

Katunayaka Seeduwa Urban Council

Gampaha District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented for audit on 29 March 2019 and the summarized report of the relevant Auditor General's report and the management report had been forwarded to the Chairman on 31 May 2019 and 29 August 2019 respectively.

1.2 Qualified Opinion

Because of the significance of the matters described in paragraphs 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 Basis for qualified opinion

(a) Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) The Employees' Provident Fund Contributions shown as contingent Liabilities amounting to Rs.12,363,015 had been settled during the year under review. However, it had not been adjusted in the accounts. The arrears of Employees' Provident Fund contributions payable to 26 other employees had not been disclosed in the Financial Statements of the year under review.	Should be correctly adjusted in the Financial Statements.	Legal action is being taken regarding the Employees' Provident Fund contributions to others. As such, such value cannot be specifically identified. As such, the Employees' Provident Fund Contributions paid during the year had not been adjusted in the contingent liability account and the contingent liability account continues.
(ii) The book value of Rs10,018,436 had been shown in the financial statements without showing the physically verified stock balance.	Physical stock should be shown in the financial statements	It is difficult to carry out physical verification as at 31 December of every year. As such, ledger balance had been included in the accounts.

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| (iii) | The investment of security deposits in the savings account as at 31 December 2018 amounted to Rs.124,281. had been shown as Rs.43,587 in the financial statements causing a difference of Rs.80,694. | The entire investment of security deposits of This the year should be accounted. | The interest as at 31 December 2018 will be adjusted in the Employees' Security Deposits Account during the preparation of final accounts 2019. |
| (iv) | The generator costing Rs.652,174 had been capitalized with its value as Rs.750,000. | Value added tax should not be capitalized. | The value of Rs.97,826 capitalized in excess will be rectified in 2019. |
| (v) | Stock of library books had been overstated In the accounts by Rs.507,387. | Correct value only should be accounted. | Action will be taken to rectify overstatement of stock of library books in 2019. |

(b) Unreconciled Accounts

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The difference between the balances of 07 accounts as per financial Statements as at 31 December 2018 and the subsidiary register amounted to Rs.16,044,075.	Differences in balances of accounts should be reconciled and rectified.	Will be rectified in 2019.

(c) Suspense Account

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Action had not been taken to settle the credit balances of Rs.12,051,288 which continues since 2014.	Differences of balances should be identified and correctly rectified.	Action will be taken to find out the differences of these balances and rectifications will be made.

(d) Accounts Receivable and Payable

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Accounts Receivable ----- The debit balance of dishonored cheques of Rs.61,870 existing since 2008 had not been identified and settled even by 31 December 2018.	Prompt action should be taken to obtain money.	Will be rectified in future by further inquiring into this matters.
Action had not been taken even by end of the year under review to settle the estimated instalment capital expenditure of Rs.1,534,700 continuously existing for a number of years.	Action should be taken to settle balances payable.	This balance will be credited in the Water Deposits - New Estimated Instalment Account in 2019.

(e) Lack of necessary Documentary Evidence for Audit

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Two items of accounts valued at Rs.15,957,253 could not be satisfactorily vouched / verified in audit due to non rendition of of related evidence.	Evidence to confirm balances of accounts should be furnished.	A sum of Rs.17,996 had been written off in 2018 on the recommendation of the examiners and the approval of the Chairman. Out of the balance project aid receivable amounting to Rs.26,331,555 details regarding Rs.10,439,170 appear in the register.

1.4 Non-compliance

Non compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance	Recommendation	Comments of the Accounting Officer
Financial Regulation Of the Democratic Socialist Republic of Sri Lanka				
(i) Financial Regulation 396	596,096	Action had not been taken regarding 22 cheques valued at Rs.596,096 issued from the Peoples' bank current Account on 28 February 2019 Lying unrepresented to the bank. Of these, 14 cheques valued at Rs.555,558 had exceeded 01 year.	Action should be taken in terms of financial regulation 396.	Will be notified by letters. Will be credited to revenue if not present.
(ii) Financial Regulation 762	1,383,815	The stock level of iron and building materials were in excess of the requirement for which action had not been taken.	Required level of should be maintained.	There were 08 trailers requiring repairs and as such the stock of iron had purchased for repairs.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the year under review amounted to Rs.64,410,937 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.79,379,143.

2.2 Financial Control

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) According to the Bank reconciliation statement of the current account of the People's bank as at 31 December 2018, the remittances of Rs.6,194,445 received at the bank had not been identified.	Bank remittances should be identified and accounted.	Direct remittances will be confirmed by the institution concerned by receipts and thereafter action will be taken to credit to revenue.
(b) The sum of Rs.21,838 relating to the Bank of Ceylon Account and Rs.110,073 relating to the be People's Bank, as per bank Reconciliation statement as at 31 December 2018 had not been Identified and adjusted.	All transactions In the bank accounts should identified and adjusted during the preparation of bank reconciliation statement.	Will be rectified in a few weeks and adjusted in the bank reconciliation.

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	2018				2017			
	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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	106,309	110,112	98,850	11,261	105,350	106,661	105,151	57,462
Rent	11,325	12,734	12,396	338	9,575	12,706	10,134	3,571
Licence Fees	2,151	2,703	2,703	-	2,631	2,842	2,842	66
Other Revenue	59,359	44,986	44,788	198	50,372	79,688	68,707	3,020

2.3.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Out of the arrears of rates as at 01 January 2018 amounting to Rs.57,462,219, a sum of Rs.14,064,337 had been recovered. This represent 24 per cent.	Action should be taken to recover the arrears of rates.	A programme to recover the remaining balances had commenced in February 2019. Action is being taken to recover.
(b) Action had not been taken to recover rates from 11 telecommunication towers within the Urban Council area. Rs.314,171 was due as at 31 December 2018.	Rates of each year should be recovered.	Action had been taken to send red notices for Rs.175,884 due for the first quarter of 2019 with regard to 11 telecommunication towers.

2.3.3 Licence Fees

Audit Observation	Recommendation	Comments of the Accounting Officer
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Licence fees not exceeding 01 per cent of the revenue earned by 03 main hotels registered at the Tourist Board for the year 2018 amounting to Rs.18,083,263 had not been recovered.	According to the Urban Council Ordinance, not exceeding 1 per cent of the revenue of hotels registered at the Tourist Board should be recovered.	A discussion was held on 13 February 2019 where it was disclosed that the owners of hotels had instituted legal action at the High Court, Colombo regarding the 1 per cent fees and the fees will not be paid till a verdict is given.

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 3 of the Pradeshiya Sabha 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) **Failure to achieve the outcome**

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Maintenance of Liyangemulla Pansal Road had been carried out at Rs.98,000 during the year under Review. However, the road had become Impassable within 05 months as a portion of the road with ABC stones had broken.	Maintenance of road should be according to the required standard.	The road had been broken within 05 months due to heavy vehicles travelling on the road, the road being used as an alternative route to go to airport and due to rain.

(b) **Tasks Abandoned**

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The renovation to the road leading From Liyangamulla HPT Waththa to the rail track by concreting, estimated at Rs.346,943 had been entrusted to a contractor on 29 February 2017. This contract had been cancelled on 23 April 2018 stating that there were variations between the estimates and the contractor's on the spot measurements. The expected objective could not be achieved although certain cost had been incurred on procurement procedure and 1 ½ years had elapsed since its commencement.	Measurement and value should be correctly included at the time of estimation.	This had occurred due to an error caused during printing of estimates. Such errors would be avoided in future.

(c) **Sustainable Development Targets**

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
According to the 2030 Agenda of the Proper United Nations Organization regarding Sustainable Development objectives, alleviation of poverty had been made as a target of the year under review and	plan for achieving sustainable development objectives should be prepared and	A survey had already been carried out to select the poor persons who produce flower pots at Ambalanmulla Grama Seva

achieved.

Division with the approval of the Council and further steps are being pursued.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The building of the beef stall at Katunayaka Public Market renovated By spending Rs.586,174 on 04 August 2017 remained closed even as at 31 December 2018.	Action should be taken to earn revenue from properties of the Council	The Council had decided to call for tenders to give on lease.
(b) A road of 131.9 metres in length and 7.5 metres in breadth had been constructed across the playground to reach the stores of a private establishment on the borders of the Urban Council building. There was no Information to show that this road had been vested with that establishment and as such the Council's properties had been allowed to be used by external establishments.	The Council's property should not be allowed to be used by outsiders without approval.	This had been used as a road since the time of existence of Oil and Fats Corportion. Subsequently, Prima company too had made use of this road.
(c) Contributions to the Employees' Provident Fund had not been paid to 105 project labourers during the period 2004 to 2011. As such, the contributions together with surcharges amounting to Rs.12,222,896 had been paid during the year under review.	Surcharges paid should be recovered from the officers responsible.	Employees had been recruited for emergency service projects and the Council had paid them the approval allowances. And as such, Employees' Provident Fund contributions had not been made. Payments had been made with surcharges for the period 2011 to 2017 as per letter of the Assistant Commissioner of Labour.

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| (d) Action had not been taken to recover the distress loan balances of Rs.24,940 from an officer who had gone on transfer in 2013. | Should be recovered. | This would be referred to the Commissioner of Local Government for future action. |
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3.3 Operating Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The facility to obtain an age analysis of the water charges of Rs.11,804,184 as at 31 December 2018 had not been developed in the computer package.	The package should deliver necessary information.	The Necfo company had been informed of this earlier. But, package had not been developed so far.
(b) A sum of Rs.17,774,368 had been paid to National Water Supply and Drainage Board in 2018 to obtain water supply. But, the revenue earned by supply of water had not been computed. The recovery of over Rs.10 million of water charges due as at 28 November 2018 was at a low level.	As the bills for water charges are prepared monthly, the annual revenue should be able to be identified.	The water project has no motive for earning profit. It serves the public of the area.

3.4 Assets Management

3.4.1 Failure to Register Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
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A register of fixed assets had not been Maintained for buildings.	A register of fixed assets should be maintained.	Action will be taken in future to maintain a register of fixed assets for buildings.

3.4.2 Idle and Unutilized Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>The Garbage Management Authority had constructed a resource center at the Kasagahawaththa land belonging to the Council for segregation of garbage. The Council had stopped using this center due to protest made by hoteliers who had constructed hotels in the area subsequently.</p>	<p>-----</p> <p>Success and failures of projects should be identified by feasibility studies before commencement.</p>	<p>-----</p> <p>The work had been stopped due to protests made by the people of the area. Action will be taken to recommence work by discussing with the Council.</p>

3.5 Irregular Transactions

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>(a) Iron material valued at Rs.1,383,815 had been purchased during the year under review to manufacture tractor Trailers. However, repairs/manufacture of tractors had not been occurred during the year. Accordingly, stock of iron materials valued at Rs.1,017,000 and 05 items of building materials remained static. Proper procedures had not been followed for issue of stocks. All copies of issue orders were in the custody of store-keeper. Further, iron materials had been issued on requests made by the welder without approval of the supervising officers.</p>	<p>-----</p> <p>Unnecessary purchases should not be made. Issue and receipt of stocks should be regularized.</p>	<p>-----</p> <p>Iron had been purchased to repair tractor trailer of the Sabha and to repair unprotected culverts of the area. Instructed to regularize issue of materials.</p>
<p>(b) According to the register maintained at the Works Division, 3,450 litres of CSSO1 Kolos had been issued during the year under review for maintenance of roads without preparing estimates. But, according to the stores ledger and the issue orders of the stores only 02</p>	<p>Proper issue of materials as per estimates is required.</p>	<p>The entire stock of tar is issued to the Works Division. This method will be rectified.</p>

CSSO1 tar barrel valued at Rs.33,120 (400 litres) had been issued during 2018. Accordingly, actual usage and actual balances had not been depicted in the ledger accounts and the register of stocks.

3.6 Identified Losses

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The owner of No.17, Contrad, Premathirathna Mawatha had taken legal action against increase of rates. The officers of the Council were not present at the Court House. Therefore, the Court had given a verdict to issue new assessment for 2014 and 2015. As a result, the increase in tax had been cancelled. The arrears of rates of Rs.2,991,750 had been dropped and the Council had been deprived of a revenue of Rs.3,015,750 with regard to the above properties.</p>	<p>It is the duty of the Council to produce firm evidence during legal activities and make proper appearances.</p>	<p>The institution concerned had filed a case against the assessment rates. A sum of Rs.2,991,751 had been written off according to the judgment delivered.</p>

3.7 Procurement

3.7.1 Contract Administration

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) An Estimate for Rs.562,254 excluding Value Added Tax had been prepared to construct the Davindra Mendis Playground and the tender had been awarded for Rs.460,190. The difference between the estimated amount and the amount agreed by the tenderer was Rs.100,334, that is, 17.8 per cent. But, The cause for variation had not been furnished in terms of 7.9.11 of the Procurement Guidelines. This project to be completed on 29 March 2018 had been extended without any</p>	<p>Reasons for variations should be furnished in terms of 7.9.11 of the procurement Guidelines. The Council should pay attention to problems that may arise in future.</p>	<p>The project has to be stopped due to protests made by some of the players who use the playground. This project could be completed with the concurrence of all concerned.</p>

reasonable causes and the work had not been completed even by 02 June 2018.

(b) The Jayawardenapura multi purpose Building had been constructed by spending Rs.3,517,924. However, this had not been completed even by 31 December 2018 so that it could be used. The project report had not been furnished for approval at the commencement itself as per Paragraph 7 of the Chief Secretary, Western Province No.CSO/PLN/MA09/01/47 of 19 January 2018.

The Plan should be prepared and approved before commencement of the project with the project report, expected date of completion and the financial activity.

The construction had been done on and off due to lack of adequate funds. The provision obtained had not exceeded Rs.2.5 million limit of certification of estimates for development projects.

(c) The approval of the Council had been obtained to execute 57 projects Valued at Rs.32,714,033 on an emergency basis by entering into agreements. Although there was enough time to work on a planned manner. In spite of that this had been considered as an emergency and action had been taken in terms of 3.8.1 (a)(1) and (11) of the Procurement procedure, Calling for quotations, opening of tenders, Awarding of contract, entering into agreements, furnishing performance Bonds etc., had all been done on a particular day, that is, 31 December 2018.

The provision provided for projects of 2018 should be utilized and the project executed during the year itself.

The provision could not be continued if the project had not been completed as at 31 December 2018. So, it was presented to the Council on 27 September 2018 and had been rejected due to the unstable political situation. A special approval of the Council had been obtained on 27 December 2018 and tenders had been called for 57 projects, tenders awarded and agreements signed on 31 December 2018 considering it is an emergency situation.

(d) Quotations had been called for, to obtain a D S D machine on hire for 200 hours and it had been obtained for Rs.5,500. The fixed rate was Rs.4,750 per meter hours as per decision of the District Pricing Committee. As such, Rs.150,000 had been overpaid at the rate of Rs.750 per hour.

The price fixed by the District Pricing Committee should be taken into consideration.

The District Pricing Committee had decided on end of 2017. The quotations of the Institution had been accepted considering the increase in fuel price too.