

Chilaw Urban Council
Puttalm District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to Audit on 31 March 2017, whilst the financial statements for the preceding year had been presented to Audit on 31 March 2016. The report of the Auditor General for the year 2016 had been submitted to the Secretary of the Council on 03 August 2017.

1.2 Qualified Opinion

In view of the importance of matters referred to in paragraph 1.3 of this report, my opinion is that the financial statements give a true and fair view of the financial position of the Chilaw Urban Council as at 31 December 2016, and its financial performance for the year then ended in accordance with generally accepted Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following matters were observed.

- (a.) According to the verification of bank balances, the interest revenue of the year under review amounted to Rs. 778,803, but the said value had been accounted as being Rs. 1,557,605, thus overstating the interest revenue by a sum of Rs. 778,802.
- (b.) The revenue through stall rent billed for the year under review, amounted to Rs. 14,718,676 whereas that value had been shown as Rs. 10,929,507 in the financial statements.
- (c.) The revenue through lease rent billed for the year under review, amounted to Rs. 8,370,948, but that value had been shown as Rs. 4,067,684 in the financial statements.
- (d.) A sum of Rs. 1,691,050 receivable under province specific grants relating to the year under review, had not been accounted.

1.3.2 Unreconciled Control Accounts

A difference of Rs. 65,403,264 was observed between the balances of Control Accounts and the financial statements relating to 18 Items of Accounts.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a.) The prepaid value of Rs. 8,871,877 being brought forward over several years, had not been settled.
- (b.) The value of the account balances payable by the end of the year under review amounted to Rs. 70,070,708, and action had not been taken to settle the creditor balances included therein amounting to Rs. 13,944,828 belonging to the period 2005 – 2014.
- (c.) Action had not been taken to recover the entertainment tax of Rs. 501,568 that remained due from the Commissioner of Local Government prior to the year 2011.

- (d.) Action had not been taken to recover the sum of Rs. 591,631 recoverable with respect to 05 assets of the Urban Council leased out in the years prior to 2014.

1.3.4 Lack of Evidence for Audit

Due to lack of evidence such as, detailed schedules, reports of the Board of Survey, summary reports, and age analyses relating to 08 Items of Accounts valued at Rs. 234,901,323, those Items could not be satisfactorily examined in audit.

1.3.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, and Management Decisions	Non-compliance
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<p>(a.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 571.</p>	<p>Action had not been taken in respect of the matured deposits amounting to Rs. 10,233,348 included in the deposit balance either to credit to the revenue or make necessary adjustments.</p>

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Urban Council in excess of the recurrent expenditure, amounted to Rs. 21,969,182 for the year ended 31 December 2016, whereas the revenue of the preceding year in excess of the recurrent expenditure, amounted to Rs. 47,861,605.

2.2 Analytical Financial Review

The decrease in 04 Items of Revenue by Rs. 28,219,223, and the increase in 03 Items of Expenditure by Rs. 51,279,780 had mainly attributed to the deterioration of the financial result by a sum of Rs. 69,830,787.

2.3 Revenue Administration

2.3.1 Performance in the Collection of Revenue

The Urban Council had failed in collecting 64 per cent of the rates, 27 per cent of the lease rents, and 68 per cent of the stall rents that should have been recovered by the end of the year under review.

2.3.2 Rates

The responsibility of collecting the rates in arrears amounting to Rs. 31,878,914 by the end of the year under review, within the relevant period had not been heeded.

2.3.3 Lease Rents

The lease rent that remained due by the end of the year under review amounted to Rs. 6,096,794, and no action had been taken for the recovery.

2.3.4 Other Revenue

The stall rent that remained due by the end of the year under review amounted to Rs. 22,898,519, and no action had been taken for the recovery.

2.3.5 Stamp Fees

Stamp fees amounting to Rs. 44,290,255 had remained recoverable from the Chief Secretary of the Province by the end of the year under review.

3. Operating Review

3.1 Operating Inefficiencies

The following matters were observed.

- (a.) Although Revenue Registers had been maintained since February 2013 relating to the revision of stall rents based on the assessment for the year 2013, the Urban Council had failed to recover the revised stall rents.
- (b.) By the end of the year under review, stall rents that remained due, amounted to Rs. 19,867,449, and there had been 94 lessees who had not paid any stall rent whatsoever in the year under review and the preceding year. The stall rent in arrears pertaining to each of those persons ranged between Rs. 100,000, and Rs. 900,000, but no action had been taken to recover those monies.
- (c.) When businesses had been levied, action had not been taken to identify the new businesses in the area of authority thereby collecting the revenue billed by them.
- (d.) Due to failure in issuing gazette notifications relating to the fees to be charged on hoardings and permanent notice boards within the jurisdiction of the Urban Council, the Urban Council had been deprived of the revenue thereon.
- (e.) In the years 2015 and 2016, eighty four and 97 plans had respectively been approved, but even up to 04 May 2017, certificates of conformity had been obtained only for 03 and 08 of them respectively. No action had been taken against the constructions for which certificates of conformity had not been obtained. Moreover, rates had not been levied on the constructions with certificates of conformity by conducting temporary assessments thereon.
- (f.) Although a person had been willing to lease the Chilaw fish market at Rs. 7,100,100 for the year 2016 through procurement process, an Agreement had not been entered into with him even up to 11 April 2017. However, the said lessee had collected the fees of the fish market, but no action whatsoever had been taken by the Urban Council to recover the sum of Rs. 2,141,873.

3.2 Transactions of Contentious Nature

In the context where, in the recovery of rates in arrears, the Urban Council had followed the methodology of recovering only the installment of rates in arrears without calculating and recovering the warrant fees, losses had been sustained by the Urban Council.

3.3 Waste Management

As 16 tons of waste being generated daily within the jurisdiction of the Urban Council had been disposed of at an open land, environmental issues and problems were on the increase.

3.4 Human Resource Management

As per the approved and actual cadre of the Urban Council as at 31 December 2016, there had been one vacancy in the executive grade, 53 vacancies in the secondary grade, and 36 excess employees in the primary grade.

4. Accountability and Good Governance

4.1 Preparation and Implementation of the Action Plan

An Action Plan had not been prepared in accordance with Section 04 of the Public Finance Circular, No. PFD/RED/01/04/2014/01, dated 17 February 2014.

5. Systems and Controls

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

Areas of Systems and Controls	Observation
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(a.) Fixed Assets	A survey had not been conducted in order to ensure the maintenance and safety of lands and buildings.
(b.) Debtors	Action had not been taken either to recover or eliminate the old debtor balances from the accounts.
(c.) Creditors	Action had not been taken either to settle or eliminate the old debtor balances from the accounts.
(d.) Revenue	Action had not been taken in accordance with the provisions of the Act to recover the revenue in arrears.
(e.) Preparation of Budget	The budget had not been a limiting factor, and provision had been made in an unnecessary manner.
(f.) Preparation of Accounts	The relevant divisions had not properly furnished the information required for the preparation of accounts.