

Nawalapitiya 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 29 March 2018 and the Auditor General's Report on those financial statements was issued to the Chairman on 10 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 Nawalapitiya 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) The Accumulated debtors valued of Rs.2,152,478 had been overstated in the Financial Statements for the year under review.
- (b) Even though the purchasing of vehicles amounted to Rs.894,959 it had been stated as Rs.1,433,538 therefore it had been overstated by Rs.548,579.
- (c) Even though Stamp duty received had been Rs.6,860,670 for the preceding year Provisions had been allocated only Rs.2,500,000 for the year under review therefore, it had been understated by Rs.4,360,670.
- (d) Court Fines amounted to Rs.281,789 had been written off from the accounts as at 31 December of the year under review without an approval.
- (e) Even though the Industrial Stores Account Balance had been Rs.693,452, it had been accounted as Rs.93,452 therefore it had been understated by Rs.600,000.
- (f) Capital Aids and Capital Expenditure amounting to Rs.100,000 for the year under review had not been taken into Revenue and Expenditure Accounts.

1.3.2 Unreconciled Accounts

A difference of Rs.4,358,165 had been observed between 03 balances aggregating Rs.10,392,394 disclosed in the Financial Statements and its Subsidiary Documents.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

- i. 03 Balances of Accounts Receivable had been Rs.10,442,246 as at 31 December of the year under review. balances lapsed over year had been aggregating to Rs.2,093,317 and balances lapsed one to five years had been aggregating to Rs.7,765,000 according to its time analysis.
- ii. An amount of Rs.878,955 had been receivable from the Central Engineering Consultancy Bureau for the Compost Fertilizer Supplied for the year 2014 to 2016.

(b) Accounts Payable

05 Balances of Accounts Payable had been Rs.21,350,519 as at 31 December of the year under review. balances lapsed over year had been aggregating to Rs.2,844,241 and balances lapsed one to five years had been aggregating to Rs.7,523,725 according to its time analysis.

1.3.4 Lack of Necessary Documentary Evidence for Audit

02 transactions valued Rs.450,602 could not be satisfactorily vouched because of non rendition of necessary details.

1.3.5 Non-compliance

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

Following instances of non-compliance with laws, rules, regulations and management decision were observed.

Reference to laws, rules, regulations and management decision	Amount	Non-compliance
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	Rs.	
(a) Extra Ordinary Gazette No.1919/81 dated 19 June 2015	567,802	The promoted bulletin boards fees had not been charged from 138 boards by imposing rules to charge.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
i. F.R 104	44,190	An investigation had not been carried out on a truck used for disposal of garbage met with an accident by slipping out of the road in the year 2017.

ii. F.R. 371(2)(b)	664,381	Actions had not been taken to settled advances given for the time between 01 to 07 years as at 15 December 2017. Further advances had been given to officers that were not executive.
iii. F.R. 571(3)	1,506,112	Actions had not been taken on 108 Deposits relating 02-06 years.
iv. F.R. 751	1,245,131	Even though all the goods received should incurred in the Registers, 485 Compost Bins received in the years 2015/ 2016/ 2017 had not been Registered.
(c) Paragraph 10 of the Circular No.2016/03 on 17 March 2016 by the Commissioner of Local Government		Even though the Stalls should not be interim leased the stalls near the Bus Stand had been interim leased by its lessees for Rs.10,500 to Rs.30,000 rent.
(d) The Procurement Guidelines of Sri Lanka Democratic Socialist Republic of Sri Lanka		
i. 3.4	115,000	3,500 block stones had been purchased out of the Procurement Guidelines to repair the pavement.
ii. 3.4(d)	3,000,000	04 Building Contracts had been offered out of the Procurement Guidelines.

2. 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 amounted to Rs.15,890,776 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.26,918,138.

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	14,465,399	16,637,619	13,191,497	12,460,213	13,713,230	14,465,399	13,825,480	14,842,543
Rent	19,778,798	18,316,311	17,227,508	2,661,611	16,046,480	19,778,798	17,134,681	2,420,348
License Fees	1,573,720	1,558,479	1,558,479	-	1,196,000	1,573,720	1,593,010	-
Other Revenue	10,486,880	12,849,030	16,172,072	2,680,747	11,875,000	10,486,880	18,417,745	1,914,665
	46,304,797	49,361,439	48,149,556	17,802,571	42,830,710	46,304,797	50,970,916	19,177,556

2.2.2 Rates and Tax

Following observations had been made.

- Even though the arrears opening balance of the year under review had been Rs.13,973,462 it had been recovered only Rs.5,213,895.
- Arrears in rates and taxes as at 31 December of the year under review had been Rs,11,519,631.

2.2.3 Rent

Even though the arrears opening balance of the year under review had been Rs.2,420,349 it had been recovered only Rs.635,167.

2.2.4 Other Revenue

(a) Vehicle Rent Charges

Even though the arrears opening balance of the year under review had been Rs.2,420,349 it had been recovered only Rs.635,167. Arrears as at 31 December of the year under review had been Rs,2,661,613.

(b) Fertilizer Sales Income

The Receivable Fertilizer Sales Income at the end of the year under review had been Rs.878,955 and that balance should be recovered from 1 to 6 years.

(c) Water Charges

Even though the arrears opening balance of the year under review had been Rs.869,082 it had been recovered only Rs.36,800.

2.2.5 Court Fines and Stamp Fees

Court Fines amounting to Rs.74,167 and Stamp Fees amounting to Rs.2,500,000 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

The following matters were revealed with regard to duties to be fulfilled by the Sabha in terms of Section 4 of the Urban Council Ordinance, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

(a) By-laws

Though by-laws should be imposed to implement 15 main objectives under Section 157 of Urban Council Ordinance, Sub Ordinance had only been imposed for 03 objectives even as at 31 December 2017.

(b) Action plan

According to the by-laws imposed, annual action plan had not been prepared for an objective which should be implemented by the Sabha.

(c) Non-allocating the Provisions

Provisions had not been allocated for 75 objectives out of 80 objectives by the Annual Budget that should be completed by the Sabha according to the Action Plan. Therefore 05 objectives could not be completed.

(d) Not Achieving the Expected Level of Output

Even though Rs.1,000,000 had been expensed for achieving all the objectives mentioned in the Action Plan it had not been achieved the expected level of output. Details are given below.

Task	Value of Completed Amount	Observations
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	Rs.	
Suggested Commercial Complex to be built where the Old Urban Council Building had been located.	1,000,000	Even though it had been paid to Architecture for designing a plan for a building that was not an approved project or not incurred in the Annual and Compact Plan it had not been commenced as at 31 December 2017.

(e) Delays in Completing Objectives

Tasks	Estimated Cost	Commenced Date	Expenditure as at 31 December 2017	Reasons for the Delay
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	Rs.		Rs.	
Making the Fence around the Cemetery of Bawwagama	500,000	2017.11.08	325,089	It had not been finished due to boundary problems.
Repairing the Flyover Run from Wogans Park to Doloosbage Road	1,000,000	-		- The contractor had been informed that contract could not be completed due to the decays observed were worse than the decays in the estimate. in the

(f) Solid waste Management

The Officers responsible had been failed to take actions because, Rs.50,000 received for the Solid Waste Management on 21 January 2015 had been hold in the deposits account as at December 2017.

(g) Sustainable Development

Actions had not been taken by the Sabha to identify sustainable development objectives and targets and to achieve them as well as to identify indexes to measure the progress.

3.2 Management Inefficiencies

Following Observations had been made.

- (a) The lessee of the Cafeteria in Jayathilaka Stadium had built a small reception hall and 02 servant's rooms in the Ground Floor without obtaining any permission. Also the technical officer had been informed the Secretary without preparing an estimate, a measurement sheet or a receipt that Rs.958,095 had been expensed. And action had not been taken against unauthorized Constructions out of the lease agreement.

- (b) Actions had not been taken to assess the damage and to take further actions on a tractor owned by the Sabha drove by a health labourer met with an accident and damaged party requested Rs.300,000.
- (c) An amount of Rs.23,259 of Widowers' and Orphans Fund money received on 09 September 2015 had been hold in the deposits account as at December 2017.
- (d) Mini Cinema Hall No.173 in the Super Market Complex had been leased out to a private party on 23 August 2011 for long term out of the tender procedures and the Paragraph II of the Municipal Council Ordinance No.36(e). Even though the Securities had not been kept according to the agreement and the lease rent of Rs.500,000 had been receivable as at 31 December 2017.

3.3 Human Resources Management

a. Vacancies and Excesses

An Employee had been excess and 45 vacancies had been observed between Approved and Actual Cadre.

b. Staff Loans

Actions had not been taken to recover the arrears in Loans of 06 transferred officers, 11 officers who left the service and 12 retired officers of Rs.768,396 for 01 to 26 years time period.

3.4 Operational Inefficiencies

Following matters were observed.

- (a) A commercial building owned by the Sabha had been leased out for a private company for Rs.231,000 depending on a monthly Sabha Decision taken, on 25 February 2008 without an estimate, without charging Key money and calling the minimum bid as Rs.225,000. Actions had not been taken to raise the lease rent on an assessment for every 05 years and it had been leased out on a disadvantaged agreement of charging decreasing rate increasing lease rent for period of 25 years from the year 2008-2033.
- (b) Actions had not been taken to recover the arrears in key money of Rs.6.884,724 for leasing out the stalls in the Super Market Complex and 09 houses.
- (c) According to the Paragraph 06 of the agreement, relating to the leasing out of the staff rooms in the Super Market Complex, Room No.166,168 and 144 had been used for the business purpose, that should be used only as staff rooms.
- (d) Cafeteria in Jayathilaka Stadium had been given on a Lease Agreement by the Sabha. The lessee had maintained a Water Garden in front of the Building and it had been let

to use the Sabha premises irregularly by giving only 25 per cent from the Ticket Income.

- (e) The Details regarding 100 Compost Bins purchased for Rs.281,500 had been rendered to the audit, it had been stored 185 Bins out of 385 Compost Bins in Sabha Premises and 25 Bins had been stored in a house of a unrelated person to the Sabha. The Bins not forwarded to the audit had been 154.
- (f) A Huge income had been lost for the Sabha and actions had not been taken to realize new rate units, because the rates had been recovered until the year 2017 based on an assessment had been carried out in the year 2009, even though it should be carried out a rates assessment every 05 years.
- (g) Actions had been taken to lease out the Assets owned by the Sabha without following the relevant Tender Procedure and not charging key money.
- (h) Even though according to the Mission Statement, Sabha should manage the Health Service efficiently and make an exemplary city, actions had not been taken on 06 health complaints and 03 other complaints from the Public, received by the Sabha.
- (i) Actions had not been taken as at 15 December 2017 on 16 complaints regarding Street Lamps received on November and December 2017.
- (j) The rent should be reassessed at least every 05 years for Shopping Complexes owned by the Sabha it had not been reassessed the Rent even though it had been 06 years from leasing.

3.5 Assets Management

3.5.1 Non-collecting of Income Receivable from Assets

Sabha had lost an income because of not acquiring 02 Houses and 08 Stalls had been sealed for not paying the rent and making them lease again for 02 months to 16 months.

3.5.2 Idle / Under-utilized Assets

Following matters were observed.

- (a) 02 Assets valued for Rs.2,505,000 had been idles at the end of the year under review.
- (b) Even though a car had been repaired for Rs.478,186 it had been parked without utilizing in the premises.

3.6 Visual Dysfunctions

Building No.153 owned by the Sabha located near the Kothmale Road had been given on long term lease without obtaining an approval of the Subject Minister according to the

Section 36(e)II of the Urban Council Ordinance out of the formal tender procedure and without charging key money. Also it had been revealed by the audit that Chairman of the Sabha had received an amount of Rs.20 lacs as key money on an Agreement of transfer signed in front of a Notary by the lessees.

3.7 Procurement

3.7.1 Procurement Plan

Even though Fixed Assets valued Rs.5,064,699 had been purchased during the year under review a Procurement Plan had not been made.

3.7.2 Supplies and Services

Following observations had been made.

- (a) Even though a Cab had been repaired in the year 2015 for Rs.642,800 from the Institute of Mechanical Engineering, Ambathenna it had not been properly fixed. Even though this vehicle had been sent back to re-repair it had not been checked by a Mechanical Engineer or a Vehicle Inspector it had not been obtained a report.
- (b) Even though a private institute had been forwarded a price of Rs.27,760 for 20,000 Barcode Labels and 02 Barcode Printing Carbons it had been rejected and chosen a price of rs.35,600 therefore, a loss of Rs.7,840 had been caused.
- (c) A loss of Rs.30,000 had been caused when purchasing 05 Computers because of rejecting the minimum price of Rs.90,000 and choosing Rs.101,000.
- (d) 50 Gum Boots had been purchased Rs.2,750 each for the Health Division. The minimum price of Rs.1,950 for those Boots had been rejected in the Procurement therefore a loss of Rs.40,000 had been caused.

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) Provisions allocated for 53 Expenditure items of Rs.6,451,200 had not been expensed.
- (b) Variances of 7 per cent to 100 per cent had been observed between the Net Provision and the Actual Expense regarding 54 Expenditure Items.
- (c) An estimated revenue of Rs.60,000 on 02 items of revenue had not been earned.

- (d) Variances of 10 per cent 99 per cent had been observed between the estimated and the actual revenue of 99 items of revenue.

5. Systems and Controls

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

System -----	Deficiencies -----
(a) Fixed Assets	<ul style="list-style-type: none"> (i) Failure in taking actions to identify all assets by conducting surveys on lands and buildings belonging to the Sabha. (ii) Failure to use some fixed assets for effective activity.
(b) Accounting	<ul style="list-style-type: none"> (i) Failure in identifying and accounting all assets belonging to Sabha. (ii) Understating the Debtors balance. (iii) Understating the Loan Interest
(c) Cash and Bank	<ul style="list-style-type: none"> (i) Deposited but not realized Cheques. (ii) Failure to actions regarding dishonoured cheques.
(d) Vehicle Control	<ul style="list-style-type: none"> (i) Failure to check the fuel consumption (ii) Failure to discard the vehicles could not be used.
(e) Revenue Control	<ul style="list-style-type: none"> (i) Failure in timely rates assessment. (ii) Non taking actions recover the arrears income.
(f) Debtors and Creditors	<ul style="list-style-type: none"> (i) Failure in recovering debtor balances. (ii) Failure in settling creditor balances.
(g) Contract Administration	<ul style="list-style-type: none"> (i) Failure to give enough time to procurement. (ii) Delays in completing projects. (iii) Offering contracts out of the Circulars.