

Kegalle Urban Council

Kegalle District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 26 March 2016 and the financial statements for the preceding year had been presented on 30 March 2015. The report of the Auditor General for the year under review had been presented to the Secretary of the Council on 16 June 2016.

1.2 Opinion

In my opinion, except for the effects of the matters disclosed in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kegalle Urban Council as at 31 December 2015 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

The following deficiencies are observed.

- (a) The value of 67.5 perches of land being 10 per cent of the Pitihumawaththa land sold on auction during the year 2014 amounted to Rs.15,153,307. This value had not been entered in the land and buildings and as such the value of fixed assets had been understated by a similar amount.
- (b) The sum of Rs.4,031,822 received for the months of April, May, July, and August of 2014 had not been accounted for, on accrual basis while computing the stamp fees revenue for the year under review.
- (c) Provision had not been made for debtors in respect of the court fines of Rs.49,885 receivable for the years 2014 and 2015.
- (d) Court fines of Rs.29,250 received for the years 2012, 2013 and 2014 had been accounted as revenue for the year under review.
- (e) Ledger accounts had not been maintained for revenue items and expenditure items.
- (f) The expense creditors as at 31 December 2015 had been shown as Rs.48,670,520. However, creditors had been understated by Rs.652,490 as per paid documents.

- (g) The balances of creditors of the Rangwala Farmers Organization amounted to Rs.380,845. However, this had been shown as Rs.340,845 in the accounts resulting in the creditors being understated by Rs.40,000.

1.3.2 **Unreconciled Control Accounts**

The following matters are observed.

- (a) The balances of 05 items of accounts aggregated Rs.21,608,932 as per financial statements whereas the balances of accounts aggregated Rs.20,028,334 as per subsidiary registers/reports resulting in a difference of Rs.1,580,598.
- (b) The General Deposit Account shown in the financial statements as Rs.19,517,509 as at end of the year under review had not been reconciled for many years. As such, the balance of the account could not be reconciled with the register of General Deposits.

1.3.3 **Suspense Account**

The credit balance of the unsettled suspense account as at 31 December 2015 amounted to Rs.3,657.

1.3.4 **Accounts Receivable**

The balances of accounts receivable for over 01 year as at 31 December 2015 aggregated Rs.8,448,456.

1.3.5 **Non-compliance with Laws, Rules, Regulations**

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Non-compliance Management Decisions

- (a) Financial Regulations of the Republic of Sri Lanka

- (i) F.R 396(d)

Sixteen cheques valued at Rs.32,746 remaining unrepresented for payments for over 6 months had not been credited to revenue.

(b) Establishments Code of the Republic Sri Lanka
Chapter XXIV Paragraph 1.6

The recovery of loan balance of Rs.113,148 from an officer who had gone on change of station transfer had ceased in September 2011. Even the information relating to the institution where this officer works had not been found out upto now.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over expenditure of the Council for the year ended 31 December 2015 amounted to Rs.53,037,862 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.38,556,845. Accordingly, an improvement in financial results of the year under review amounting to Rs.14,481,017 is shown.

2.2 **Analytical Financial Review**

The increase in 4 items of revenue and decrease in 5 items of expenditure had mainly attributed to the improvement in financial results of the year under review as compared with that of the previous year.

2.3 **Revenue Administration**

2.3.1 **Performance in Collection of Revenue**

The information relating to revenue billed, actual revenue and the arrears of revenue for the year under review, as presented by the Secretary appear below.

Arrears as at 31 December 2015

<u>Source of Income</u>	Arrears	Recoveries	Amount	Recoveries	Arrears	Arrears	Total
	as at	out of the	billed	out of the	as at	out of the	<u>arrears</u>
	01	arrears	for	amount	01	amount	
	January	as at 31	<u>2015</u>	billed for	January	billed for	
	<u>2015</u>	December		<u>the year</u>	<u>2015</u>	<u>the year</u>	
				<u>2015</u>			
	Rs.'000	Rs.'000	Rs.000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(1) Rates and Taxes	5,093	2,276	8,120	6,553	2,817	1,567	4,384
(11) Lease rent	3,415	5,991	39,444	38,191	(2,597)	1,253	(1,323)

(111)Licence Fees	185	122	2,019	1,878	63	141	204
(iv) Other Revenue	40,772	40,461	97,001	70,117	311	26,884	27,195

2.3.2 **Lease Rent**

Arrears of taxes of Rs.16,750 had not been recovered for 1 – 5 years from 08 lessees to whom properties of the Council had been given on annual lease basis

2.3.3 **Arrears of Advertisement Board Charges**

A sum of Rs.43,890 had not been recovered from a private company as charges of advertisement boards for the years 2014 and 2015.

2.3.4 **Rates and Taxes**

- (i) Legal action had not been taken to recover the rates and taxes of Rs.479,321 remaining unrecovered for over 10 years.
- (ii) Properties should be assessed once in 05 years and recoveries made accordingly with regard to recovery of annual rates and taxes. However, the rates and taxes had been recovered on the basis of assessment made on 2001.

2.3.5 **Telecommunication Tower Fees**

Action had not been taken to recover the business tax of Rs.18,000 from 06 telecommunication Institutions which carry out business by installing telecommunication towers within the authoritative area of the Council.

2.3.6 **Trade Licence Fees**

Action had not been taken to recover Rs.11,000 from 11 trade institutions functioning within the authoritative area of the Council during the year 2015.

2.3.7 **Sale of lands in blocks**

According to paragraph 111, iv and v of the circular issued by the Commissioner of Local Government of the Sabaragamuwa Provincial Council No.2005/04 of 01 June 2005, it had been decided to obtain a deposit of 1 per cent of the temporarily assessed value of the land to be sold. Subsequently, the seller should enter into an agreement with conditions stating that he Would pay to the Council 1 per cent of the land sold at the time of selling the portion of land itself along with a report containing particulars of sales value of the portion of land sold, number of the title deed etc, and it was required that the tax should be recovered within 14 days, failing which, action should be taken to bring it to the notice of a court of law for purposes of recovery. Action had not been taken to examine the title deeds of the blocks of land sold in 2014 and to recover the fees of 1 per cent.

2.3.8 **Recovery of Business Tax from offices of Attorneys**

Licences should be issued for industries and professions functioning within the limits of the Urban Council as referred to in 165(a) and (b) of the Urban Councils Ordinance. However, action had not been taken to recover tax from 22 offices of Attorneys functioning in the building complex of the Kegalle Urban Council and from other offices of Attorneys functioning elsewhere.

2.3.9 **Non-recovery of Rent from the Attorney's office functioning in the complex**

Action had not been taken to recover the arrears of rent of Rs.35,000 and fines amounting to Rs.52,500 on behalf of Room No.20 functioning on the basis of a monthly rent of Rs.1,000 at the building complex where the offices of Attorneys function.

2.3.10 **Advertisement Boards**

- (i) A sum of Rs.675,582 had been recovered on behalf of 34 advertisement boards within the Kegalle Urban Council area during the year 2015. A physical verification carried out on 29 February 2016 revealed that fees had not been recovered for 34 advertisement boards. As a result, the Council had been deprived of a revenue of Rs.372,400.
- (ii) Bye-laws had not been framed to recover fees for the Digital Name Boards within the authoritative area of the Council. It was observed at test checks that there were over 100 digital name boards within the authoritative area of the Council and fees had not been recovered thereon.

2.3.11 **Lease of Properties belonging to the Urban Council**

The land belonging to the Kegalle Urban Council had been given on lease by signing an annual lease agreement on the basis of cultivating temporary crops. While giving the portion of land on lease it had been mentioned that the lessee is prohibited from construction of permanent buildings or engaging in cultivation of permanent crops within the portion of land given on lease and if the lessee violates the said condition the said building or the permanent cultivation could be used by the Urban Council for any useful purpose without paying compensation as per section 06 of the lease agreement of the Council. If the said building or cultivation is not used by the Council for any useful purposes, action should be taken to give it on lease by signing an annual agreement. The lessees who had obtained 51 portions of the land belonging to the Council had constructed permanent buildings. However, the field officers had not reported the matter to the Council. Action had not been taken as per lease agreement with regard to the construction of buildings in 51 portions of the land and to re-assess those portions of land so as to recover rent accordingly.

3. **Operating Review**

3.1 **Management Inefficiencies**

- (a) The Director General of Pensions, by his letter No:02/2011 (Amendment) dated 20 July 2011 had drawn the attention of local authorities to grant casual, temporary and substitute appointments with contributions payable to the Public Service Provident Fund. However, 28 employees recruited in 2014 had contributed to the Employees' Provident Fund. As a result, a sum of Rs.67,865 had been paid as contributions to the Employees' Trust Fund in the year 2015 itself.
- (b) The Employees' Security Deposits of Rs.10,080 at the National Savings Bank had not been released to 04 employees who had retired/gone on transfer since 2012.

3.2 **Operating Inefficiencies**

The following observations are made.

- (a) Action had not been taken by the Urban Council to acquire ownership of 16 vehicles, made up of, 14 vehicles given by the Chief Secretary of the Sabaragamuwa Provincial Council, one vehicle given by the Secretary to the Ministry of Local Government and a vehicle given by the Ministry of Public Administration.
- (b) Stock shortages of three items valued at Rs.396,861 were observed at the stores inspection carried out along with the Management Assistant in charge of the stores of the Council on 16 February 2016.
- (c) Supply of health and sanitary facilities were at a minimum level as there were 19 and 07 vacancies respectively in the posts of field work labourers and health labourers. Adequate Field work labourers had not been recruited for road maintenance activities and as such repairs to roads and maintenance activities had not been properly attended to. It was revealed at the audit field inspections that cleaning of roads, cleaning of drains, removal of waste materials, cleaning of latrines and activities relating to compost project had not been properly carried out.
- (d) Adequate health labourers were not in existence and as such the Welimanna thota latrine at the hospital roundabout had been closed. 'The gents' and ladies' latrine constructed at the New Economic Centre had been allowed to be used by the traders only without being allowed for public usage. (Keys were with the traders and being locked after usage). There was only one health labourer to clean 05 other latrines belonging to the Council and as such their cleanliness were at a low level.

3.3 **Irregular Transactions**

A sum of Rs.2,500 had been added to the monthly salary of Ayurvedic Medical Officers employed in institutions of local authorities Since January 2015. In spite of this, bills amounting Rs.3,505 had also been reimbursed.

3.4 **Contract Administration**

The work relating to Kegalle Thataka Road, third avenue that had been repaired by using a mixture of pre prepared tar on 29 February 2016 was subjected to field inspection on 01 March 2016 along with the Superintendent of Works of the Council and it was observed that pre mixture had been used for the damaged portion of the surface of the road without cleaning it and without filling it with boiled tar. A road roller had not been used to compact the road after applying the pre mixture

4. **Systems and Controls**

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

- (a) Accounting
- (b) Revenue Administration
- (c) Contract Administration
- (d) Assets Management
- (e) Stock Control
- (f) Debtors' Control