded in the log books.
- (e) It was revealed that the Milo Meters of the vehicles belong to the Council had been defunct during a long period of time.
- (f) A sum of Rs. 7,869,805 had been spent for 64986 Liters of fuel for all vehicles belong to the Council during the year 2014. The basis of confirmation for issuing fuel and determining the accuracy of distance travelled while Milo Meters were defunct was a questionable issue.

4. Systems and Controls

Special attention of the Sabha is needed in the following areas of controls.

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Budgetary Control
- (d.) Expenditure Control
- (e.) Assets Management
- (f.) Human Resources Management
- (g.) Vehicles Control
- (h.) Projects Administration