

**Wattegama Urban Council**  
**Kandy District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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Financial Statements for the year 2017 had been submitted to the audit on 29 March 2018 and the Auditor General's Report on those financial statements was issued to the Chairman on 02 July 2018.

**1.2 Qualified Opinion**

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In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Wattegama 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**

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**1.3.1 Accounting Deficiencies**

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Following accounting deficiencies were observed in audit.

- (a) The value of 2 vehicles of the Council had been overstated in accounts by Rs.2,724,608.
- (b) Interest of Rs. 153,740 had been understated and interest receivable of Rs.72,285 had been overstated in account with relating to the fixed deposit at People's Bank belonging to Council in the year under review.
- (c) Interest of Rs. 99,587 had been understated and interest receivable of Rs.167,379 had been overstated in account with relating to the fixed deposit at Kandurata Development Bank.
- (d) Fixed assets of Rs. 1,420,103 had been understated due to showing it as Rs.135,076,383 in accounts though the cost of fixed assets as at 31 December of the year under review was Rs. 136,496,486.
- (e) Though the surplus of the year under review was Rs. 3,767,622, it had been recorded as Rs. 5,010,241 in excess shortage ledger account.
- (f) Not presented bills amounting to Rs. 38,330 with relating to the previous year had been accounted as creditors.
- (g) Debtor balance of Nuwarathanna drinking water Scheme had been understated by Rs. 18,000 as at 31 December of the year under review.

### 1.3.2 Non-reconciled Accounts

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A difference of Rs. 263,892 was observed between the balances with relating to 03 account items shown in financial statements aggregating Rs. 6,633,852 and the balances shown in sub registers.

### 1.3.3 Accounts Receivable and Payable

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#### Accounts Receivable

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While the value of 4 Accounts Receivable balances as at the end of the year under review was Rs. 7,508,207, and account balances for over 01 to 05 years period aggregating Rs. 5,538,517 and a balance over 5 years of Rs. 1,969,690 had been included in that amount.

### 1.3.4 Lack of Documentary Evidence for Audit

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Three transactions aggregating Rs. 1,467,274 could not be verified satisfactorily in audit due to non-presenting relevant information.

### 1.3.5 Non-compliance

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#### Non-compliance with Laws, Rules, Regulations and Management Decision

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Following instances of non-compliance with laws, rules, regulations and management decision were observed.

| <b>Reference to laws, rules, regulations and management decision</b>                     | <b>Non-compliance</b>  |
|--|--|
| -----  | -----  |
| (a) Paragraph 3.1 of Public Administration Circular No.30/2016 dated on 29 December 2016 | Though fuel consumption of vehicles should be tested once a year, fuel consumption of 2 vehicles of the Council had not been tested. |

- (b) Circular No. 2016/3 dated on 17 March 2016 of the Commissioner of Local Government of Central Province

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- (i) Section 04 (1)

Though conditions should be included into the agreement for recovering of taxes subject to maximum of 5 per cent in instances of non-paying monthly rent on time, fines had not been charged in the instances where the monthly rent was delayed.

- (ii) Paragraph 13

Though special attention should not be given for Government Institutions at the time of leasing out buildings belonging to Council, upper floor of the old Urban Council building of the Council had been given free of charge for training activities of Vocational Training Authority to operate a Training Center from the year 2010.

### **1.3.6 Transactions Not Confirmed Through Sufficient Authority**

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Environment fund had been created without the approval by using a sum of Rs.278,350 from the provisions given for Garbage Container project through the Ministry of Local Government and Provincial Council in the year 2013.

## **2. Financial Review**

### **2.1 Financial Results**

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.12,642,099 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 9,490,412.

### **2.2 Revenue Administration**

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

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

| Revenue Source | 2017              |                   |                   |                                 | 2016              |                   |                   |                                 |
|----------------|-------------------|-------------------|-------------------|---------------------------------|-------------------|-------------------|-------------------|---------------------------------|
|                | 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.               | Rs.               | Rs.               | Rs.                             | Rs.               | Rs.               | Rs.               | Rs.                             |
| Rates and Tax  | 15,316,050        | 15,927,065        | 11,814,985        | 4,112,080                       | 20,055,500        | 16,647,920        | 13,354,135        | 3,293,785                       |
| Rent           | 4,573,700         | 4,142,965         | 4,266,570         | (123,605)                       | 4,844,100         | 4,890,065         | 4,886,250         | 3,815                           |
| License Fees   | 700,000           | 766,220           | 765,220           | 1,000                           | 760,000           | 785,450           | 782,450           | 3,000                           |
| Other Revenue  | 1,988,500         | 2,341,480         | 2,341,480         | -                               | 1,096,000         | 4,809,450         | 4,809,450         | -                               |
|                | <u>22,578,250</u> | <u>23,177,730</u> | <u>19,188,255</u> | <u>3,989,475</u>                | <u>26,755,600</u> | <u>27,132,885</u> | <u>23,832,285</u> | <u>3,300,600</u>                |

### 2.2.2 Performance in Revenue Collection

Following matters were observed.

- Actions had not been taken to increase the revenue by establishing Three wheeler stands in the area of the authority of the Council.
- Actions had not been taken to charge Garbage Tax from Private Institutions, Hotels and Shops in the area of the authority of the Council.

### 2.2.3 Rates and Taxes

While there was a balance of arrears amounting to Rs. 3,158,364 as at 01 January 2017, billings amounted to Rs. 5,740,053 in the year under review. Out of these balances, the percentage of recovery in the year under review had been 42 per cent and 67 per cent respectively. The arrears balance as at the end of the year under review was Rs. 3,474,595, a balance of Rs. 1,831,791 for over one year period had been included in that balance.

### 2.2.4 License fees

It was not observed that every shop premises had been subjected to the board of survey due to non-registering them by conducting proper survey on licenses in terms of Circular of the Commissioner of Local Government No. 2014/5 of 02 August 2014.

### 2.2.5 Other Revenue

Following matters were observed.

(a) Water Charges

While water charges in arrears as at 31 December of the year under review was Rs. 2,652,648, out of that balance the amount in arrears that had exceeded a period of more than one year was Rs. 2,470,140.

(b) According to the Gazette notification published on 25 October 2016 in terms of Paragraph 126 vii (f) of Pradeshiya Sabha Act No. 15 of 1987, though charges should be collected from all signboards displayed in the area of the authority of the Sabha and credited to Sabha Fund, charges of Rs. 54,750 from 11 signboards had not been recovered.

(c) Actions had not been taken to regularize Three wheeler Stand by registering Three wheelers in the area of the authority of the Council.

### 2.2.6 Court Fines and Stamp Fees

Court Fines amounting to Rs. 832,897 and Stamp Fees amounting to Rs. 2,000,000 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December of the year under review.

## 3. Operating Review

### 3.1 Performance

Matters revealed with regarding the activities such as streamlining and controlling matters relating to public health, common utility services and public roads; feather bedding, convenience and welfare which should be admired by the Council under Section 4 of Urban Council Ordinance were shown below.

(a) Unauthorized Constructions

Thirty seven unauthorized constructions had been reported in the year 2015, 2016 and 2017 and though Clearance Orders had been sent for 15 constructions, follow-up actions had not been taken.

(b) Abandon Projects

Though 3 activities had been started and also allocated provision of Rs.1,200,000 during the year under review and previous years, those projects had been abandoned. Details were shown below.

| Projects  | Estimated cost | observations                            |
|---|----------------|---|
| -----   | -----          | -----                                   |
|   | Rs.            |   |
| (i) Concreting the rest of the road Nuwarathanna first culvert to forward   | 500,000        | Directed for a new estimate             |
| (ii) Construction of a Community Centre in the land donated by Balahela Yahalathanna Viharaya to Urban Council.   | 500,000        | Cancelled due to non-releasing the land |
| (iii) Constructing the common drain in front of the Station   | 200,000        | Reasons were not given                  |
| <br>(c) Solid Waste Management  |                |   |
| -----   |                |   |
| Crumbled garbage from 1 1/2 to 2 tons of garbage collecting daily in the area of the authority of the Council had been given to Kundasale Pradeshiya Sabha. Huge cost had been incurred daily to separate garbage due to non-collecting of separated garbage. Non crumbled garbage had been dumped into lands belonging to Sabha and bad smell had been spread within the garbage dumping area in the land Dunoya Kubura. |                |   |
| <br>(d) Sustainable Development   |                |   |
| -----   |                |   |
| Actions had not been taken by the Council to identify sustainable development objectives and targets and to achieve them as well as to identify indexes to measure the progress.  |                |   |

### 3.2 Management Inefficiencies

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Following matters were observed.

- (a) Provision of Rs. 1,817,123 had been made for 5 contracts without a plan in the year 2017 and provision for creditors had been provided in accounts by that amount. Actions had been taken to remove from creditors without implementing any of these contracts.
- (b) Though issuing of medicines was done in the Ayurvedic Centre operating in Wattegama Town Hall, actions had not been taken to enter drugs and medicine stocks issued after the date of 01 June 2017, into the registers.
- (c) A sum of Rs. 93,226 had not been charged for water meters fixed during the year 2017.

### **3.3 Human Resources Management**

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#### **(a) Staff Vacancies and Excess**

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Eight vacancies in 4 vacant posts and 3 excess in 1 post were available between approved and actual cadre.

#### **(b) Staff Loans**

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A balance of three Officers transferred out to other Departments for Rs.412,900 which is not recovering even by installments had been included in the staff loan balance and actions had not been taken to recover these loan balances.

### **3.4 Assets Management**

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#### **3.4.1 Non Collecting of Revenue Receivable from Assets**

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Following matters were observed.

(a) Actions had not been taken to rent two shops in Public Market and the doors had been broken and destroyed.

(b) Actions had not been taken to generate revenue from the Backhoe Machine belonging to the Council valued at Rs. 17,649,179.

#### **3.4.2 Non Confirming the Safety Precautions of Assets**

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The land extent of 5 acres 47.20 perches belonging to Wattegama Urban Council had been allowed to encroach for 45 persons.

#### **3.4.3 Idle / Under-utilized Assets**

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Following matters were observed.

(a) Tractor, Bike, two Hand Tractors, Backhoe Machine and a Car belonging to Council had been kept idle in the Office Premises.

(b) Carpentry Machine valued at Rs. 333,700 and Electric Generator valued at Rs.129,500 had been remained idle without using for the Chair Manufacturing Project operated by the Council.

#### **3.4.4 Annual Board of Survey**

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Actions had not been taken to auction 2 vehicles even as at 31 October 2017 which had been identified as to be auctioned in the Board of Survey Report for the year 2016.

### **3.5 Procurement**

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#### **3.5.1 Procurement Plan**

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Goods and services of Rs. 16,065,552 had been purchased by the Council in the year under review, Procurement Plan had not been prepared.

#### **3.5.2 Contract Administration**

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##### **Construction of Common Drain at Korehitiyawa**

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Though the Council funds for the year 2017 had been provided to construct Korehitiyawa common drain with the expenditure of Rs. 196,659, it was observed in the physical verification made on 03 April 2018 that the funds had been used to construct the front wall and the drain of the house of one beneficiary.

### **4. Accountability and Good Governance**

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#### **4.1 Budgetary Control**

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It was observed that the budget had not been made use of as an effective tool of management as there is a significant variation between budgeted and actual income and expenditure even after transferring provisions in income and expenditure items during the year under review. Following matters were revealed in this regard.

- (a) Actions had not been taken to earn any amount from the budgeted revenue of Rs. 315,000 in 6 revenue items.
- (b) Entire net provision of Rs. 202,000 provided for 9 expenditure items had been remained as saving.
- (c) The saving ranging from 28 per cent to 96 per cent had been remained from the net provisions provided for 9 expenditure items.

#### **4.2 Internal Audit**

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Though an Officer had been appointed for internal audit, sufficient internal audit had not been conducted.

#### **4.3 Audit and Management Committee**

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Though the Audit and Management Committee had been appointed as per the Letter of Commissioner of Local Government No.CPC/CLG/1/9/1/4 dated 08 August 2014, only 02 Committee meetings had been conducted during the year under review.



## 5. Systems and Controls

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Deficiencies observed during the course of audit were brought to the notice of the Council from time to time and special attention is needed in respect of the following areas of control.

| <b>System</b>             | <b>Deficiencies</b>   |
|---------------------------|---|
| -----                     | -----   |
| (a) Fixed Assets          | (i) Allowing to use Council properties for outside parties.<br><br>(ii) Failure to dispose idle assets.<br><br>(iii) Failure to use some fixed assets for effective activity.         |
| (b) Accounting            | (i) Failure in accounting interest on fixed deposits correctly.<br><br>(ii) Understating creditors and debtors.<br><br>(iii) Keeping un-reconciled accounts balances.                 |
| (c) Vehicle Control       | (i) Handing over vehicles for people not bearing Driver posts.<br><br>(ii) Under-utilization of some vehicles.<br><br>(iii) Failure to test fuel consumption of vehicles once a year. |
| (d) Revenue Collection    | (i) Failure in recovering arrears income.<br><br>(ii) Writing off arrears income without an approval.   |
| (e) Debtors and Creditors | (i) Failure to settle debtor and creditor balances over 5 years.  |