

Katunayaka Seeduwa Urban Council

Gampaha District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 29 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 28 September 2018.

1.2 Disclaimer of Opinion

Because of the significance of the matters described in paragraphs 1.3 and 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

1.3 Comments on Financial statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The loan amounting to Rs.500,000 given by the Department of Local Government to provide footwear to children of low income group had not been brought to account.
- (b) The key money of Rs.2,266,491 due as at 31 December 2017 on behalf of the lease of stalls at the Katunayaka Seeduwa New Trade Complex had not been brought to account.
- (c) Two Tafe tractors valued at Rs.3,125,700 and two trailers valued at Rs.652,050 received at the institution on 30 December 2017 had been entered in the register of fixed assets. But, these had not been brought to account.
- (d) Stock of Pharmaceuticals of 04 Ayurveda centras aggregating Rs.264,356 had not been brought account.

1.3.2 Suspense Account

The credit balance of Rs.12,051,699 which continues to be unsettled had not been settled even during the year under review.

1.3.3 Unreconciled Accounts

- (a) The difference between the accounts and the registers/schedules with regard to 05 items of accounts as at 31 December 2017 amounted to Rs.56,973,501.
- (b) The creditors as at 31 December 2017 amounted to Rs.34,702,611, Rs.34,711,957 and Rs.35,771,503 as per accounts furnished, as per register and as per schedules respectively.
- (c) The rates received during the year under review amounted to Rs.104,856,946 as per accounts and Rs.108,871,850 as per register showing a difference of Rs.4,014,904.

1.3.4 Accounts Receivable and Payable

(a) Accounts Receivable

- (i) Action had not been taken to recover cash for the dishonoured cheques amounting to Rs.10,524 which continued to be shown in the monthly bank reconciliation statements.
- (ii) Action had not been taken to settle the balances of dishonoured cheques amounting to Rs.61,870 which continued to be brought forward for many years.
- (iii) Out of the salaries reimbursable of Rs.36,535,227 as at 31 December 2017, Rs.23,922,462 belonged to amount receivable for the previous years. Action had not been taken to settle them.

1.3.5 Accounts Payable

Action had not been taken to settle the credit balance of Rs.1,534,700 pertaining to the Estimated Instalment Capital Expenditure which continued to be brought forward for many years.

1.3.6 Lack of Necessary documentary Evidence for Audit

Non rendition of Information for Audit

Three items of accounts aggregating Rs.24,660,572 could not be satisfactorily verified in audit due to non-rendition of detailed schedules, fixed deposit certificates and renewal notices.

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

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
(a) Financial Regulation 396 of the Democratic Socialist Republic of Sri Lanka	1,087,367	Action had not been taken regarding 13 cheques not presented to the bank for payments for over 06 months. Of these, 02 cheques valued at Rs.560,393 had exceeded 03 years.
(b) Procurement Guidelines		
(i) 3.6.1	2,647,200	Procurements could be re ordered at the initial procurement price before expiry of 06 months. However, the recommendations of the technical evaluation committee made in December 2015 had been considered for purchase of 24 computers during the year under review.
(ii) (a), (c) and (f) of 1.2.1	-	While purchasing computers and their accessories with very rapid technical changes and price changes within a short period, the opportunity to obtain them with favourable technology and prices had been evaded.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.79,379,143 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs34,353,763.

2.2 Financial Control

- (a) The cash book balance and the bank balance had not been reconciled with regard to a bank current account. Instead, Rs.12,536,426 had been debited to the Accumulated Fund and credited to the Cash Account.
- (b) Deposits amounting to Rs.32,582 had been continuously denoted in the bank reconciliation statement of a current account of the People's Bank without being settled.

2.3 Revenue Administration

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

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

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	105,350	106,661	105,151	57,462	110,820	105,075	104,729	61,606
Rent	9,575	12,706	10,134	3,571	11,284	11,342	11,014	3,507
Licence Fees	2,631	2,842	2,842	66	4,317	3,256	3,256	66
Other Revenue	50,372	79,688	68,707	3,020	54,487	57,159	45,654	2,882

2.3.2 Performance in collection of Revenue

The following observations are made.

- (a) Out of the arrears of rates of Rs.44,210,218 as at commencement of the year, Rs.18,029,949 only had been recovered during the year showing the progress in recovery as 41 per cent.
- (b) None of the arrears of licence fees of Rs.66,000 of the previous year had been recovered during the year under review. Of this, Rs.27,100 only had been recovered even by 20 August 2018.
- (c) Bills relating to other revenue for the year under review had exceeded the estimate by 37 per cent. As such, the estimation had not been made in a feasible manner.

2.3.3 Stall Rent

- (a) Revenue amounting to Rs.400,500 had been deprived of during the year under review as a result of not recovering the assessed stall rent at the Seeduwa Trade Complex.
- (b) The arrears of key money recovered in instalments for 06 stalls since 2013 amounted to Rs.2,266,491. Action had not been taken to acquire those stalls for non payment of key money.

2.2.4 Licence Fees

- (a) Licence fees of Rs.750,884 had been recovered from 02 bakeries, 02 rest houses and 03 hotels of the urban area registered at the Ceylon Tourist Board under the Tourism Development Act. In this connection, not less than 1 per cent of the total turnover based on the audited financial statements of the previous year had not been identified for recoveries made.
- (b) Action had not been taken to improve the Council revenue by revising the licence fees and business tax accordingly. The licence fees and business tax levied in 1987 as per Urban Councils Ordinance had been recovered during the year under review without any revision.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Urban Councils Act 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) Expected Benefits not Achieved

A car park for the vehicles of the Council had been constructed by spending Rs.2,308,383 in July 2016 in a portion of land allocated for common amenities during the sale of land in blocks. The place was about one kilometer away from the Urban Council and this remained closed without being used even by 20 October 2017.

(b) Sustainable Development Target

The Council was unaware of the United Nations 2030 Agenda relating to sustainable development objectives.

3.2 Management Inefficiencies

(a) Loans have been obtained for rain water drainage project and the construction of library projects from the Local Loans and Development Fund. While paying the loan installments, Rs.222,817 and Rs.441,788 respectively had been overpaid. Action had not been taken to set off these.

(b) A physical verification of tyres and tubes had been carried out on 16 October 2017 during which it was observed that 11 tubes valued at Rs.41,770 as shown in the bin cards was not available in the stores. Action had not been taken to obtain the old tyres and tubes while issuing new tyres and tubes. Tubes were not available at the stores during 01 January 2016 to 20 October 2017. Although quotations had been called for, on 24 March 2017 to procure 700 x 16 types of tubes, action had not been taken to select a supplier upto 20 October 2017.

(c) Thirty five maintenance estimates had been prepared for the year 2017. While issuing materials in this connection, chips stones of the same size had been issued to all estimates, which appeared as non acceptable. Further, according to the receipt and issue of materials as per ledger, 31.79 cubes of chip stones valued at Rs.260,678 had been issued in excess of the receipt of 9.14 cubes of chips valued at Rs.74,948.

(d) According to the Circular No.LGD/13/2016 of 09 November 2016 of the Commissioner of Local Government, the Council had permitted a person to construct a building for business activities in a portion of the land named Seeduwa village allocated for common amenities without the prior approval of the Minister of Local Government, Western Province as required by the Circular No.LGD/13/2016 of 09 November 2016 issued by the Commissioner of Local Government. The Commissioner of Local Government had directed to stop the construction activities on 29 March 2017. Accordingly, a summons

had been issued through a private Attorney to pay a total sum of Rs.13,712,795 to cover up the loss caused as a result of not conducting the business after incurring expenditure on building and purchase of necessary equipment. Further, in spite of the decision made to pay the building rent to the purchasers, a newspaper advertisement had been published on 04 February 2017 by paying Rs.32,200.

3.3 Operating Inefficiencies

- (a) The Urban Council had acquired 47.5 perches of land at Seeduwa Amuna Road to construct a community centre and a volley ball playground by a Gazette Extra Ordinary Notification dated 24 April 2001 and a sum of Rs.5,000,000 was payable to the owners of the land as compensation. Although 17 years had elapsed since the acquirement of the land the Council had not taken action to pay compensation to owners of the land and it was revealed that in addition to the compensation interest at the rate of 7 per cent too had to be paid with effect from 24 April 2001.
- (b) The buildings division of the Council had been engaged in collecting revenue from items such as registration, certification, inspection and fines. However, a register had not been maintained in the division to report the collection.
- (c) Necessary action had not been taken to avoid weaknesses in the computer package use at the Miscellaneous Revenue Branch so as to report the revenue collected.

3.4 Assets Management

Stock Verification

Proper procedures had not been adopted for the disposal of computers, printers and allied electronic accessories including 15 monitors, and 12 central processing units which could not be used as determined at the stores verification on 16 October 2017.

3.5 Procurement

Contract Administration

The construction work of the Kotugoda New Trade Complex had been entrusted to a private construction company. A sum of Rs.1,814,046 had been paid on 12 October 2011 after deducting retentions. 14 shortcomings had been identified in 10 stalls after the construction of the building which had not been rectified up to 31 March 2018.

4. Systems and Controls

Deficiencies 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) Revenue Administration	Action not being taken to recover arrears of revenue.
(b) Accounting	Existence of differences in the balances of accounts.
(c) Financial Control	Shortcomings in preparation of bank reconciliations
(d) Asset Control	Land allocated for common amenities not being beneficially used.