

Kesbewa Urban Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented for audit on 01 April 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 31 May 2019 and on 05 August 2019.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown under the basis for qualified opinion of this report, the financial statements of the Kesbewa Urban Council give a true and fair view of the financial position as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

(a) Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Rate received for in advance at the end of the year under review valued at Rs.3,512,864 has been shown to creditors without accounting as pre-payment..	Should be accounted correctly.	Accept. Action will be taken to correct in future.
(ii) Fuel deposits of Rs.1,045,000 and deposits of Rs.115,920 to the Water Supply and Drainage Board, had been accounted under investments without being accounting under pre-payment accounts.	Should be accounted correctly.	Accept. Action will be taken to correct in the future.
(iii) Arrears of receivable income valued at Rs.1,442,851, has been accounted under	Should be accounted correctly.	Accept. Action will be taken to correct in future.

miscellaneous creditors in the financial statements, without being accounting under income of debtors.

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| (iv) | Sum of Payables of Rs.1,529,380 for the month of November 2018 to the Waste Management Authority, had not been accounted. | Should be accounted correctly. | Accept. Action will be taken to correct in future. |
| (v) | Compactor received valued at Rs.27,714,000 on payment basis, had been accounted under income debtors. | Should be accounted correctly. | Accept. Action will be taken to correct in future. |

(b) Contingent Liability

Audit Observation

Financial Statements eleven cases filed by outside parties against the Council, and a case filed by the Council against outsiders had not been disclosed in the financial statements.

Recommendation

Contingent liabilities should be disclosed in financial statements.

Comments of the Accounting Officer

Cases filed by the Council and against the Council have been incorporated in the financial statement, as shown by the audit,

(c) Unreconciled Accounts

Audit Observation

An excess of Rs.1,331,734 and shortage of Rs.1,178,956 had observed, when comparing the balances of five accounts with the related subsidiary registers/schedules in the financial statements.

Recommendation

Accounts balances should be corrected after reconciling the differenses.

Comments of the Accounting Officer

Accept. Action will be taken to correct in the future.

(d) Accounts Receivable and Payable

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) The account balance of garbage charges receivable was Rs. 2,655,916 at the end of year under review, and that includes outstanding balances of Rs.191,688 due before 2015, and Rs.235,703 due for the year 2016.	Action should be taken to recover garbage dues.	Action will be taken to remove the outstanding balances before 2015 and 2016, because those outstanding arrived due to incorrect billing.
(ii) The Street lamp lighting aid of Rs.481,578 from 2009 to 2014, and electricity charges of Rs.110,054 from the Piliyandala Sports Club for the years 2014 and 2015, had not been recovered by the end of the year under review.	Action should be taken to recover outstanding balance of street lamp lighting aid and the electricity bill.	Approval has been sought to write-off street lamp lighting aid amounted Rs.254,748 out of the amount of Rs.481,578. The remaining balance of Rs.226,830 has been accounted due to incorrect billing, so it will be written off from the registers with the approval of Council. Piliyandala Sports Club has agreed to pay electricity charges of Rs.110,054.
(iii) Action had not been taken to recover Rs.68,790 from the Common Amenities Center and Rs.281,047 from the entertainment tax as at the end of the year under review.	Action should be taken to collect entertainment tax and other income.	Case has been filed to recover Rs.44,865 and Rs.23,925 will be forwarded to get approval of the Ministers in charge to write-off. Entertainment tax of Rs.281,047 has been forwarded to get approval for write-off.
(iv) The Council had been failed to recover 74 per cent of car park rent income amounting Rs.229,457 out of total income	Rent income should be collect at once.	Forwarded to the Minister for the approval to write-off Rs.206,260, and Rs.86,500 has been recovered.

of Rs.310,957.

Remaining balance
Rs.18,197 will be recovered
monthly.

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| (v) The outstanding advance balance of Rs.181,203 coming from 2007 to 2018, had not been settled even at the year under review | Action should be taken to settle the advances with in due period. | Action will be taken to write off the outstanding balances of advance, because outstanding balances are due form 12 years, and relevant files were misplaced, and officers who handled the files at that time, are not in the service. |
| (vi) The arrears of stamp duty included income debtor balance amounting to Rs.435,994,817 and the Council had not recovered the arrears of Rs.274,824,817 due for the years 2015 and 2016. | Action should be taken to recover arrears of the stamp duty. | No comments. |
| (vii) The outstanding balance of the loan receivables has been Rs.1,681,553 of which interest not recovered for the years 2016 and 2017 amounted Rs.869,688. | Action should be taken to recover the arrears of property loan interest. | The money had been reimbursed to the Commissioner of Local Government. |

(e) Lack of Necessary Documentary Evidence for Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
Twelve accounts aggregating Rs.684,952,402 could not be satisfactorily vouched in audit due to non-rendition of necessary information.	Schedule or necessary information should be submitted to confirm the balances.	Action will be taken to correct in financial statements of 2019.

1.4 Non compliance

1.4.1 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	Non-compliance	Recommendation	Comments of the Accounting Officer
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			.
(i) FR 570 and 571	Action had not been taken to recover deposit lapse over two years amounting to Rs.15,773,446.	Should be act in accordance with the FR 570 and 571(2)	Accept. Action will be taken to settled.
(ii) FR 1653	Milo- meters belonging to the Council of three tractors were not working .	Should be act in accordance with the FR 1653	No comments.
(b) Public Administration Circulars			
Paragraph 3.1 of the Circular No. 30/2016 dated 29 December 2016.	Fuel consumption test had not been carried out on vehicles belonging to the Council.	Should be act in accordance with paragraph 3.1 of the Circular No. 30/2016 dated 29 December 2016.	The fuel consumption test of 4 vehicles had been carried out by an independent official, and dates have been fixed to check fuel consumption in relation to other vehicles.

(c) Treasury Circulars

Circular No. IAI /
2002/2 dated 28
November 2002

Separate register had not been maintained for computer accessories and software.

Should be act in accordance with the circular No. IAI/2002/2 dated 28 November 2002.

The Storekeeper has been advised to maintain a separate register for computer accessories and software.

(d) Employees' Provident Fund Act No.15 of 1958

Section 16

A sum of Rs. 2,857,034 had to be paid from the Council Fund with a surcharge, due to non-payment of contributions to the Employees Provident Fund in due period.

Should be act in accordance with the Article No16 of the Employees Provident Fund Act No. 15 of 1958. Action should be taken accordance with FR 156 to recover from the person responsibility.

Contributions to the Employees Provident Fund had not been paid on time, due to lack of proper instructions. The Department of Local Government has commenced investigations on 03 officers who had been performed duties during the period from 2008 to 2012.

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 2018 amounted to Rs.75, 226,872 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.32, 970,047.

2.2 Revenue Administration

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

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

Source of Revenue	2018				2017			
	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. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'
Rates and Taxes	72,735	87,995	98,113	44,401	48,160	39,441	36,123	21,985
Rent	17,462	18,802	20,672	3,373	13,750	19,985	19,410	2,388
Licence Fees	1,950	1,293	1,594	-	4,551	5,004	5,004	-
Other Revenue	200,907	160,501	295,875	466,797	282,965	284,961	330,555	232,207

2.2.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
Rates		
(a) Due to action had not been taken to recover rates and taxes under Section 170 of the Urban Council Ordinance, the Council could not recover rates and taxes amounted to Rs.44,401,255 as at 31 December 2018 of which a sum of Rs.1,934,526 pertaining 22 unit of rates over Rs.50,000.	Action should be taken to recover the outstanding billed rates and taxes.	Rs.10,804,712 has been recovered as at 31 May 2018, and outstanding amount had come down to Rs.33,596,543 and an income plan has been prepared to collect the arrears of billed rates.
(b) Although the rates billed for the year under review amounted to Rs.78,934,084, the Council had failed to recover Rs.32, 271,729 which was 41 per cent.	Action should be taken to recover arrears of billed rates and taxes.	The amount failure to recover during the year was Rs.28, 913,268, which was 36.60 per cent.
(c) As at 01 January 2018, the outstanding balance of rates was Rs.21,686,827 and of which Rs.13,536,103 or 62.42 per cent had not been recovered by the Council and recovered Rs.8,150,724 during the year under review.	Action should be taken to recover arrears of rates and taxes.	An income plan has been prepared to collect arrears of rates and billed rates

2.2.3 Garbage Tax

(a) The amount of garbage tax revenue receivable as at 1 January 2018 was Rs.1, 388,191, of which sum of Rs.960,800 had been recovered and it was 69.21 per cent of the arrears.	Action should be taken to recover the outstanding garbage tax.	The amount further to be recovered was Rs.427,391 which was due from 2016 and prior to that year.
(b) The outstanding balance of garbage tax as at 31 December 2018, was Rs.2,655,916.	Action should be taken to collect garbage taxes.	The relevant institutions have been informed in writing to recover this

amount, and the service will be provided from 2019 only after the payment is made.

2.2.4 Rent

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) Although the billed income for 2018 from long-term leased out stalls were Rs.12,656,160, the Council had recovered Rs.11,402,525 and failed to recover Rs.1, 253,635.	Action should be taken to recover arrears of lease rent.	Action will be taken to recover the arrears of rent after informing them.
(b) The accumulated arrears of rent as at 1 January 2018, was Rs. 2,383,800 and the Council had recovered Rs.1,143,995 or 48 per cent of it during the year under review.	Action should be taken to recover the arrears of rent, and the income should be recovered within the year itself.	Outstanding balance of Rs.1,039,665 relevant to fish stall has been submitted for approval to write off.
(c) Out of 135 long-term lease properties of the Council, the outstanding balance due on 31 December 2018 was Rs.2,493,440 of which a sum of Rs.1,474,515 pertaining to 21 properties which were arrears for than 10 installment.	Action should be taken to recover the arrears, minimized the arrears and the income should be recovered within the year itself.	Outstanding balance of 14 properties of fish stall amounting Rs.1,039,665 had been submitted to get approval to write-off, and the Council had recovered Rs.146,650 out of Rs.434,850 form 7 stalls, and further Rs.288,200 had to be recovered.
(d) Legal action had not been taken to recover the arrears of rent during the year under review, and old fish market arrears amounting to Rs.1,039,665 had been submitted to the Ministry to get approval to write- off on 21 January 2019, but it has not been approved even by 20 February 2019.	Action should be taken to recover the arrears of rent, and the income should be recovered within the year itself.	No comments.

2.2.5 Property Leased out on Annual Tenders

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Although the billed amount for property leased for the year 2018, on annual tenders was Rs.6,052,103 of which Rs.5,743,481 had been recovered during the year and the Council had failed to recover Rs.308,622.	Action should be taken to recover income of the property lease out on annual tenders.	All the necessary documents have been handed over to the Attorney-at-Law of the Council to recover the outstanding balance of car park amounting Rs.308,622.
(b) Out of accumulated outstanding balance of Rs.390,907 as at 01 January 2018 the Council had recovered 20.84 per cent or Rs.81,500 during the year under review.	Action should be taken to recover arrears.	Action will be taken in the further.

2.2.6 License fee

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) There were 7854 trade stalls in the Council area as at 31 December 2018, but 3,439 businesses had paid for trade licenses and business taxes for the year 2018, and the Council had failed to collect trade licenses or business taxes from 4,415 businesses.	Action should be taken to recover income on trade licenses or business taxes. And the survey should be carried out to identify the actual number of businesses in the area.	Revenue Inspectors in the valuation department shows trade stalls as 7854 . They have informed that in their survey in license and field inspections, they will collect correct information of trading places.
(b) Out of the outstanding license fees of Rs. 254,114 as at 31 December 2018, Rs. 241,109 or 94.8 per cent had not been recovered by the end of the year under review.	Action should be taken to recover arrears of business taxes.	Rs. 254,114 legal action has been taken to recover arrears as at 31 December 2018 and accordingly arrears in being recovered.
(c) Although it is submitted to the Minister in charge of the subject	Action should be taken to recover the outstanding	Although arrears of licenses fee before 2013 was submit

to write-off the arrears of Rs.107, 825 coming from prior to books the 2013 on 16 December 2018, from the approval had not been received up to 27 May 2019.

business tax within the relevant period.

to write off, it was returned lack to correct the shortcomings. The shortcomings will be corrected and re-submit.

3. Operating Review

3.1 Performance

(a) Action Plan

Audit Observation

Recommendation

Comments of the Accounting Officer

An Action Plan had not been prepared and approved before the commencement of the year under review, and action Plan for 2018 did not provide sufficient information clearly to identify the duration and performance of each activity.

An action plan should be submitted clearly, including activities and time frame before the relevant year.

These shortcomings will be corrected in the future.

(b) Delays in Execution of Activities

Audit Observation

Recommendation

Comments of the Accounting Officer

(i) Ten projects of those contracted value of Rs.2,463,727 had been signed in the year under review but work had not been completed even by 21 May 2019.

Projects must be carried out within the relevant contract period.

Some of the projects have been completed in 2019 and the reasons for the delayed projects have been submitted.

(ii) Agreement had been for one project valued at Rs. 708,063 to complete the during the year under review was cancelled.

Projects should be carried out.

The reasons for the cancelled project have been submitted.

(c) Solid Waste Material Management

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Segregated garbage of 9,081 tones and mixed garbage of 14,140 tones had been handed over to the Karadiyana garbage yard during the year 2018.out of the total garbage percentage of segregated garbage was 39.1 .	Garbage collection should be managed properly.	Steps will be taken to reduce the mixed garbage in the future.
(ii) The Council had paid Rs.2,199,000 for segregated garbage and Rs.13,743,300 for mixed garbage during the year. The collection of garbage had not been properly managed and as such the Council had to pay extra amount of Rs.11,544,300 with regard for mixed garbage.	The waste management project should be implemented within the relevant time frame.	Action Will be taken to reduce the mixed garbage in the future.
(iii) Eight local authorities including the Kesbewa Urban Council dispose their garbage at Karadiyana garbage yard. Eighty per cent of this land in belongs to the authority area of Kesbewa Urban Council. As such, the public residing in the authority area of the Council many face health and environmental problems in future.	Responsible parties should be informed.	kindly informed that letters had been addressed to His Excellency the President, Hon. Prime Minister and other responsible parties relating to the uncertain situation.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) The old guest house of the Council had been demolished and the first stage of the new building estimated at Rs.52,929,240 had been constructed and handed over to the Council on 4 December 2014. However, no income had been earned even by the end of the year.</p>	<p>Action should be taken to earn income.</p>	<p>The second phase of the rest house has been commenced following the appointment of the new council and is due to be completed in the next few months. Action will be taken to lease out in the future.</p>
<p>(b) The Council had failed to carry out surveys and prepare a land plan for the Halpita public cemetery by the end of the year 2018.</p>	<p>Action should be taken to prepare a land plan.</p>	<p>Survey activities had not been carried out due to protests by residents of the area when the technical officer was conducting the survey for Halpita cemetery.</p>
<p>(c) Council had failed to erect a protective fence or wall for the protection of six cemeteries even by the end of the year 2018, and the lands belonging to the cemetery had been encroached by unauthorized person.</p>	<p>According to plans and building regulations action should be taken acquire to the Council.</p>	<p>Action is being taken to take over to the Council and the survey orders have already received and survey commenced in 5 cemeteries.</p>

3.3 Human Resources Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) By the end of the year under review there were four staff vacancies including two senior-level posts, and excess in one employee in the secondary level.</p>	<p>Action should be taken to fill the vacancies.</p>	<p>The Public Service Commission of the Western Province has been informed and there are no requests to fill the vacancies of the primary level machine operator.</p>

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| <p>(b) In addition to these employees, two acting officers on casual basis for staff and tertiary level and one officer recruited on contract basis had been employed during the year under review.</p> | <p>Action should be taken to fill the vacancies.</p> | <p>Officers are employed on acting and contract basis.</p> |
| <p>(c) According to the Public Administration Circular No. 25/2014 of 12 November 2014, permanent appointments had been given to 48 employees .Action had not been taken to reimburse a sum of Rs.51,219,350 paid as salaries for the years 2015 to 2018.</p> | <p>Action should be taken to reimburse salaries.</p> | <p>Salaries will only be reimbursed upon admission to the cadre. Prepaid salaries are borne by the Council.</p> |
| <p>(d) In addition to the approved permanent employees, 54 employees who had been recruited for the projects of the Council had been paid Rs.6, 474,650 as salaries and allowances.</p> | <p>Should be identified approved employees, including workers, at the beginning the year and allocated in the budget.</p> | <p>With the approval of the Local Government Commissioner for the timely need activities, such as waste management and dengue programs. These project workers had been recruited and paid salaries and allowances from the provision in budget of the Council.</p> |
| <p>(e) Employee loan balance receivable as at 31 December 2018 was Rs.34,557,488 and the balances of the 11 officers included in that balance, and action had not been taken to recover even a single loan balance amounting Rs.307,226 coming from period of 2011 to 2016 during the year under review.</p> | <p>In the event of default of the loans action should be taken to recover from the guarantors.</p> | <p>Submission had been made to write-off balances that cannot be recovered.</p> |
| <p>(f) Long term acting officers had been appointed to the post of Secretary from 09 May 2016 and to the post of S.L.T service (special) from 16 September 2015</p> | <p>Action should be taken to appoint permanent officers.</p> | <p>Permanent Officers to the acting post of tertiary level are appointed by the Public Service Commission of the Western province</p> |

Provincial Council. The Secretary to the Ministry of Local Government has appointed to the acting officers for Secretary and SL.T service until permanent officers are appointed.

3.4 Asset Management

3.4.1 Assets not Entered in Registers

Audit Observation	Recommendation	Comments of the Accounting Officer
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The ownership (ownership) of 13 of the 14 cemeteries had not been transferred to the Council even up to 31 December 2018.	The ownership of cemeteries should be taken over	Kesbewa Divisional Secretary owns 13 cemeteries which are under the administration of Kesbawa Urban Council and action is being taken to take over the Kesbawa Urban Council.

3.4.2 Idle and Underutilized Assets

(a) The present address or information of the use of land were not submitted to audit.34 plots of lands of 10 acre 01 rood 37 perches and 11 acre 3 rood 19 perches of 22 plots had not been used for productive and kept idle.	Lands owned by Councils should be physically identified to prevent unauthorized encroachment	No comments.
(b) Of the sample of 74 lands audited, 56 lands, or 75 per cent, were not used for productive purposes.	Lands of the Council should protected for future development.	Seventy four includes eight properties, two roads and a well owned by the Council. Accordingly 40 out of 63 common lands have been identified and information about 23 lands that need to be identified will be reported soon.

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| (c) Two vehicles have been idle for a long time. | Action should be taken to dispose. | Noted for disposal during the upcoming survey. |
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3.4.3 Utilization of Vehicles

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) Revenue license for twenty six vehicles belonging to the council had not obtained for the year 2018, in terms of section 25 (1) of the Motor traffic Act No. 14 of 1951.	Should act in terms of Section 25 (1) of the Motor Traffic Act No.14 of 1951.	Revenue licenses for 4 vehicles had been paid by cheques and action will be taken to obtain revenue license for the remaining 22 vehicles
(b) Five vehicles belonging to other institutions had been received by the Council and those were taken over.	Action should be taken to takeover.	No comments.
(c) Vehicles and three machinery were not included in the fixed assets register.	Fixed assets should be included in the register.	Steps will be taken to include vehicles and machinery that are not included in the fixed assets register.

3.4.4 Identified Losses

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Library books valued at Rs. 464,831 which had been issued to members, were lost and disposed off had been write off during the period from 2017 and 2018 without a proper approval.	Action should be taken to get back the books released to the readers within the specified time period.	These books have been write off with the approval of the Council on recommend in of the books survey report 2017 and 2018 and submit here with the relevant approval of the Council.