

Kadugannawa Urban Council
Kandy District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 March 2016 while Financial Statements relating to the preceding year had been submitted on 30 March 2015 and the Auditor General's Report relating to the year under review was issued to the Secretary of the Council on 15 July 2016.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kadugannawa Urban Council as at 31 December 2015 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

Following deficiencies were observed.

- (a) Advance settlement of Rs. 78,836 had been credited to Advance Account as Rs. 157,673 when settling the advances of the Election in March of the year under review. Though a sum of Rs. 78,836 had only been removed from Advance Account to correct this misstatement, this amount had been debited to Advance Account and credited to Cumulative Fund Account.
- (b) A sum of Rs. 3,719,201 rent payable amount as at 31 December 2015 for old Municipal Council office premises provided in the building of Department of Sri Lanka Railway on lease basis had been understated in accounts by Rs. 2,805,246 due to disclosing of Creditors as Rs. 913,955.
- (c) The amount of Rs. 1,409,549 payable to Local Government Contributory Pension as at 31 December year under review had been accounted as Rs. 1,273,667 hence Creditors had been understated by Rs. 135,882.
- (d) Medicine Stock available in the Ayurvedha Center amounting to Rs. 39,922 as at 31 December year under review had not been accounted.
- (e) Revenue generating from selling of non-crumbling waste had been credited to an account named releasing of Revenue Loan of previous 03 years instead of accounting as revenue in the relevant year and the balance of Rs.643,115 had been stated under reserves of the year under review.

1.3.2 Accounts Receivable

While the total of 07 Accounts Receivable balances as at 31 December 2015 was Rs. 9,381,346, out of that value of balances that had been outstanding over 01 year was Rs. 2,969,643.

1.3.3 Accounts Payable

While the Expenditure Payable, Creditor balance as at 31 December 2015 was Rs. 5,048,234, out of that, the value of account balances that had been outstanding over 01 year was Rs. 2,407,872.

1.3.4 Lack of Evidence for Audit

Three Items of Accounts valued at Rs. 960,986 could not be satisfactorily vouched in audit due to non- rendition of information required in audit.

1.3.5 Non-compliance with Laws, Rules and Regulations etc.

Following instances of non-compliance were observed.

Reference to laws, rules, regulations etc.	Non-compliance
<hr/>	<hr/>
(a) Municipal Council Ordinance	
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Sub Paragraph of 36(e)(ii)	<ul style="list-style-type: none">i. Thirty Six blocks of land had been leased out without sanction of the relevant minister in charge of the subject.ii. Twenty Seven blocks of land had been leased out on promissory note without a legal agreement, and 09 blocks of land had been leased out even without having a promissory note.iii. According to the paragraph 3 of the promissory note, it was mentioned that the lessee should not be used the land other temporary cultivation, it had been used to construct houses and to commercial purposes

(b) Financial Regulations of the Republic of Sri Lanka

F.R.571(2)

Action had not been taken with regard to Time lapsed deposits of Rs. 220,105 in 92 instances.

(c) Circulars

Paragraph 6 of Accounts Circular No. 95/9 of Central Provincial Chief Secretary dated 27 December 1995

A sum of Rs. 325,781 receivable of 05 who vacated of posts and transferred out had not been recovered.

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 2015 amounted to Rs. 7,274,116 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 4,979,594. Accordingly, an improvement in a sum of Rs. 2,294,522 was observed in the financial results.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

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

Item of Revenue	Arrears as	Revenue	Revenue Collected		Total
	at	Billed	Out of	Out of	Arrears to
	01.01.2015	during the	Arrears as	Amount	be Collected
		Year	at	Billed	as at
			31.12.2015	during the	31.12.2015
	Rs.	Rs	Rs	Rs	Rs
Rates and Taxes	6,209,715	7,568,853	3,442,114	5,091,789	5,244,665
Lease Rent	500,395	2,938,136	112,567	2,834,195	491,769
License Fees	18,500	1,210,220	5,000	1,196,720	27,000
Other Revenue	536,975	1,259,230	536,975	633,895	625,335

Court Fines	151,158	137,683	80,075	--	208,766
Stamp Fees	1,253,550	745,750	853,660	--	745,750

Total					7,343,285
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It was observed that the arrears of revenue balance as at 31 December of the year under review was Rs. 7,343,285.

2.2.2 Rates

Following matters are observed.

- (a) While there was a balance of Rates income in arrears amounting Rs. 6,209,715 as at 01 January 2015, billing income as at 31 December 2015 was Rs. 7,568,853. A sum of Rs. 3,442,114 from previous arrears and a sum of Rs. 5,091,789 from billing income had been recovered as a percentage it was 55 per cent and 67 per cent respectively. Accordingly, the revenue collection was in poor level.
- (b) Receivable of rates balance from 10 Government Institutions as at the end of the year 2015 was Rs. 648,158.

2.2.3 Lease Rent

Following matters are observed.

- (a) As per the paragraph 02 of the Circular of the Commissioner of Local Government No. 1980/46 dated 31 December 1980, though the actions should be taken to collect revenue by revising the monthly rent of stalls given on lease basis once in 05 years, 14 stalls in Supper Market and 19 stalls in New Market Complex belong to Council had been given on long term lease from the year 2002 and rent had been revised in the year 2012. However it had not been entered into agreements based on new assessment amounts.
- (b) No legal documents entered into between the Council and the Stall owners with regard to the leasing out of 03 Stalls as No. 07,10 and 16 of New market Complex had been presented to audit.

2.2.4 Court Fines and Stamp Fees

Court Fines amounting to Rs. 208,766 and Stamp Fees amounting to Rs. 745,750 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2015.

2.2.5 Publicity Advertisements Boards Charges

Although a charge of Rs.100 should be recovered per square foot of a permanent advertisements board as per directions in the Gazette Notification No.1892 dated 05 December 2014 of the Republic of Sri Lanka, action had not been taken to recover an amount of Rs. 1,796,075 from 306 advertisements boards established in the area of authority of the Council.

3. Operating Review

3.1 Management Inefficiencies

Following matters are observed.

- (a) A court Case had been filed in Kandy District Court for recovering the outstanding Shop Rents of Rs. 252,827 in Kadugannawa Weekly Fair existing from year 2008, though the final judgement of the Court had been given on 07 May 2014 to auction the property of lessee and recover the due amount, actions had not been taken accordingly even as at 31 December of the year under review.
- (b) A sum of Rs. 624,435 had been outstanding as at 31 December 2015 from Lanka Rest House Limited on leasing out of Guest House belongs to the Council. According to the agreement entered into between Lanka Rest House Limited, the monthly rent charge of Rs. 65,000 had been billed and a sum of Rs. 624,435 had been accounted as annual charge receivables. However, this charge had been sent by reducing as Rs. 48,750 from September 2014, and actions had not been taken to examine in this regard and to identify the correct amount at the time of billing.
- (c) According to the Government Gazette Notification of Sri Lanka No. 1892 dated 05 December 2014, it had been decided to charge an annual amount of Rs. 1,200 from a Three Wheel as parking charges for Three Wheeler. However, actions had not been taken to recover charges by issuing license for Three Wheelers due to non-reserving space to park Three Wheelers and actions had not been taken to implement by-laws.

3.2 Operational Inefficiencies

Out of 242 building applications received during the year under review and previous 02 years for the approvals of plans as per the paragraph 21 of Urban Development Authority Act No. 41 of 1978, though 224 applications had been approved, Certificate of Conformity had been issued only for 17 applications.

3.3 Identified Losses

No. 12 stall in Supper Market Complex belongs to Council had not been handed over to the Council by the Lessee, an Income of Rs. 90,000 had been lost to the Council due to non-taking actions to re-lease.

3.4 Un-authorized Transactions

An allocation of Rs. 2,750,000 had been made available from the annual budget for spending on Capital Expenditure, subsequently, an allocation of Rs. 4,880,200 had been transferred. However, hence the actual amount spent was Rs. 9,088,200 Capital Expenditure of Rs. 1,458,588 had been spent without the authority.

4. Good Governance and Accountability

4.1 Budgetary Control

Following matters were observed.

- (a) It was observed that, the Budget Estimate had not been made use of as an effective tool of management, hence 14 budgeted and actual income Votes exceeding from 24 percent to 100 percent, and 56 expenditure Votes exceeding from 16 percent to 100 percent of considerable variance was observed even after transferring of allocations between income and expenditure Votes during the year under review.
- (b) No income had been received from the estimated amount of Rs. 5,213,000 for 08 income Votes, and out of the allocations of Rs. 2,225,000 made on 17 expenditure Votes, the entire allocation had been transferred to other expenditure Votes without spending a single cent.

4.2 Assets Management

Idle / Under-utilized Assets

Following matters are observed.

- (a) Six vehicles and machines valued at Rs. 598,000 were kept idle and under-utilized.
- (b) The Backhoe and the Vibrating roll amounting to Rs. 17,649,179 and 7,967,144 respectively which had been received in February 2015 as Donations had been kept idle without utilizing for any activity even as at the end of the year under review.

5. Systems and Controls

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

- (a) Accounting
- (b) Internal Controls
- (c) Revenue Administration
- (d) Debtors and Creditors Control