

Kadugannawa Urban Council
Kandy District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been submitted to the audit on 28 March 2018 and the Auditor General's Report on those financial statements was issued to the Chairman on 09 July 2018.

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 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

Following accounting deficiencies were observed in audit.

- (a) Value of 5 vehicles belonging to Council had been overstated by Rs.4,573,450.
- (b) Interest income of Rs. 68,649 receivable for 3 fixed deposits had not been accounted.
- (c) The value of Steamer Machine belonging to Council as at 31 December of the year under review had been overstated by Rs. 150,000.
- (d) Though the value of library books procured in the year under review should be Rs.143,433, it was understated by Rs. 12,143 hence it was accounted as Rs.131,290; and 358 library books of Rs. 91,183 received as donation, had been omitted from accounts.
- (e) Ayurveda stocks of the Council valued at Rs. 74,273 as at 31 December of the year under review had not been accounted.
- (f) Income and receivable income of the year had been understated by Rs.191,700 due to missing of that amount of receivable from arrears income account of the year under review.
- (g) Discount received at the purchasing of library books amounting to Rs.16,708 had not been accounted.
- (h) Court fine receivable for the year under review had not been estimated and accounted.

- (i) Though a sum of Rs. 1,300,000 had been received as stamp fees income for the previous years, stamp duty income of the year under review had been under estimated and accounted as Rs. 239,000.
- (j) Environment boards valued at Rs. 24,200 received as donations in the year under review had been accounted as an income.

1.3.2 Contingent Liabilities

Though Court cases were filed against 16 parties by the Council with relating to the recovery of shop rents and licenses income and unauthorized constructions, it was not disclosed by notes to the accounts.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

While the value of 2 accounts receivable balances as at 31 December of the year under review was aggregating Rs. 4,320,317, and 2 account balances for over 1 to 5 years period was Rs. 375,345.

(b) Accounts Payable

While the total value of 4 Accounts Payable balances as at 31 December of the year under review was Rs. 4,628,319 and 2 balances for over 1 to 5 years period was aggregating Rs. 272,288, and account balances over 5 years was Rs. 3,424,388.

1.3.4 Lack of Documentary Evidence for Audit

Three transactions aggregating Rs. 3,951,271 could not be verified satisfactorily in audit due to non-presenting relevant information.

1.3.5 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decision

Instances of non-compliance with laws, rules and regulations were shown below.

Reference to laws, rules, regulations and management decision	Amount	Non-compliance
	Rs.	
(a) Extra Ordinary Gazette No. 1919 -81 dated on 19 June 2015	172,500	The revenue from 5 advertising boards displayed within the area of the authority of the Council had not been collected.
(b) Extra Ordinary Gazette No. 1533/16 dated on 25 January 2008 of the Minister of Environment Natural Resources issued under Section 23 (a) of National Environment Act No. 47 of 1988	-	Licenses of 3 Business Institutions had not been renewed for which the environment license should be renewed.
(c) Circular No. 2016/03 dated on 17 March 2016 of the Commissioner of Local Government		
(i) Paragraph 1 (v)	100,000	Though the initial payment of shops should be paid the 50 per cent and the balance in 6 installments, this amount had not been recovered regularly.
(ii) Paragraph 4	510,968	Shop rent as at the end of the year under review had not been recovered.
(iii) Paragraph 4 (i)	-	Delay charges had not been recovered from arrears shop rent as at 31 December 2017.

(iv) Paragraph 10 - Though shop should not be sub leased, shops had been sub leased by lessees for many people in numerous ways.

(d) 3:4 of Procurement Guideline Manual 2006 Tyres of Rs. 162,700 and a Roller door of Rs.38,679 had been procured by calling quotation only from one Institution.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs. 5,871,783 as compared with the corresponding revenue over recurrent expenditure for the preceding year amounted to Rs. 6,851,137.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears of Revenue

Information relating to estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Revenue Source	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Tax	7,500,000	7,635,212	7,349,477	5,873,578	7,500,000	7,569,773	-	5,452,500
Rent	3,309,000	4,175,392	3,927,442	765,395	2,759,400	3,230,389	3,197,895	517,445
License Fees	1,150,000	1,426,954	1,399,954	27,000	1,030,000	1,235,800	1,222,300	13,500
Other Revenue	2,826,000	911,428	1,914,595	736,238	5,275,000	1,824,263	3,206,664	704,255
	14,785,000	14,148,986	14,591,468	7,402,211	16,564,400	13,860,225	7,626,859	6,687,700

2.2.2 Performance in Revenue Collection

Though it was planned to charge garbage tax by the Gazette of Democratic Socialist Republic of Sri Lanka No. 1990 of 21 October 2016, those taxes had not been recovered.

2.2.3 Rates and Tax

Following matters were observed.

- (a) While there was arrears rates income amounting Rs. 5,452,500 as at 01 January 2017, billing up to 31 December 2017 was Rs. 7,635,212. The recoveries from the arrears in previous year were Rs. 2,337,926 and billing was Rs. 5,011,551 and this was 42 per cent and 66 per cent. Accordingly recovery of income was in a poor level.
- (b) Actions had not been taken to recover rates of Rs. 788,928 receivable from Government Institutions.

2.2.4 Rent

Following matters were observed.

- (a) While there was arrears shop rent balance amounting Rs. 263,118 as at the beginning of the year under review, billing for the year was Rs. 2,107,612. The recoveries from the arrears in previous year were Rs. 111,750 and billing was Rs. 1,748,012.
- (b) Actions had not been taken to recover fair rent balance of Rs. 252,826 as at the beginning of the year under review.

2.2.5 License Fees

Actions had not been taken to recover arrears license fees of Rs. 27,000 as at 31 December of the year under review.

2.2.6 Other Revenue

Rest house charges

Actions had not been taken to recover balance of Rest house charges of Rs. 195,000 as at the end of the year under review.

2.2.7 Court Fines and Stamp Fees

Court Fines amounting to Rs. 113,348 and Stamp Fees amounting to Rs. 426,000 were receivable from the Chief Secretary to the Provincial Council and Other Authorities as at 31 December of the year under review.

3. Operating Review

3.1 Performance

Matters revealed with regarding the activities such as streamlining and controlling matters relating to public health, common utility services and public roads; feather bedding,

convenience and welfare which should be admired by the Council under Section 4 of Urban Council Ordinance were shown below.

(a) Sub Ordinance

Though Sub Ordinance should be imposed to implement 15 main objectives under Section 157 of Urban Council Ordinance, Sub Ordinance had only been imposed for 14 objectives even as at 31 December 2017.

(b) Action Plan

According to the bylaws enforced, annual action plan had not been prepared for 4 activities which should be implemented by the Council.

(c) Non-allocating the Provisions Non providing of Provisions

According to the annual action plan prepared, provisions had not been made by annual budget for 10 activities implemented by the Council.

(d) Solid waste Management

Crumbled waste were being handed over to Yatinuwara garbage yard by paying Rs.1,000 per 1 ton of crumbled waste through collection of about 2 tons of solid waste collected daily within the area of the authority of the Council by engaging Tractors and workers of the Council. A building was being constructed by spending a sum Rs.3,110,000 to dump non crumble waste, and separated non crumbled waste were improperly dumped into an old quarters at present.

(e) Environment Issue

(i) Non crumbled garbage dumping area seems like to be a mountain at the moment due to the collection of huge amount of garbage and it was reported by the residences of the private house adjoining to the root of it and many private houses close to it, that the heavy bad smell spreading.

(ii) Council premises and its surrounding were unhygienic and spreading bad smell often due to improper dumping of garbage surrounding the Council, and unhygienic waste had been gathered in drains due to throwing non crumbled waste into drains.

(f) Sustainable Development Goals

Indexes had not been identified by the Council to achieve sustainable development goals and to measure the progress.

3.2 Management Inefficiencies

Following matters were observed.

- (a) Though over one year had been lapsed for final judgment as to recover arrears rent of week fair at Pilimathalawa by auctioning the properties of the lessee, actions had not been taken to recover fair rent balance of Rs. 252,827.
- (b) Though an agreement had been entered into one year period for Rs. 1,010,000 with a lessee of week fair in Pilimathalawa, an income of Rs. 25,500 had been lost in the year under review due to reducing the receivable fair rent amount by the Management Committee.

3.3 Human Resources Management

(a) Staff Vacancies and Excess

Twelve staff vacancies in 6 posts were available between approved and actual cadre.

(b) Staff Loan

Loan balances of Rs. 12,340 had not been recovered from two workers deceased and retired.

3.4 Operational Inefficiencies

Following matters were observed.

- (a) A person is doing an office in shop No.14 of the Super Market Complex without an agreement and actions had not been taken to acquire that shop to the Council and to lease out with proper tender.
- (b) Though the recommendation had been given by Technical Engineer to conduct the repair through the institute presented the lowest quotation of Rs. 628,650, when calling quotation for repair a crematorium; Council had incurred loss of Rs.272,574 due to conducting the repair for Rs. 901,224 from other institute by the Secretary without mentioning reasons to reject lowest bid.

3.5 Assets Management

3.5.1 Non Confirming the Safety Precautions of Assets

Following matters were observed.

- (a) Though the possession of the land that is used to dump garbage by the Urban Council, were given to Kadugannawa Urban Council; actions had not been taken to clear the ownership of the land by fencing to identify its boundaries.

- (b) Possibility of encroachment and unauthorized residence would be directed due to non-taking actions to secure and to identify the boundaries of the Council lands of Kaladurukotuwa and Manguswatta.

3.5.2 Non conducting of Maintenance Repairs

Following matters were observed.

- (a) Non crumbled garbage had been dumped in Government quarters No.162/6 with the size of 500 square feet without doing repairs for long period.
- (b) Access of customers was in poor level as the view was not attracted due to non-conducting renovation of New Market Complex for long period.
- (c) The old office of the Council had been closed without using any purpose. Attention had not been made to utilize by repairing this building which is located close to the Kandy – Colombo road with a commercial value.

3.5.3 Non generating of Income Receivable from Assets

Some shops of Super Market Complex and New Market Complex had been closed and rent amount of Rs. 103,170 receivable from those shops.

3.5.4 Non acquired Assets

Fire extinguisher vehicle valued at Rs. 1,200,000 had not been acquired to the Council.

3.5.5 Idle / Under-utilized Assets

- (a) Five items of vehicles and machineries valued at Rs. 554,000 were remained idle and under-utilized.
- (b) The Roller with the value of Rs. 7,967,144 was in under-utilized.

3.6 Un Economical Transactions

A sum of Rs. 173,141 had been paid on the certificate given on 02 May 2017 by Technical Engineer for repairing the engine and brake system of the Tractor belonging to the Council by the Technical Engineer of the Provincial Road Authority. And again a sum of Rs. 45,338 had been paid for repairing the brake system on the request of the vehicle driver on 15 May 2017.

3.7 Procurement

3.7.1 Procurement Plan

Though good and services of Rs. 1,497,833 had been procured during the year under review, annual procurement plan had not been prepared.

3.7.2 Supplies and Services

Quotations had been presented by three institutions for different sizes of tables due to non-providing relevant specifications to suppliers by the Council to procure 2 writing tables with one drawer.

3.7.3 Contract Administration

Following matters were observed.

(a) **Development of Atupenwatta Road**

Development of Atupenwatta road had been given to Kadawathgama Grama Sanwardana Society for Rs. 195,923 of an estimated amount of Rs.200,0000 under Urban Council Fund of the year 2017. The road surface was not up to the standard and the concrete of the both side of the road were in honeycomb situation. The metal had been used to prepare the road base and it was observed that those metal were easily being removed due to non-fixing them with the concrete.

(b) **Development of Rajapihilla Mawatha in Pahala Kadugannawa**

Development of Rajapihilla mawatha in Pahala Kadugannawa had been given to Kadawathgama Grama Sanwardana Society for an estimated amount of Rs.500,000 on 07 September 2017 under Urban Council Fund of the year 2017. Following matters were observed with regarding this construction.

- (i) Feasibility study had not been conducted that how many beneficiaries would use this road.
- (ii) Though actions had been taken to construct a box culvert in this road; that was not planned with proper standard and, possibility of overflowing at the time of heavy water due to being the water gathering point of the culvert skin-deep and narrow.
- (iii) Standard and the finishing of cement mixture were not in satisfactory when constructing the side walls, and it was observed in physical verification that there is a honeycomb situation and concrete could easily be broken.
- (iv) The concrete had been placed in this culvert on 09 November 2017 and the shuttering had been removed as at 16 November 2107.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the budget had not been made use of as an effective tool of management as there is a significant variation between budgeted and actual income and expenditure even

after transferring provisions in income and expenditure items during the year under review. Following matters were revealed in this regard.

- (a) No any expenditure had been incurred from the provision of Rs.822,400 allocated for 28 expenditure votes.
- (b) Variances ranging from 4 per cent to 94 per cent were remained between the net provision and actual expenditure in 34 expenditure votes.
- (c) Variances ranging from 3 per cent to 99 per cent were remained between the estimated and actual income in 17 revenue votes.

4.2 Internal Audit

According to the internal audit plan; though internal audit reports should be issued during the year with relating to many fields, internal audit reports had only been issued on receipts and payments.

5. Systems and Controls

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

System	Deficiencies
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(a) Fixed Assets	(i) Some fixed assets were in idle. (ii) Failure in conducting assets verification.
(b) Accounting	(i) Failure in identifying and accounting the assets. (ii) Understating the debtor, creditor balances.
(c) Vehicle Control	(i) Failure in presenting daily running charts to audit. (ii) Many vehicles remaining in under-utilized.
(d) Revenue Collection	(i) Failure in collection of arrears revenue.
(e) Debtors and Creditors	(i) Failure in recovery of debtor balances. (ii) Failure in taking actions to settle creditor balances.

- (f) Contract Administration
 - (i) Failure in following tender procedures for construction.
 - (ii) Failure in conducting feasibility study in selecting projects.
 - (iii) Poor finishing level in constructions.