

Wattala - Mabola 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 Secretary on 27 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Wattala - Mabola Urban Council give a true and fair view of the financial position 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 accounting deficiencies were observed.

- (a) The value of galie bowser amounting to Rs.5,960,000 purchased during the year under review had not been brought to account.
- (b) Five cheques for Rs.177,055 received on behalf of revenue had been dishonoured. As such, the values had been debited to the Deposit Account and the Debtors Account had been credited. As a result, the balances of Debtors Account and the Deposit Account had been understated by similar amounts.
- (c) Without rectifying the additional credit and the balances of garbage revenue and without separate identification, Rs.112,600 had been debited to the Accumulated Fund by Journal Entry 23.

1.3.2 Unreconcilal Accounts

- (a) The differences between the accounts furnished as at 31 December 2017 and the schedules with regard to 05 items amounted to Rs.50,475,610

- (b) The receipt of rates for the year under review amounted to Rs.52,179,954 as per computer data reports and it was Rs.52,639,857 as per ledger showing a difference of Rs.459,903.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

The balances of pre payments of Rs.9,340,982 as at 31 December 2017 included the balances of Rs.95,074 existing since 01 December 2012, Rs.3,400,018 paid on 25 November 2013 and Rs.499,918 paid on 05 December 2013. Action had not been taken to settle them.

(b) Accounts Payable

The balances of the Miscellaneous Deposit Account as at 31 December amounted to Rs.56,764,433 as per schedule. Of these, the balances 26 types of deposits amounting to Rs.36,909,983 continued for many years without changes. Action had not been taken to settle them.

1.3.4 Lack of Necessary Documentary Evidence for Audit

Schedules for balances of Rs.17,716,942 out of the arrears of other revenue of Rs.28,634,895 as at 31 December 2017 had not been furnished.

1.3.5 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 |
|---|---------|--|
| | Rs. | |
| (a) Financial Regulation 189 of the Democratic Socialist Republic of Sri Lanka | 394,951 | Action had not taken with regard to dishonoured cheques as at 31 December 2017. |
| (b) Circular of the Commissioner of Local Government No.LGD/2/2016 of 28 April 2016 | 500,000 | A fixed deposit matured as at 09 June 2017 had been credited to the the current account without the approval of the Commissioner of Local Government |

- (c) Urban Solid Waste Material Management Rule No 1 of 2008 of the Western Province
- (i) 18(1) - Charges should be levied on the basis of nature of the garbage or the square feet measurement of the business. However, garbage disposal fees had been determined on the discretion of the Revenue Inspector.
 - (ii) 21(1) - Action had not been taken regarding recovery of “Spot Fines” specifically mentioned in the second schedule.

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.25,176,255 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.32,115,477.

2.2 Financial Control

The balance of the Dormant Account No 222-1-001-001-7-0976275 at the Peoples’ branch, Wattala as at 31 December 2017 amounted to Rs.301,672.

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 | 55,801 | 55,968 | 53,598 | 55,875 | 57,150 | 58,634 | 66,538 | 60,882 |
| Rent | 14,022 | 15,607 | 15,111 | 18,788 | 13,751 | 12,486 | 12,842 | 23,317 |
| Licence Fees | 450 | 1,431 | 1,396 | 1,174 | 1,400 | 1,814 | 2,005 | 1,140 |
| Other Revenue | 79,091 | 36,752 | 35,070 | 28,635 | 79,698 | 58,895 | 52,450 | 26,105 |

The following observations are made.

- (a) The amount estimated for other revenue of the year under review amounted to Rs.79,091,000. The progress in recovery of those revenue was at a low level of 44.34 per cent.
- (b) Business tax had not been estimated for the source of revenue from licence fees. In spite of this, the collections had been included in it.

2.3.2 Rates and Taxes

- (a) The assessed value of a private hospital in the midst of the Wattala town with hostel facilities, specialist service facilities and many medical equipment with new technology amounted to Rs.20,181,818 as per assessments made in 2012. Action had not been taken to identify the new improvements made so as to revise the original estimated value.
- (b) Although it had been decided by the management committee which met on 14 February 2017 to recover rates over Rs.50,000 by issuing distraining orders on such properties, such action had not been taken regarding 53 properties with such arrears of Rs.8,825,221 as at 31 December 2017.
- (c) The arrears of rates recoverable as at 01 January 2017 amounted to Rs.51,932,028. Of this, Rs.19,805,812 only had been recovered during the year. Accordingly, 38 percent of the amount only had been recovered showing that the recovery of rates was at a low level.

2.3.3 Rent

- (a) The arrears of Rs. 4,765,004 due from 16 meat stalls and fish stalls of the Urban Council as at 31 December 2017 had not been recovered.
- (b) The monthly rent decided in 2008 for popular stalls of the Urban Council in a populated and urbanized area continued to be recovered during the year under review without any revisions.
- (c) Action had not been taken to recover the arrears of stall rent amounting to Rs.5,933,711 as at 31 December 2017 from the stalls at the Hendala Trade Complex.
- (d) An arrears of Rs.613,085 was recoverable for the period 2013 to 2015 from a poultry shop in the trade complex at Hendala Junction, Wattala. A letter of demand had been sent to the lessee for recovery of arrears on 16 February 2017. No progress on this matter was observed.
- (e) Twenty nine stalls at the rear portion of the trade complex at Hendala Junction remained closed. Attention had not been paid to modernize these stalls so as to earn more revenue.

Further, it was observed that a portion of the rear side of the trade complex had been used as a vehicle park and the Council had not recovered parking charges.

2.3.4 Licence Fees

- (a) The branches of 3 banks and a finance company operates within the area of the Urban Council. Licence fees for the year under review had not been recovered from them.
- (b) Licence fees of Rs.323,671 had been recovered from registered eateries registered under the Ceylon Tourist Board in terms of the Tourism Development Act. The recovery of 1 per cent of the turnover based on the audited financial statements of the previous year had not been followed in this connection.

2.3.5 Other Revenue

Action had not been taken to recover the arrears of garbage disposal fees of Rs.3,084,400 as at 31 December 2017.

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 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) Non-achievement of the Expected Output Level

- (i) The Commissioner of Local Government had instructed to immediately execute the project of constructing a garbage segregating section in the land of 01 acre and 31.90 perches purchased at a value of Rs.9,475,000 in 2013 for systematic disposal of garbage. The Ministry of Local Government and Provincial Councils had provided Rs.1,000,000 for this on 02 April 2016. However, side walls only had been constructed around the land.
- (ii) Necessary training had been given to 02 employees to deal with the bailing machine granted to the Council by the Department of Local Government in February 2017 under the World Bank Aid to bail polythene. But, no progress had been achieved.
- (iii) Twenty three out of 47 functions mentioned in the Annual Action Plan had not been initiated and the progress was 50 per cent or less than that.

(b) Delay in Execution of work

Although a sum of Rs.145,372 had been spent on purchasing furniture and equipment from the provision made by the Department of Local Government for establishing a Front Office, the office had not been established even by 05 April 2018.

(c) Solid Waste Material Management

- (i) The management relating to garbage collected within the area of the Council had not been properly done. As such, the Council had to incur heavy expenditure on disposal of garbage. A continuous process of disposal of garbage favourable to the environment had not been followed in terms of the Circular No.WP/LPD/15/2008 of 20 November 2008 of the circular of the Commissioner of Local Government.
- (ii) More than 30 labourers had been engaged in collection of garbage in the urban area of about 10 square kilometres.. However, collection of segregated garbage was very weak. It was observed at a physical verification carried out on 02 November 2017 that disposal of garbage in an open space had become a challenge to the environment as well as the residents around the area.
- (iii) Disposal of garbage from business centres is not done by the Urban Council. As such, garbage had been kept on the main roads and legal action had not been taken against those institutions.

(d) Sustainable Development Target

The Council was not aware of the 2030 Agenda of the United Nations regarding the sustainable development objectives.

3.2 Management Inefficiencies

- (a) The first servicing of the tractor and computer valued at Rs.3,995,000 obtained from the Ministry of Local Government and Provincial Councils in December 2014 was scheduled to be done by the firm which had sold the vehicles whereas Rs.14,575 had been spent by getting the service done by another institution. There was delay in servicing, that is, from 19 May 2015 to 03 July 2015, As such, there was no evidence in the file to show that the second and third servicing had been done, free of charge. The compactor had met with an accident on 5 August 2016 and its rim had been damaged on 13 June 2017 after collision with a becco machine. As such, it was repaired. But, action had not been taken in terms of Financial Regulation 104 in this regard. The insurance company had not been informed about the first accident whereas Rs.48,745 had been obtained from the insurance company for the second accident. However, the total cost of repairs amounted

to Rs.58,200 resulting in a loss of Rs.9,455 to the Council. Action had not been taken to identify those responsible for this loss and to recover it accordingly.

- (b) An agreement had been entered into on 04 December 2017 to repair the preparatory school of the Council for Rs.1,999,772 and the work was to be completed within 03 months, that is, 04 March 2018, The association which undertook the contract was ready with all necessary items to commence the work. At this stage, the technical officer had informed the Secretary on 16 March 2018 that it had been planned to construct a new two storied building. As a result of submitting project proposals without planning, the Sabha had to sign an agreement for executing this type of project.
- (c) An agreement had been entered into at end of the quarter of the year under review to execute 03 projects for which Rs.8,400,000 had been provided in the 2017 budget and performance bonds had also been obtained. However, the technical officer had informed on 16 March 2018, just before completing the project, that the agreement would not be implemented.

3.3 Procurement

3.3.1 Supply and Services

- (a) The Urban Council had spent Rs. 346,314 to purchase a compressor to clean the vehicles and a water pressure machine to wash the vehicles. The requirements were Motor Bowser 5HP and Motor Power K.W.3.7 water pressure machine. However, Motor Power 3 HP and Motor Power K.W 2.2 had been purchased. These purchases had been made only on the recommendations of the superintendent of work.
- (b) Although it was not a requirement to examine samples of any procurement documents while purchasing festival tables, chairs and equipment for use of the Urban Council, the technical evaluation committee had rejected the second lowest quotation stating that samples had not been furnished. Further, the technical evaluation committee had decided to purchase 15 chairs for visitors from the same institution from which chairs and tables for the halls had been purchased. The Council could have saved Rs.910,035 if it had discussed with the second lowest tenderer and made a decision.
- (c) A sum of Rs.5,960,000 had been spent to purchase a new galie bowser with a capacity of 4000 litres. According to the newspaper advertisement, quotations had been called for both, that is, the vehicle and the bowser and the quotations had been opened on 17 October 2016. The institution quoting the lowest amount had informed in writing that it had withdrawn its quotation as it had furnished the quotation for vehicle only. However, the second lowest tenderer had fixed the galic bowser with the truck with the help of the lowest tenderer who withdrew his quotations. Tender deposit had not been obtained from the lowest tenderer and as such action could not be taken for rejection of tender.

3.3.2 Contract Administration

The work relating to establishment of a herbal nursery had been entrusted to a sports development society at an estimated value of Rs. 367,402 and Rs.265,161 had been paid after completion of work. However, the final stage of the work, that is, levelling the floor had not been done.

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 increase the revenue and legal action not being taken to recover arrears of revenue. |
| (b) Execution of Projects | Proposals without plans and agreements not being implemented. |
| (c) Garbage Management | Lack of proper methods and procedures. |