

Wattala-Mabola Urban Council
Gampaha District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 09 March 2016 and the financial statements for the preceding year had been presented on 26 March 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 15 July 2016.

1.2. Qualified Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that 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 Wattala-Mabola Urban Council as at 31 December 2015 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following deficiencies are observed.

(a) The balance of employees security deposits shown in the accounts of the year under review amounted to Rs.207,310 and it had been Rs.186,818 according to the schedules submitted with the accounts. This balance also included employees security deposits amounting to Rs.24,735 which had been released during the year 2015.

(b) According to the financial statements of the year under review, the stock in hand as at 31 December 2015 was Rs.2,831,838. But the balance according to the schedules, and books and records, was Rs.1,078,337. Therefore a difference of Rs.1,753,501 existed.

1.3.2. Un-reconciled Control Accounts

According to the control accounts, the total balances in respect of 13 items of accounts as at 31 December 2015 amounted to Rs.250,668,847, whilst according to the relevant registers / schedules the total balances had been Rs.229,844,591. Therefore a difference of Rs.20,824,256 existed.

1.3.3. Accounts Receivable and Payable

The following matters are observed.

(a) The balances of loans receivable and payable (debit and credit balances) had been added together and shown in the deposits register maintained by the Council, and action had not been taken to settle those.

(b) The balance of payments in advance as at 31 December 2015, carrying forward for several years, amounted to Rs.20,529,315, and the balance prior to the year 2009 included in this, amounted to Rs.18,195,185. The Council had not taken action to recover the money.

1.3.4. Lack of Evidence for Audit

Transactions totalling to Rs.16,485,603 in respect of 03 items could not be vouched satisfactorily during the audit, due to non-submission of documentary evidences, to the audit.

1.3.5. Non-compliance with Laws, Rules and Regulations

Investigations had not been carried out in accordance with the Financial Regulation 104 of the Republic of Sri Lanka, regarding the demolishing of the walking-track, which had been handed over to the Council by the Provincial Road Development Authority in December 2015.

1.3.6. Unauthorised Transactions

A sum of Rs.5,498,485, allocated for the creditors of preceding years had been adjusted to the accumulated fund, and 10% retention money amounting to Rs.1,730,070 included in this value had been written-off. The approval obtained for writing-off, in accordance with the Commissioner of Local Government Instructions No.LED/6/4/12 dated 09 November 2012, had not been submitted for the audit

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 2015 amounted to Rs.14,558,940 as compared with the excess of revenue over recurrent expenditure amounting Rs.30,794,403 for the preceding year.

2.2. Revenue Administration

2.2.1. Estimated Revenue, Actual Revenue and Revenue in Arrears

(a) The information submitted with respect to the Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review are indicated below.

Revenue Source	Estimated Revenue Rs.000,	Actual Revenue Rs.000,	Cumulative Arrears as at 31 December Rs.000,
Rates and Taxes	67,254	55,845	63,887
Lease Rent	11,106	11,385	23,474
Licence Fees	2,007	1,130	1,541
Other Revenue	536,111	48,201	-

(b) According to the Sections 170(i), 170(A)(i) and 2 of Urban Council Ordinance, it was the duty of the Secretary to recover the lease rent in arrears and, fines and credit them to the Urban Council Fund and take action in respect of this. But action had not been taken to recover the revenue in arrears as at 31 December 2015 amounting to Rs.53,429,378, whilst action had also not been taken in accordance with the 170(2) to recover the rates and taxes in arrears amounting to Rs.67,038,246.

2.2.2. Leasing Out the Land Close to the Canal in Hendala Junction Trade Complex Premises

(i) 06 blocks of land close to the canal at Hendala Junction had been leased out to 06 leaseholders in the year 2002, for a period of 15 years, and the monthly lease rent had not been collected in accordance with the terms and conditions of the lease. The balance of arrears recoverable as at the end of the year under review amounted to Rs.4,565,688.

- (ii) According to the paragraph 07 of the agreement, the monthly lease rent should be increased annually by 10%. But this had not been implemented.

2.2.3. Leasing Out of Blocks of Land for the Construction of Stalls

06 blocks of land in the premises of Trade Complex - Hendala Junction owned by the Council had been leased out in the year 2002. Each leaseholder had been granted the right of construction of stalls in the relevant land, after paying the land lease, as per the agreement. Following observations are made in respect of this.

- (i) The extent of land for one stall is 150 square feet and if it is necessary to build an upper floor, an additional payment of 25% of the lease amount should be paid in accordance with the clause (B) of the terms and condition No. 5 of the agreement. But two leaseholders had built upper floors without paying the relevant additional amount.
- (ii) Further, according to the terms and condition No.6 in the agreement, the leaseholder should properly pay the assessed monthly lease rent of Rs.220,000 which had been assessed by the leasing party. But contrary to the said clause, the stalls had been utilised for 14 years without making any payment. The authorities at the Urban Council had not taken the relevant actions to recover the rent, and the documented balance in arrears as at 31 December 2015 had been Rs.4,565,688.
- (iii) According to the paragraph 07 of the agreement, the monthly lease rent should be increased by 10% at the beginning of the each year. But this had not been implemented

3. Operating Review

3.1. Performance Evaluation

The following activities in the annual action plan of 2015 had not been implemented by the Urban Council during the year under review.

- (i) 04 activities related to the expansion of office space and obtaining building equipment.
- (ii) Taking legal action against the businesses which did not pay the business taxes and issuing of termination order for Projects which do not obtain licences even after legal actions.
- (iii) 03 activities related to common amenities.
- (iv) 03 activities related to environmental matters.
- (v) 06 activities regarding the planning capacity and management functions.
- (vi) Gazetting of burial grounds and crematoriums, under the Burial grounds Ordinance and activities related to fixing of sign boards showing access routes and distances to main towns.

3.2. Management Inefficiencies

The following matters are observed.

- (a) Though the average monthly cash balance maintained in the current account of the Council at the Bank of Ceylon during the year under review had been 15,653,073, the Council had not considered the possibility of investing this surplus money.
- (b) The balance in the current account at the Peoples Bank amounting to Rs.310,673 had remained unutilised throughout the year under review, and the possibility of investing this money in fixed deposits had not been considered.
- (c) According to the Chairman Urban Development Authority Circular No.8 dated 30 September 1997, a bank account should be opened in respect of urban development. But this had not been implemented.

3.3. Control Over Contracts

Examination of the Construction of Mabola Community Hall

03 agreements amounting to Rs.1,798,408 had been entered into in respect of this work in the year 2014. This community hall had been constructed incurring an expenditure of Rs.1,077,139 and following matters are observed, in this regard.

- (i) The title deed relevant to the land on which the community hall constructed, was not presented for the audit, to prove the ownership of the Urban Council for the property.
- (ii) Though the extent of the land according to the survey plan No.5720 dated 19 October 2007 had been indicated as 07 perches, the extent of land according to the survey plan No.845 dated 05 May 2011 had been 6.9 perches. Therefore, it was observed that the extent of the land had been understated.
- (iii) According to the survey plan No.845, the bare strip of land located adjacent to the building on the Eastern perimeter is owned by the Council. The Council had built a parapet wall next to the wall of this building in such a way that the strip of land is provided to the adjoining party, which owned the adjacent land. During the physical check carried out on 16 February 2016, it was revealed that the adjoining party had utilised this strip of land and it had been used for washing activities and a toilet had been constructed as well.

3.4. Non-recovery of the Solid-Waste Charges

Commissioner of Local Government (Western Province) letter No. LGD/05/08/General/Volume dated 21 December 2010, stipulates that all local authorities should implement the "Solid-Waste Management Rules" No. 01 of 2008, of the Chief Minister of Western Province that had been published in the Gazette Notification No.1560/6 dated 30 July 2008. But the Urban Council had not implemented them. During the year under review, the revenue in respect of this had not been estimated, whilst the expenditure estimate existed. Therefore charges as per Rules No. 18(1) and 21 had not been charged, whilst 20% of the revenue earned from solid-waste had not been credited to the Fund of the Waste Management Authority, as stipulated in the Rule No.22.

4. Systems and Controls

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

- a) Accounting
- b) Control over Vehicles
- c) Revenue Administration