

Chilaw Urban Council
Puttalam District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been submitted to Audit on 29 March 2018 and the Report of the Auditor General relating to those Financial Statements has been sent to the Chairman on 28 September 2018.

1.2 Qualified 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 Chilaw Urban Council as at 31 December 2017 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

The following matters were observed.

- (a) Machinery and equipment valued at Rs. 3,952,220, purchased and received as donations in the year under review had been shown as Rs. 2,235,320 in the financial statements.
- (b) Furniture and fittings valued at Rs. 145,650, purchased in the year under review had not been capitalized.
- (c) Library books valued at Rs. 51,900 purchased and received as donations in the year under review had been shown as Rs. 33,985 in the financial statements.
- (d) Even though the stock balance as at the end of the year under review had been Rs. 6,368,520 according to the schedule, it had been shown as Rs. 7,237,861 in the financial statements
- (e) The salary reimbursement of Rs. 20,313,549 receivable as at the end of the year under review had been shown as Rs. 16,731,416 in the financial statements.
- (f) Only a sum of Rs. 6,250,000 out of an investment in fixed deposits valued at Rs. 6,991,699 withdrawn with the interest had been credited to the Investment Account and as such, the Investment Account had been overstated by Rs. 741,699 as at the end of the year under review.

- (g) The Value Added Tax amounting to Rs. 378,245 and the Nation Building Tax amounting to Rs. 65,170 payable to the Inland Revenue Department had been shown as a balance receivable under pre-payments in the financial statements.
- (h) The stock of drugs valued at Rs. 381,500 received as donations during the year under review had not been brought to account.
- (i) Even though the sum totalling Rs. 8,425,943 payable to the Department of Pensions as at the end of the year under review had been shown in the financial statements as liabilities, a sum of Rs. 306,182 had been again shown as creditors in that connection.

1.3.2 Unreconciled Accounts

A difference amounting to Rs. 68,086,679 was observed between the balances according to schedules/ subsidiary books and the balances according to the financial statements presented relating to 22 items of accounts.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

Action had not been taken to recover the money from balances valued at Rs. 9,447,385 receivable as at 31 December 2017.

(b) Accounts Payable

Action had not been taken to settle a sum of Rs. 13,944,828 indicated as payables over a period of 03 years in the balance of Rs. 63,465,127 payable as at 31 December 2017.

1.3.4 Lack of Documentary Evidence for Audit

Eight items of accounts totalling Rs. 200,337,534 could not be satisfactorily vouched in audit due to failure in submitting necessary information.

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

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliances
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	Rs.	
(a) Urban Council Ordinance (Cap 255) Section 153	-	Rules had not been enacted for revise and recovery of Three wheeler charges.
Section 170	67,603,666	Action had not been taken on arrears of rates and taxes and lease rentals remained over a period of 01 year.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka FR 571	1,644,574	Action had not been taken to credit lapsed deposits to revenue or to make necessary adjustments.

02. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2017 had been Rs. 40,382,877 as against the excess of expenditure over recurrent revenue for the preceding year amounting to Rs. 21,969,182.

2.2 Financial Control

2.2.1 Dormant Bank Accounts

The balance of a dormant account of the National Savings Bank, owned by the Sabha as at 31 December 2017 had been Rs.493,245.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue, Actual Revenue and Arrears of Revenue

Details on the estimated revenue, billed revenue, collected revenue and arrears of revenue presented relating to the year under review and the preceding year are as follows.

Source of Revenue	Estimated Revenue	2017			2016			Total Arrears as at 31 December
		Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	22,508,000	22,483,370	11,088,645	37,053,392	21,776,000	21,616,600	11,100,816	31,878,914
(ii) Rent	42,400,000	36,307,058	14,988,484	30,550,274	40,668,000	35,138,370	23,503,069	28,985,311
(iii) Licence Fees	1,831,000	1,721,590	941,000	780,590	1,735,000	708,600	708,600	69,000
(iv) Other Revenue	27,717,000	25,535,598	618,930	59,104,762	16,910,000	15,445,726	15,445,600	126

Note :- The collected revenue included recoveries from billed revenue in the year under review and recoveries from arrears of revenue in preceding years.

2.3.2 Performance in Collection of Revenue

Out of the billed revenue of the year, revenue from rates and taxes and rentals had been 30 per cent and 39 per cent respectively.

2.3.3 Rates and Taxes

Rates and taxes recoverable as at 01 January 2017 had been Rs. 31,878,914 and a sum of Rs. 11,088,645 with billings valued at Rs. 22,483,370 for the year under review had been collected during the year. The total arrears remained as at the end of the year under review had been Rs. 37,002,095 and as such, the collection of revenue was not at a satisfactory level.

2.3.4 Rent

The following matters were observed.

- (a) The total of the arrears of lease rentals and stall rentals at the beginning of the year under review had been Rs. 28,985,311 and only a sum of Rs. 14,988,484 equivalent to 33 per cent with billings valued at Rs. 36,307,058 of the year had been collected during the year under review.
- (b) Stall rentals had been revised on an assessment of the year 2013 and the Sabha had not taken action to recover an arrears of stall rent totalling Rs. 12,653,923 by the end of the year under review.

2.3.5 Stamp Fees

The stamp fees receivable as at 31 December 2017 from the Chief Secretary of the Provincial Council amounted to Rs. 44,500,000.

03. Operating Review

3.1 Performance

In terms of Section 4 of the Urban Council Ordinance, the matters revealed in respect of the performance of functions such as regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people within the area, are as follows.

(a) By-Laws

In terms of Section 157 of the Urban Council Ordinance, By-Laws should have been enacted for 30 main purposes. Nevertheless, By-Laws had been enacted only for 24 purposes by 31 December 2017.

(b) Solid Waste Management

There was a possible risk of a rise in environmental issues in future due to disposal of about 12 tons of garbage collected per day within the area of the Urban Council, to the sea and lagoon associated area and to another open land. Attention had not been paid on the management of garbage collected daily in an environmental friendly manner for preventing the above situation.

(c) Sustainable Development Goals and Targets

The Council had commenced the basic steps for achieving objectives and targets which should be achieved in terms of “2030 Agenda on Sustainable Development Goals” of the United Nations and attention had been made on public infrastructure facilities including conduct of mobile services, human resources management, employees’ motivation as well as the development of thoroughfares. Even though details on these objectives had been included in the Action Plan, physical and human resources had not been identified and indices for measuring targets had not been identified.

3.2 Management Inefficiencies

The following matters were observed.

- (a) A fire extinguisher vehicle valued at Rs. 51,180,000 owned by the Council had met with an accident in the preceding year and action in terms of Financial Regulation 104(3) had not been taken therefor. As the said vehicle had not been fully insured, the amount totalling Rs.879,500 relating to repairs had to be incurred by the Urban Council.
- (b) A canteen is maintained since the year 2017 by an employee of the Council in the building with an extent of 351 square feet in the Urban Council premises and no rent whatsoever had been recovered therefor even by February 2018.
- (c) According to a report prepared by officers of the Urban Council, 43 stalls had been sublet by lessees and no action whatsoever had been taken thereon by the Council.

3.3 Human Resources Management

(a) Approved Cadre and Actual Cadre

Fifty six and 15 vacancies existed in the posts of secondary and primary levels of the Council respectively and excess cadre stood at 02 as at 31 December 2017.

(b) Staff Loans

A loan balance totalling Rs. 33,000 recoverable from 07 employees who had retired, vacated from the post and deceased, had been outstanding over a period of 03 years and steps had not been taken to recover them.

3.4 Transactions of Contentious Nature

Details mentioned in orders for electric items, receipts of stores and bills submitted by the purchaser had been changed in many instances.

3.5 Management of Assets

3.5.1 Idle/Underutilized Assets

Deyata Kirula National Development Programme – 2017 and activities of crematorium which was constructed by spending Rs. 9,558,329 from funds of the Urban Council and handed over to the Council on 03 July 2017 had not been commenced even by 30 May 2018.

3.5.2 Utilization of Motor Vehicles

Tests on fuel consumption of 25 motor vehicles owned by the Council had not been carried out within due periods.

4. Good Governance and Accountability

4.1 Internal audit

Necessary action had not been taken for strengthening internal audit activities.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Council from time to time. Special attention is needed in respect of the following areas of control.

	System -----	Deficiency -----
(a)	Fixed Assets	Failure in carrying out a survey for confirming the existence and protection of lands and buildings.
(b)	Debtors Control	Failure in taking action to recover old debtors balances.
(c)	Creditors Control	Failure in taking action to settle old creditors balances.
(d)	Revenue Administration	Deficiencies in billing of revenue and recovery of arrears of revenue.
(e)	Internal Audit	Failure in taking action for strengthening internal audit activities.