

Kalutara Urban Council

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

While Financial Statements for the year 2017 had been submitted to Audit on 29 March 2018, the Auditor General's Report relating to the year under review was sent to the Chairman of the Council on 05 October 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 Kalutara 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

- (a) Although the Value Added Tax payable at the end of the year under review according to the ledger account was Rs.115,437, it had been shown as Rs. 102,543. Due to that, Value Added Tax payable had been understated in a sum of Rs. 12,894 in the final accounts.
- (b) Fixed Assets valued at Rs. 249,600 purchased during the year under review Had not been capitalized. Due to that, Fixed Assets and Contribution from Revenue to Capital Outlay account had been understated in a sum of Rs. 249,600 at the end of the year under review.
- (c) Creditors totaling Rs.303,310 as at the end of the year under review had not been accounted. Due to that, Creditors and expenditure for the year had been understated in a sum of Rs.303,310.
- (d) Two Electric Kettles valued at Rs.11,800 purchased during the year under review had not been accounted.
- (e) Action had not been taken during the year under review, to take to revenue a sum of Rs. 195,000 relevant to 09 items of revenue balances that had not elapsed more than two years.
- (f) Capital Grants amounting to Rs. 3,470,236 and Capital Expenditure amounting to Rs. 3,470,236 relevant to the year under review had not been taken to accounts.
- (g) While Stamp Fees relevant to the year under review had not been billed, the sum of Rs. 33,192,572 relevant to prior years received during the year under review had been accounted as revenue of the year under review.

1.3.2 Non-reconciled Control Accounts

Non-reconciliations amounting to Rs. 6,022,477 were observed between the sum of Rs.8,025,689 relevant to 03 items of accounts shown in the financial statements and the balances shown in the relevant schedules.

1.3.3 Lack of Written Evidence for Audit

Six items of accounts totaling Rs. 31,563,228 could not be satisfactorily vouched in audit due to lack of Register of Advances, Board of Survey Reports and detailed schedules.

1.3.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

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

| Reference to laws, rules, and regulations and management decisions. | Value | Non-compliance |
|---|-------|---|
| ----- | ----- | ----- |
| | Rs. | |
| (a) Urban Councils Ordinance (Chapter 255) Section 145 (2) (i) | | Action had not been taken to revise assessed rent at least once in three years. |
| Section 145(1) (b) | | Trading should be carried out in a council trade stall subject to conditions in the lease agreement and laid down rent should be paid However, it was observed that there was a trade stall not complied with those requirements. |
| Section 145(4)(1)and (a) | | Sabha had not been taken action with regard to defaulting lease condition of the stalls and sanitary facilities to the stalls had not been provided. |

- | | |
|---|---|
| (b) Financial Regulations of the Democratic Socialist of Republic of Sri Lanka F.R. 104 (1) | Action had not been taken with regard to the accident took place to the Cholcho type fire extinguish vehicle. |
| (c) Public Administration Circular No. 15/2001 dated 08 August 2001 | Overtime payments had been made based on the attendance register disregarding the time of arrival and departure recorded in the finger marks machine. |
| (d) Paragraph 3.1 of the Public Administration Circular No.2016/30 dated 29 December 2016. | Fuel Consumption of the vehicles belong to the Council had not been tested. |
| (e) Commissioner of Local Government Circular No.LGD/13/2016. | Action had not been taken in terms of the circular with regard to sub-leasing of Stalls. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 had been Rs.23,467,270 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 28,650,045 in the preceding year.

2.2 Revenue Administration

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

Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under and preceding as furnished are shown below.

| Source of Revenue | <u>2017</u> | | | | <u>2016</u> | | | |
|------------------------------|--------------------------|-----------------------|--------------------------|--|--------------------------|-----------------------|--------------------------|----------------------------------|
| | Estimated Revenue Rs. | Revenue Billed Rs. | Revenue Collected Rs. | Total Balance as at 31 December Rs. | Estimated Revenue Rs. | Revenue Billed Rs. | Revenue Collected Rs. | Balance as at 31 December Rs. |
| (i) Rates and Taxes | 26,783,000 | 28,689,048 | 33,724,921 | 14,091,195 | 26,830,000 | 27,937,451 | 34,410,644 | 19,354,776 |
| (ii) Rent | 6,600,000 | 7,348,457 | 7,120,244 | 534,935 | 11,650,000 | 6,960,435 | 7,823,426 | 1,033,533 |
| (iii) License Fees | 1,000,000 | 334,155 | 334,155 | - | 100,300 | 637,894 | 637,894 | - |
| (iv) Other -Res t house Rent | 500,000 | 515,775 | 313,763 | 287,974 | 420,000 | 472,794 | 931,769 | 42,981 |

2.2.2 Rates and Taxes

(a) Rates

- i. While there were rates in arrears amounting to Rs. 16,614,199 at the beginning of the year under review, out of arrears a sum of Rs. 10,308,484 or 55 percent had been recovered during the year.
- ii. While rates billing for the year had been Rs. 22,329,294, out of that a sum of Rs. 16,839,144 or 75 percent had been recovered during the year.
- iii. While arrears as at 31 December 2017 had been Rs. 13,795,865, out of that a sum of Rs. 8,305,215 had been balances of arrears relevant to prior years. Action in terms of provisions in the Act had not been taken with regard to rates in arrears.
- iv. An age analysis of rates in arrears at the end of the year under review was not submitted.

(b) Entertainment Tax

While Entertainment Tax in arrears at the beginning of the year under review had been Rs. 511,869, annual billings had been Rs. 4,175,375. While receipts during the year had been Rs. 4,391,915, arrears at the end of the year under review was Rs. 295,329.

2.2.3 Rent

(a) Stalls Rent

- (i) While there was a balance of Stalls Rent amounting to Rs. 194,458 at the beginning of the year under review, out of that a sum of Rs. 167,458 or 86 percent had been recovered during the year.
- (ii) While stalls rent billings during the year under review had been Rs. 6,531,662, out of that a sum of Rs. 6,311,702 had been recovered during the year. Accordingly, balance to be recovered further had been Rs. 219,960. Action had not been taken to recover the rent relevant to the year within that year itself.
- (iii) Although 110 stalls had been registered in the fair belongs to the Council at Sarananda Avenue, out of those, only the ground space allocated for some stalls were there. It was observed that out of the 24 closed stalls, some stalls were occupied by unauthorized occupants and that 54 opened trade stalls had been sub-leased.
- (iv) While 14 trade stalls in the Tharu Sevena Trade Stalls Complex consisting alike 36 trade stalls had been sub-leased, 4 stalls had been kept closed for a period exceeding one year.
- (v) When providing 13 trade stalls in the Gangabada Road for the first time to the lessees the validity period of the agreement had not been mentioned. Due to that it had not been possible to renew the agreements and revise the charges. Rent had been outstanding to be recovered only from one trade stall.
- (vi) While 4 trade stalls out of 8 trade stalls in the new shopping complex in Kalutara North Fair Ground had been sub-leased, 2 stalls had been kept closed for long period Action had not been taken up to 2017 to renew the agreements of these stalls which were leased out during the years 2001, 2002 and 2003. Monthly rent too had not been revised.
- (vii) While agreement period had not been mentioned in the lease agreements when entering into agreements for leasing out 53 trade stalls in the new trade complex in the Good Shed Road for the first time, many trade stalls had been sub-leased. Instances of failure to change the lease ownership in events of death of lessees, instances of alterations to trade stalls and instances of closures were observed.
- (viii) Although the lease agreements had been signed for the first time during the year 1986 relevant to 10 trade stalls in the ground floor of the new trade complex, action had not been taken to renew those agreements up to the year 2017. One trade stall had been sub-leased.
- (ix) When entering into agreements for leasing out trade stalls in Katukurunda Market agreement period had not been mentioned. Due to that, those agreements had not been renewed up to the year 2017. Three stalls had been kept closed during a long period.

(b) Lease Rent

While lease rent of 4 blocks of land given on lease to outside parties had not been revised since 2007, those lessees had not paid the lease money for the year 2017.

2.2.4 Stamp Fees

While billing had not been done for stamp fees for the year under review, action had not been taken to prepare the schedules and get the money relevant to the preceding year.

3. Operatiional Review

3.1 Performance

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public thorough fares, generally with the protection and promotion of the comfort convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

(a) By-laws

Although by-laws have to be imposed under Section 157 of the Urban Councils Ordinance in order to perform 15 main functions, by-laws had been imposed only for 4 functions even up to 31 December 2017.

(b) Action Plan

Although an action plan had been prepared for the year under review, an estimate of Rs. 18,072,357 for 19 works not included under capital works therein had been prepared and implemented.

(c) Solid Wastes Management

While an expenditure amounting to Rs. 65,469,131 had been incurred by the Council for wastes management for the year 2017, the Council had not taken necessary course of action in order to cover or minimizes that expenditure by the Council. Although a garbage tax had not been imposed by the Council, a sum of Rs. 403,000 had been recovered as garbage tax. An environment permit too had not been obtained for the land used for disposal of garbage.

(d) Sustainable Development Targets

The Council had not taken any course of action for implementation of sustainable development plan.

(e) Non-performance of public welfare objectives properly

The balances in 03 current accounts of the Conical as at 31 December 2017 totaled to Rs. 41,981,926. There were fixed deposits amounting to Rs.63 million as well. In addition to those, there were savings amounting to Rs. 52,640. In spite of this sound financial position of the

Council, the number of capital projects implemented by the Council had been 19, while estimated value of those had been Rs. 18,072,357. In a situation of dissolved Council, the Secretary of the Council as the competent authority of the Council is responsible for exercising authority and for attending to public requests, proposals and thoughts. However, such course of action had not taken place and therefore responsibility for public welfare objectives had not been properly fulfilled.

3.2 Management Inefficiencies

- (a) The Council had not implemented a methodology with regard to providing fire extinguish services to areas outside the area of authority of the Council, providing fire risk protection certificates for newly constructed buildings, certificates of building plans and fire protection systems, providing ambulance services etc., having sanctioned by-laws for those.
- (b) Although levying a charge for the ambulance service on the basis of a Council decision had been implemented during the year 2015, by-laws had not been sanctioned. Due to that, those services had been suspended during the years 2016 and 2017.
- (c) While the insurance installments of the fire extinguish vehicle valued at Rs. 51,000,000 had been Rs. Rs. 625,378 and Rs. 556,943 during the years 2015 and 2016, respectively, during the year 2017 value of the vehicle had been insured for 10 percent of the value, as Rs. 5,100,000 . Due to that, insurance installment had been Rs. 42,607. It was observed that it would not be possible to recover the full value in the event if an accident to the vehicle as the insured value has been reduced.

3.3 Human Resources Management

- (a) A female management assistant in supra grade had been appointed to cover the duties of the ost of the secretary.
- (b) Although 06 permanent employees had been attached to the posts in preliminary grade in terms of the Public Administration Circular No. 25/2014, those employees had not been included in the approved cadre.
- (c) While there were 19 officers vacancies in 09 posts of secondary staff, at the end of the year under review, there were 16 officers vacancies in 08 posts of preliminary staff.
- (d) Thirteen officers had been recruited for 04 posts on project basis.

3.4 Assets Management

3.4.1 Idle/Under-utilized Assets

- (a) A sum of Rs. 4,541,754 had been kept in a current account of the bank of Ceylon during the period from 01 January 2015 to the end of the year under review. It was observed that an interest income of more than 450,000 could have been obtained if this amount was invested on 10 percent time deposit.

- (b) Three vehicles received as donations to the Council had been parked in the vehicle yard for a number of years without being registered and without being used.

3.4.2 Vehicles Utilization

While mileage meters of 07 vehicles belong to the Council had been defunct, log books maintained had not been updated. While there were vehicles at the rate of 4 for which revenue licenses not obtained and not registered in the Motor Vehicles Registration office. The Council had to pay a fine of Rs. 10,280 for not obtaining the revenue licenses on the specified dates.

4. Accountability and Good Governance

4.1 Budgetary Control

Variations in a range from 7 percent to 86 percent between budgeted revenue and actual revenue and variations in a range from 4 percent to 57 percent between budgeted expenditure and actual expenditure were observed. Therefore it was observed that the budget had not been made use of as an effective tool of management.

5. Systems and Controls

Deficiencies observed were brought to the notice of the Council through audit queries issued from time to time. Special attention of the Sabha is needed in the following areas of controls.

| System ----- | Main deficiency in the system ----- |
|----------------------------|--|
| (a) Accounting | Instances of omissions, under/over statements in the accounts. |
| (b) Revenue Administration | Slow phase in recovery of arrears of revenue |
| (c) Budgetary Control | I. Material variances between the budget and actual expenditure. II. Unrealistic revenue estimates. |
| (d) Vehicles Control | I. Defunct mileage meters. II. Non-updated log books. III. Failure to obtain revenue licenses. IV. Failure in disposals recommended by the board of survey. |
| (c) Cadre Control | I. Lack of cadre management II. Failure to fill vacant posts. |