

Kaduwela Municipal Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2019 had been presented for audit on 26 February 2020 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Council on 27 August 2020 and 14 December 2020 respectively.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in this report, the financial statements give a true and fair view of the financial position of the Kaduwela Municipal Council as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for qualified opinion

1.3.1 Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The interest due as at 31 December 2019 on behalf of the deposit of Rs.45,000,000 made at the People's Bank on 08 November 2019 had not been brought to account.	interest for the year should be brought to account.	The accrued interest income not brought to account in 2019 had been included in the accounts by journal entry No.06 of 2020.
(b) Motor vehicles, carts, machinery and equipment valued at Rs.7,561,332 existed from the years 1998 and 1999. These had been included in the accounts although their physical existence had not been confirmed.	The physical existence of assets brought to account should be identified.	A method to identify goods had not been prepared from the time the Kaduwela Municipal Council functioned as Pradeshiya Sabha. Removal of cost of fixed assets from the register of fixed assets during its disposal by destruction or by auctioning on the recommendations of the board of survey report had become contentious.

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|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (c) | The cost of fixed assets valued at Rs.108,740 auctioned in 2018 had not been deleted from accounts, | Value of items auctioned should be deleted from accounts. | Out of assets auctioned, the cost of Rs.57,208 had been deleted. The balance of Rs.51,532 will be identified and deleted. |
| (d) | The cost of 03 compactors valued at Rs.39,662,800 received from the Department of Local Government on loan basis during the year under review had been debited to both, namely, the fixed assets account and the stock of stores account. Meanwhile, this had been credited to the Local Government Loan Account and the Stores Creditors Account. | Necessary correction should be made. | The value of the compactors should not be entered in the stock of stores account and the stores creditors account, as a rule. The errors had been corrected by Journal Entry No.44 |
| (e) | The penalties of Rs.4,440,697 to be credited to the Deposits Account of the Urban Development Authority had been credited to the revenue of the Council. As a result, the balance of the Deposit Account had been understated and the year's surplus had been overstated respectively. | Necessary correction should be made. | Necessary action had been taken to deposit the amount in the savings account maintained in the name of the Urban Development Authority. Action will be taken to deposit the amount with the approval of the General council. |

1.3.2 Unreconciled Control Accounts

Audit Observation

The difference between the total value of 2 items of accounts shown In the financial statements and the corresponding total value amounted to Rs.18,866,775.

Recommendation

Balances of accounts should be reconciled and rectified.

Comments of the Accounting Officer

Action is being taken to find out the difference.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

Audit Observation	Recommendation	Comments of the Accounting Officer
The arrears due from 10 sealed stalls amounted Rs.111,182 and the amount due from 13 blocks of land at T.C. Wattala, Battaramulla amounted to Rs.39,930.	Action should be taken to recover the balance receivable.	Action had been taken to call for tenders again with regard to the sealed stalls and to take legal action to recover arrears.

(b) Accounts Payable

Audit Observation	Recommendation	Comments of the Accounting Officer
The balance of Rs.38,297,434 continues to be brought forward since 2013 had not been settled.	Action should be taken to settle the balance payable.	Approval had been obtained at the general meeting of 21 December 2018 to delete from accounts the amount that should not be retained anymore in the Creditors Account with regard to the years 2013, 2014 and 2015.

1.3.4 Lack of Necessary Documentary Evidence for Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
Three items of accounts valued at Rs.51,153,094 could not be satisfactorily vouched/verified in audit due to non-remission of related evidence.	Evidence to confirm balance of accounts shown in the financial statements should be furnished.	Action will be taken to rectify and furnish evidence in future.

1.4 Non-compliance

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 etc	Non-compliance	Recommendations	Comments of the Accounting officer
(a) Municipal Councils Ordinance	Arrears of 6 items of revenue recoverable as at 31 December 2019 had not been recovered.	Arrears of revenue should be promptly recovered.	Recovery as at 31.08.2020 Rates 16,614,451 House Rent 22,204 Trade complex Rent 710,000 Entertainment Tax 399,584 Total <u>17,746,239</u>
(b) Financial Regulation of Democratic Socialist Republic of Sri Lanka			
(i) F.R.371(5)	The advances of Rs.1,055,444 granted had not been settled before 31 December	Advances granted should be promptly settled.	By now, Rs.861,899 of unsettled advances had been settled.
(ii) F.R.571	Action had not been taken regarding deposits over 2 years amounting to Rs.13,129,404.	Lapsed deposits should be promptly settled.	Action had been taken to intimate the depositors and to act accordingly before crediting to revenue the above deposits over 02 years (other deposits except deposits Noted in Nos. 1, 2 and 3)
(c) Other Circulars			
(i) Circular of the Western Commissioner of Local Government No.LGD/08/2 016 of 11 July 2016.	So far, action had not been taken to correctly survey and to set the boundaries of properties of the Sabha.	Properties should be correctly surveyed and boundaries determined.	Agreements to carry out survey work had been signed and consequently the information of 64 land had been furnished to surveyors. By now, 15 land had been surveyed and the survey maps had been finalized. The technical officers had been assigned with the work of preparing necessary estimates for constructing permanent boundary posts

and to lay foundations on these lands.

- (ii) Urban Development Authority Planning Circular No.15 of 18 November 1993
- The sum of Rs,2,322,455 lying in the bank account maintained for urban development had not been utilized for an Identified project.
- Project should be identified and expedited.
- The project identified had been forwarded for approval and could be expedited immediately after obtaining the approval.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess revenue over the recurrent expenditure of the Council for the year ended 31 December 2019 amounted to Rs.485,243,772 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.948,904,276.

2.2 Financial Control

Audit Observation

Recommendation

Comments of the Accounting Officer

The dormant balance of Rs,542,612 in the current account of the People's Bank No.196-1-001-6-3869561 had not been identified and settled

Action should be taken to settle without delay.

The investigation officers of the the Local Government had investigated this matter as directed by the Committee on accounts. Necessary action will be taken in future by obtaining further instructions.

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	2019				2018			
	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.
(i) Rates and Taxes	183,200,000	186,263,743	146,958,817	60,626,372	146,788,000	155,465,905	146,201,350	58,680,968

(ii)	Rent	12,095,000	8,730,336	7,347,641	1,259,341	21,980,505	19,511,569	17,753,272	2,749,197
(iii)	Licence Fees	13,500,000	9,736,966	9,736,966	-	15,720,000	16,891,953	16,841,953	-
(iv)	Other Revenue	1,006,133	715,745,598	322,632,304	-	705,689,700	1,066,603,602	464,861,872	-
	Total	209,801,133	920,476,543	486,675,728	61,885,713	890,178,205	1,258,473,029	645,658,447	61,430,165

2.3.2 Rates and Taxes

Audit Observation

The arrears of rates of the Kaduwela District office, Battaramulla office And the Athurugiriya office as at 31 December 2019 amounted to Rs.52,740,966. Of these, Rs.20,705,878 related to 01 to 10 years and Rs.4,405,066 over 10 years

Recommendation

Rates recoverable should be recovered without delay,

Comments of the Accounting Officer

District office	Arrears as at 31.12.2019	Recovered out of the arrears as at 31.07.2020
Kaduwela	15,712,085	4,101,281.75
Battaramulla	23,614,458	7,377,421.33
Athurugiriya	13,414,423	4,338,958.33

2.3.3 Rent

Audit Observation

The total arrears of rent due from 03 stalls at the Athurugiriya Megacity Shopping Complex and a stall at Battaramulla amounted to Rs,59,982. Action had not been taken to recover and open the stalls.

Recommendation

Rent recoverable be should recovered without delay.

Comments of the Accounting Officer

The lessees had been instructed to pay the arrears of rent.

2.3.4 Other Revenue

Audit Observation

(a) Entertainment Tax

Action had not been taken to recover entertainment tax of Rs.1,579,292 remaining unrecovered for over 03 years.

Recommendation

Tax recoverable should be recovered without delay

Comments of the Accounting Officer

Legal action is being taken to recover the entire tax.

(b) **Week End Fair Tax**

The sum of Rs.368,126 Tax recoverable Arrears since 2012. The
recoverable for over 05 years should recovered Department of Local
had not been recovered. without delay. Government had examined
this matter on the
recommendations of the
Accounts Committee.
Action will be taken
according to the
recommendations.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Municipal Council In terms of Section 4 of the Municipal 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) **Bye-Laws**

Audit Observation **Recommendation** **Comments of the Accounting Officer**

Bye-laws should be prepared and approval obtained for earning additional revenue as required by Section 272(28) of the Municipal Councils Ordinance. However, such bye-laws had not been prepared for 05 sources of income. The revenue earned during the year under review amounted to Rs.18,745,262. Bye-laws should be prepared and approved. Bye-laws had been forwarded to the office of the Commissioner of Local Government for approval.

(b) **Solid Waste Material Management**

Audit Observation **Recommendation** **Comments of the Accounting Officer**

A sum of Rs.65,107,270 had been paid to 10 external institutions during the year under review for removal of garbage although the Municipal Council possess vehicles and labour resources. Action should be taken so as to benefit the Council. Activities relating to disposal of garbage and production of compost are now being done according to the plan in collaboration with the Western Waste Material Management Authority.

3.2 Management Inefficiencies

Audit Observation

Public Complaints

Although 597 complaints had been lodged at the Municipal Council during the year under review under the public complaints and unauthorized structures section, action had only been taken regarding 148 complaints.

Recommendation

Action should be taken without delay with regard to public complaints.

Comments of the Accounting Officer

Action is being taken.

3.3 Human Resources Development

Audit Observation

(a) Vacancies and Excesses in the Cadre

There were 31 vacancies in the approved cadre as at 31 December 2019.

Recommendation

Essential vacancies should be filled.

Comments of the Accounting Officer

Executives - Request forwarded.
 Secondary - Recruitment cannot be done as legal action continues.
 Primary - Suitable persons are not available/forwarded for approval.

(b) Employees' Loans

The amount due as at 31 December 2019 were, Rs.1,507,762 from 31 Officers who had gone on change of station transfers, Rs.539,860 from 40 officers who had retired from service, Rs.125,848 from 08 officers who been suspended from service and Rs.1,186,486 from 51 officers who had vacated posts.

Arrears of loans should be recovered without delay.

The balances recoverable as at 31 December 2019 aggregated Rs.85,455,855, Abatments of Rs.1,294,261 had been made from 10 of these officers from their salaries. Action will be taken in future to settle the balance of loans.

3.4 Transactions of a contentious Nature

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) A concrete slab had been laid on a roofing sheet with a concrete pole in a 1300 sq. ft area by paying Rs.3,253,840 to a private contractor during 2019 in order to establish the Athurugiriya district office at the Athurugiriya Megacity shopping Complex. However, the sub office had not been established up to 31 December 2019.</p>	<p>The Council should act according to proper planning while incurring expenditure.</p>	<p>A special technical committee had discussed this matter and it had recommended to carry out the work by giving priority to needs of the Council at a low cost under direct labour system based on community based contract by obtaining the instructions of the Structural Engineer of the Sabha and under the close supervision of architectural knowledge. Accordingly, necessary action is being taken.</p>
<p>(b) The community centre at Jayawadanagama housing complex had been given on rent for 03 years at the rate of Rs.25,000 per month since 24 September 2013 and tenders had been called for, on 07 November 2018 and given on lease for 05 years at Rs,70,000 per month.</p>	<p>Priority should be given for the needs of the occupants.</p>	<p>It is kindly informed that condition No.13 had not been violated after the lease of Jayawadanagama community centre on 7.11.2018</p>
<p>This had been converted into a reception hall by altering the nature and specimen of the building contrary to Clause 13 of the lease agreement and as such the occupants of the housing complex had been deprived of the opportunity to fulfil their needs.</p>		<p>According to the lease agreement regarding Jayawadanagam community centre, occupants of shopping complex can be provided services with a discount of 10 per cent in accordance with clause 3 of the lease agreement.</p>

3.5. Assets Management

3.5.1 Non confirmation of Assets

Audit Observation

Occupation of land for public amenities by unauthorized persons

The Council had obtained 04 blocks of land for public amenities during separation of land into blocks. These had been occupied by unauthorized persons.

Recommendation

Action should be taken to safeguard land belonging to the Council.

Comments of the Accounting Officer

Boundaries would be confirmed and necessary action will follow.

3.5.2 Assets not Acquired

Audit Observation

A sum of Rs.80,025,000 had been totally paid to the Urban Development Authority in 2014 made up of Rs.6,600,000 as management service fee for acquisition of 0.98211 hectares of land and Rs.73,425,000 for payment of compensation for acquisition in order to establish the Kaduwela fair. A sum of Rs.40 million had been obtained as a loan for this purpose for which Rs.26,768,135 had been paid as Instalments and interest. However, the Urban Development Authority had not paid compensation to the owners of land and action had not been taken by the Council to acquire the week end fair land even up to now

Recommendation

Acquisition should be done without delay.

Comments of the Accounting Officer

Discussions had been made with those who are entitled for compensation and affidavit obtained from them had been forwarded to the Divisional Secretary by now so that 90% of the compensation of Rs.350,355,000 amounting to Rs.315,319,500 could be released to them in 06 instalments with regard to blocks 01, 03, 04, 06 and 07 of blocks bearing Nos, 1 to 8 of the original survey map No.9657. Acquisition of land by the Sabha from the UDA could be done after making payments.

3.5.3. Idle/Under Utilized Assets

Audit Observation

Three carpet laying machines valued at Rs.53,351,000, 03 trailers the value of which cannot be traced and 19 machines to prepare Ayurveda Kola Kenda remained idle.

Recommendation

Maximum utilization of assets is needed.

Comments of the Accounting Officer

Action will be taken to use these equipment beneficially or auction them at the end of board of survey.

3.5.4 Identified Losses

Audit Observation

- (a) Two hundred and thirty four of flagstuffs valued at Rs.231.332 lying at the stores unit of the Kaduwela Sub Office had been misplaced.

Recommendation

Flagstuffs should be obtained.

Comments of the Accounting Officer

Necessary action will be taken to get these 234 flagstuffs from the Praja Mandala who obtained them. By now, the responsibility of all flagstuffs had been entrusted to one officer in writing.

- (b) The employees of the Council had been made use of, to attend to sanitary activities, cleaning of toilets and janitorial activities at the Kaduwela bus stand up to February 2019. External parties had earned revenue amounting to Rs.1,325,341 from January 2018 to February 2019 by issuing tickets at the rate of Rs,10 each. This is the monthly gross revenue of about Rs.95,000. In spite of this, the general Council had decided to entrust this service to a private party on 31 December 2018. Accordingly, quotations had been called for and the service awarded to private supplier at a monthly rent of Rs.5,010 on 01 February 2019. As a result, the Council had lost about Rs.90,000 per month.

The Council should ensure not to enter into agreements causing loss to the Council

No comments.

4. **Accountability and Good Governance**

4.1 **Internal Audit**

Audit Observation

Adequate internal audit had not been carried out regarding construction works, waste disposal and operating activities of the Council for the year 2019.

Recommendation

Adequate internal audit should be carried out.

Comments of the Accounting Officer

The Internal Audit Officer had furnished 15 queries during 2019. Action will be taken to instruct the internal Audit officer to attend to areas not covered.