

Kesbewa Urban 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 02 March 2020 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 21 August 2020 and on 25 August 2020.

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 2019 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) Although a sum of Rs.9,248,015 Payable from July to December 2019 to the Waste Management Authority for the disposal of waste it had been shown as Rs.10,747,592 in the financial statements.	Financial statements should be prepared based on accurate balances	Action will be taken to correct in financial statements of 2020.
(ii) Although the garbage revenue due from private institutions for the year 2019 was Rs.1,271,645, according to the financial statements, the garbage revenue was accounted for as Rs.456,828.	Financial statements should be prepared based on accurate balances	It is inform that action will be taken to submit correct garbage account in financial statements of 2020.

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| (iii) | Although the amount due to the contractor had been paid by 31 December 2019 for the road closures, a provision of Rs.5,160,179 had been made as creditors and as a result Creditors and Phoenix project expenditure had been accounted more by that amount. | Should be accounted correctly. | As the amount was entered incorrectly in the creditors schedule even after the payment was made action was taken to remove that entry. |
| (iv) | Although it was shown as a sum of Rs.160,000,000 in the financial statements as loan receivable from the Local loan and Development Fund for the construction of the Head Office the loan had not been received until June 2020. | After loan applications are submitted it only the money not received within a year, it should be shown as accrued. | The loan application has been submitted to the Commissioner of Local Government on 14 July 2020. |

(b) Contingent Liability

Audit Observation

Seven cases filed by outside parties against the Council, and a case filed by the Council against outsider had not been disclosed in the financial statements.

Recommendation

Contingent liabilities should be disclosed in financial statements.

Comments of the Accounting Officer

Action had been taken to attach a report regarding the cases filed by the Council and against the Council as notes in the financial statements prepared for the year ending 31 December 2019.

(c) Unreconciled Accounts

Audit Observation

An excess of Rs.218,887 and shortage of Rs.705,835 had been observed, when comparing the balances of six accounts with the related subsidiary schedules in the financial statements.

Recommendation

Accounts balances should be corrected after reconciling the differenses.

Comments of the Accounting Officer

Action will be taken to correct in financial statements of 2020.

(d) Accounts Receivable and Payable

Accounts Receivable

Audit Observation	Recommendation	Comments of the Accounting Officer
The outstanding balance of the property loan interest receivables for the years 2016 and 2017 amounting to Rs.869,688 had not been get reimbursed form Department of Local Governments.	Action should be taken to get reimburse the property loan interest.	The Department of Local Government had informed in a letter dated 18.06.2018 that this amount could not be reimbursed due to a mistake and that the amount would be reimbursed. Accordingly, the amount for the year 2017 has been requested on 03.09.2018 for approval under the FR 115.

Accounts Payable

Out of the Provincial Council Debt Balance of Rs.133,674,363 as at 31 December 2019, includes a sum of Rs.12,962,962 relating to the years 2014 to 2016.	Action should be taken to settle the Provincial Council debt balance.	Action will be taken to settle in financial statements of 2020.
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(e) Lack of Necessary Documentary Evidence for Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
Necessary information had not been submitted to audit relating to eight items of accounts aggregating Rs.641,883,464.	Schedule or necessary information should be submitted to confirm the balances.	Schedules are being prepared and will be submitted for audit in the future.

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
Public Administration Circulars			
Paragraph 3.1 of the Circular No. 30/2016 dated 29 December 2016.	Fuel consumption test had not been carried out relating to 26 vehicles belonging to the Council.	Should be act in accordance with the Circular.	The fuel consumption test of 9 vehicles had been carried out and that reports were submitted to audit.

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 2019 amounted to Rs.84,546,284 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.75, 226,872

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	2019				2018			
	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	89,851	90,621	85,853	55,225	72,735	87,995	98,113	44,401
Rent	23,422	18,050	20,854	2,950	17,462	18,802	20,672	3,373
Licence Fees	1,402	1,444	1,876	252,114	1,950	1,293	1,594	-
Other Revenue	240,689	200,000	315,865	409,018	200,907	160,501	295,875	466,797

2.2.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Due to action had not been taken to recover rates and taxes under Section 170 of the Urban Council Ordinance, arrears of rates and taxes was amounted to Rs.53,875,578 as at 31 December 2019. Of which a sum of Rs.2,263,705 pertaining 26 units of rates over Rs.50,000.	Action should be taken to recover the outstanding billed rates and taxes.	As the arrears of Rs.1,551,072 in respect of 13 properties over Rs.50,000 could not be recover, action has been taken to rectify the records on the approval of the Council. Action has been taken to recover Rs.1,703,396,801 relating to 10 properties as in full and in part. At present the arrears in Rs.2,263,705 and No. of properties are 26.
(b) Although the billed rates for the year under review was amounted to Rs.79,751,940 , the Council had recovered only Rs.55,576,786 during the year.	Action should be taken to recover arrears of billed rates and taxes.	Out of the arrears a sum of Rs.9,947,833 has been recovered and the balance will be recovered when the situation in the country improves.
(c) As at 01 January 2019, the outstanding balance of rates was Rs.44,401,255 only a Rs.18,773,673 had been recovered during the year under review.	Action should be taken to recover arrears of rates and taxes.	No comments.
(d) The council had been failed to recover garbage income of Rs.871,279 receivable shown in the financial statements.	Action should be taken to recover receivable garbage charges.	It was decided to suspend the service for not paying institutions within the first 10 days of each month. A new scheme has been implemented to publish the institutions that do not pay garbage taxes and collect arrears from those institutions.
(e) The Street lamp lighting aid of Rs.481,578 from 2009 to 2014, and electricity charges of Rs.18,509 from the Piliyandala Sports Club for	Action should be taken to recover outstanding balance of street lamp lighting aid and the electricity bill.	Submitted for approval to write-off the street lighting aid balance amounting to Rs.254,748. Double calculated erroneous billing Rs.226,830 has been rectified by

the years 2014 and 2015, had not been recovered by the end of the year under review.

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| (f) | Action had not been taken to recover Rs.68,790 from the Common Amenities Center and entertainment tax amounting to Rs.281,047 for the year 1997 and 1998 as at 31 December 2019. | Action should be taken to collect entertainment tax and other income. | A case has been filed in the Kesbewa Magistrate's Court to recover Rs.44,865. The case has been adjourned as the respondent could not be traced. Rs.23,925 has been treated that cannot be recovered and with approval of the general Council and entertainment tax amounting to Rs.281,047 also decided to write-off with approval of the general Council and referred to the Minister in charge of the subject. |
| (g) | The Council had failed to recover car park rent income amounting Rs.291,622. | Rent income should be collect at once. | The case pending. The arrears of Rs.17,000 paid have been settled to the arrears before 2018. |

2.2.3 Rent

(a) Long Term Lease out Properties

Audit Observation	Recommendation	Comments of the Accounting Officer	
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(i)	The accumulated arrears of rent of trade stalls as at 1 January 2019, was Rs.2,493,440 and the Council had recovered only Rs.1,155,450 of this amount 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.	Approval has been granted to write off the old fish stalls arrears of Rs.1,039,665. Accordingly, the arrears amount in Rs.298,325. As at 30.06.2020, Rs.60,500 has been already paid and further outstanding balance is Rs.237,825.
(ii)	Out of 135 long-term lease properties of the Council, the outstanding balance due on 31 December 2019 was Rs.2,354,045 of which a sum of Rs.294,650 pertaining to 7 properties which were arrears for than 10 installments.	Action should be taken to recover the arrears and the income should be recovered within the year .	Action will be taken to recover.

(b) **Property Leased out on Annual Tenders**

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Out of accumulated outstanding balance of Rs.308,622 as at 01 January 2019 the Council had recovered only Rs.17,000 during the year under review.	Action should be taken to recover income of the property leased out on annual tenders.	Cases have been filed. As the respondent is deceased, the matter has been referred to the Minister for approval to written -off.
(ii) Action had not been taken to recover any amount of arrears of income of the vehicle parking amounting to Rs.522,073 and the arrears of the public toilets and morning market amounting to Rs.64,366 leased on tenders.	Action should be taken to recover the arrears.	The arrears of the car park leased out on the annual tender is Rs.521,079, the arrears of public toilets and the morning market in Rs.78,630 out of that Rs.9,840 was recovered. No money was recovered from the public utility and legal action has been taken.

2.2.4 License fee

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) There were 7986 business places in the Council area as at 31 December 2019, but Council had failed to collect trade licenses or business taxes from 4061 businesses for the year 2019.	Action should be taken to recover trade licenses fees or business taxes. A survey should be carried out to identify the actual number of businesses in the area.	At the valuation revision done in 2011 it was recorded 7986 business places. Valuation Department officers and Council officers area the residential properties within the whole area for 03 conducted in residences years. But when charging lease in certain by roads were fees within limited time minimum.
(b) Out of the outstanding license fees of Rs.252,114 as at 31 December 2019, Rs.244,114 had not been recovered by the end of the year under review.	Action should be taken to recover arrears of business taxes.	License fees Rs.44,210 was written -off according to the 5:6 resolution of the General Council on 11.06.2020. Legal action has been taken to recover Rs.15,000 arrears of

the years 2016 to 2019 and accordingly arrears in being recovered.

The balance of Rs.187,615 of the years 2015, 2014, 2013, and before 2013 is to be written-off as a non-recoverable balance.

2.2.5 Court Fine & Stamp Fees

In the income debtor balance included an arrears of stamp duty amounting to Rs.295,018,225 and in that amount there was a recoverable balance of Rs.95,018,225 relating to years 2017 and 2018.

Action should be taken to recover arrears of the stamp duty.

Rs.114,000,000 has been received and further recoverable amount is Rs.95,018,225.

3. Operating Review

3.1 Performance

The following are the observations made relating to the regulation and control of matters of public health, public utility services and public roads, and the performance of the duties which were to be performed by the Council for the welfare and convenience of the people under Section 4 of the Urban Council Ordinance.

(a) Action Plan

Audit Observation

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

Recommendation

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

Comments of the Accounting Officer

These shortcomings will be corrected when preparing the action plan for the year 2020.

(b) Delays in Execution of Activities

Audit Observation	Recommendation	Comments of the Accounting Officer
Six projects of those contracted value of Rs.3,193,521 to the implemented under the Council Fund in the year under review had not been completed even by 19 June 2020.	Projects must be carried out within the relevant contract period.	Three projects have been completed so far and work is in progress relating to the remaining projects and charge will be imposed for the delay.

(c) Contract Administration

Audit Observation	Recommendation	Comments of the Accounting Officer
Although 45 projects had been completed under the Gamperaliya and Sukitha Purawara program, a sum of Rs. 34,275,007 should have been received from the Divisional Secretariat.	Relevant funds should be obtained immediately, and payments should be expedited.	Funds for 26 Gamperaliya projects and 19 Sukitha Purawara projects had not been received from the Divisional Secretariat and the payments will be made after receiving the money.

(d) Solid Waste Material Management

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) The Council had incurred Rs.2,121,800 for segregated garbage and Rs.14,236,000 for mixed garbage during the year 2019. The collection of garbage had not been properly managed and as such the Council had to pay extra amount of Rs.11,388,800 relating mixed garbage.	The waste management project should be implemented within the relevant time frame.	Special sharmadana programs, conducted by the Municipal Council, special dengue control programs and Garbage collection through the various activity programs conducted by the Health office has led to an increase in the amount of mixed garbage. Further no matter how much the community is made aware, the garbage through on both sides of the road had to be removed daily. Therefore it had to pay incur more expenditure for mixed waste.

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| (ii) | Eighty per cent of the Karadiyana garbage yard the place where several local authorities dispose their garbage is belongs to the authority area of Kesbewa Urban Council. As such, the public residing over three thousand miters in the authority area of the Council many face health and environmental problems due to bad smell and mosquito epidemic. | Responsible parties should be informed and take a solution. | Although the land where the Karadiyana Garbage Yard belongs to the Kesbewa Municipal Council area, the administrative authority of that is the Western Provincial Waste Management Authority. Letters have been sent to the responsible parties including his Excellency the President and the Hon. Prime Minister informing the dangerous situation. |
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3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) A proposal had been passed unanimously by the Council on 23rd February 2010 to give land deeds to 17 tenants who have been residing in Bokundara Government Houses for a long time on rent basis. But solution to the problem regarding the distribution deeds of these lands had not been found out.	Problems should be resolved, and deeds should be issued.	As completely deviated from payment of rent it is unable to take action under the rental charter. Therefore, in terms of Section 36 (e) of the Municipal Council Ordinance, 17 plots of land under Plan No. 5337 will be get assessed by the Valuation Department for action to be taken under the Municipal Council Disposal scheme and action will be taken to dispose of these properties to those residents in future.
(b) The outstanding advance balance of Rs.164,203 coming from 2007, had not been settled even at the year under review	Action should be taken to settle the advances within due period.	Responsible parties will be identified, and action will be taken in the future.

- (c) The Council had paid an amount of Rs.2,806,243 to the Employees' Provident Fund due to non-payment of contributions of Rs.1,870,831 during the period 2008 to 2010 and surcharge amount of Rs.935,413 for the period of July 2017 to 31 December 2019. But action had not been taken to recover from the parties who were responsible.
- Should be act in accordance with the FR 156.
- The officers who performed their duties during the period from 2008 to 2012 have been requested to submit their observations in this regard.

3.3 Human Resources Management

(a) Staff Vacancies

	Audit Observation	Recommendation	Comments of the Accounting Officer
(i)	There were 17 staff vacancies including two senior-level posts.	Action should be taken to fill the essential vacancies.	Action will be taken to recruit
(ii)	A sum of Rs.15,246,946 had been paid as salaries and allowances to 71 employees who had been recruited for the projects of the Council.	Recruitment should be made for approved posts.	The cadre was approved by the Management Services Department after review in 2013. Since then, several projects have been approved by the Commissioner of Local Government for the needs of the Municipal Council and the requirement of the service of those employees has been submitted to the Local Government Department and requested to create posts under FR 71.

(b) Staff Loan

	Audit Observation	Recommendation	Comments of the Accounting Officer
(i)	Loan balance of the 11 officers amounting Rs.307,226 coming from period of 2011 to 2016 included in the staff balance, and action had not been taken to recover any amount from that loan balance during the year under review.	In the event of default of the loans action should be taken to recover from the guarantors.	Two officers have agreed to pay. Two officers paid Rs.6,250 and Rs.6963 respectively.
(ii)	Distress loan balance of Rs.233,523 due from an officer who was dismissed on 23rd August 2018 and loan balance of Rs.82,178 due from an employee who left the service in 2018 had not been recovered.	Action should be taken to recover the loan balance.	Action will be taken to take legal action.
(iii)	The loan balances of Rs.206,895 of four officers who were deceased, left the service and retired could not be recovered.	Action should be taken to recover the loan balance.	Action is being taken to recover even part of the loan from the heirs. It was reported the requirement collecting these loans and also requested approval to write-off these loan balances.

3.4 Asset Management

3.4.1 Assets not Acquired

Audit Observation	Recommendation	Comments of the Accounting Officer
The transferring of ownership of 13 out of the 14 cemeteries within the authority area of the council is very slow.	The ownership of cemeteries should be taken over	The Kesbewa Municipal Council is in the process of taking over the ownership of cemeteries and survey work has been commenced on 5 cemeteries (Digana, Kahapola, Vishwakalawa, Kesbewa and Hadigama). Accordingly, it is informed that action will be taken to issue title deeds for the cemeteries in the future.

3.4.2 Idle and Underutilized Assets

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| (a) | The present address or information of the usage of land 34 plots of lands of 1676.75 perches. Further 22 plots of lands of 1898.83 perches had not been used for productive activity and kept idle. | Lands of the Council should be protected for future development. | Action had been taken accordance with Sections 22 (1) (2) and 23 of the Order referred to in the Extraordinary Gazette Notification under the Urban Development Authority dated 392/9 and 10.03.1986. |
| (b) | Out of 74 lands 56 lands, were not used for productive activity purposes and lands were at a threat of encroachment. | Council lands should be physically identified to prevent encroachment and Council lands must be protected for future development. | As it will cost a lot of money to survey these vacated lands, the committee appointed will conduct a site inspection of the relevant lands and prepare a definite action plan in the future with the participation of the community councils. |

3.4.3 Annual Board of Survey

Audit Observation

According to the 2019 board of Survey reports, there was shortage 236 GI pipes, in the stores two chairs and a cupboard in the council hall.

Recommendation

Action should be taken to recover in cash or goods.

Comments of the Accounting Officer

The report has been submitted by the Board of Inquiry appointed to inspect GI 236 pipes and it has been decided to further examine and approve it at the General Council on 09 July 2020. Action will be taken to fill the shortage of 02 chairs and cupboards.