

**Kalutara Urban Council**

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**Kalutara District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to the Audit on 27 March 2014 while Financial Statements relating to the preceding year had been submitted on 27 March 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Council on 01 December 2014.

**1.2 Opinion**

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kalutara Urban Council as at 31 December 2013, its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.3 Comments on Financial Statements**

**1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

Although a Cash Flow Statement should be prepared and submitted together with the Final Accounts in terms of the Public Sector Accounting Standard no.02 of Sri Lanka, the statement had not been submitted.

**1.3.2 Accounting Deficiencies**

Following observations are made.

- (a.) Although, only the installments paid amounting to Rs. 706,273 for the double cab vehicle received from the Office of the Commissioner of Local Government should be credited to the Contribution from Revenue to Capital Outlay account having debited the Capital Expenditure Account, full value of the cab vehicle had been credited to the Contribution from Revenue to Capital Outlay account having debited the Equipment Expenditure Account. Due to that, Capital Expenditure for the under review and the balance of the Contribution from Revenue to Capital Outlay Account had been overstated to that extent.
- (b.) The CCTV Machine purchased for a sum of Rs. 186,700 during the year under review according to the Expenditure Ledger had not been capitalized.
- (c.) Instead of crediting the sum of Rs. 63,000 to the Stores Advance Account having debited the Furniture and Equipment Account for correcting the error in accounting for the value of Furniture purchased for a sum of Rs. 63,000 on 31 July 2013 in the Stores Advance

Account, it had been credited to the Furniture and Equipment having debited the Stores Advance Account through the Journal entry. Due to that, balances of the Furniture and Equipment Account and the Stores Advance Account had been understated in a sum of Rs.126,000.

- (d.) Creditors Account in a sum of Rs. 654,872 and Value Added Tax Account in a sum of Rs. 96,584 had been debited having credited the Cash Account in a sum of Rs. 666,656, the Deposits Account in a sum of Rs.65,487 and the Other Revenue Account in a sum of Rs. 19,323 on voucher No. 268 dated 24 January 2013. In reversing those accounting entries after cancelling that voucher, instead of crediting the Creditors Account in a sum of Rs. 654,872, a sum of Rs. 666,656 had been credited. In correcting the difference of Rs.11,774 arisen, that value had been debited to the Accumulated Fund Account instead of debiting the Creditors Account.

### 1.3.3 Lack of Evidence for Audit

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Transactions totalling Rs.23,277,898 could not be satisfactorily vouched in audit due to non-submission of required Information.

## 2. Financial Review

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### 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 2013 amounted to Rs. 9,278,832 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 3,393,240.

### 2.2 Revenue Administration

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#### 2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	23,267	13,762	24,885
(ii)	Lease Rent	212	412	(200)
(iii)	Licence Fees	320	313	14
(iv)	Other Revenue	11,923	8,178	6,592

### 2.2.2 Rates

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While the balance of Rates in arrears as at 30 December 2013 was Rs. 27,305,455, a balance of Rs.14, 526,655 was outstanding as arrears from 606 Rate Payers whose individual balances had been more than Rs.5,000. While balances outstanding for more than 5 years totalling 11,915,112 had been included in that balance, action had not been taken to recover those balances up to December 2013.

### 2.2.3 Lease Rent

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Following observations are made.

- (a.) A sum of Rs. 98,300 from 02 stalls in the New Market, Goods Stores Road, a sum of Rs. 60,700 from 12 stalls in the ground floor, first floor and upper floor of the of the New Shopping Complex, a sum of Rs.9,000 from one stall in the upper floor of the Bus Stand and a sum of Rs. 356,875 from 7 stalls in the Old Market were in arrears as rent, even as at 30 June.
- (b.) While the Hall No. B1, C and B2 Halls in the New Market had been given on rent to the C.W.E., for the period from 1998 to 19 December 2001; arrear of rent amounting to Rs. 268,668 relevant to those stalls had not been recovered even up to 06 December 2013, date of audit.
- (c.) While 5 stalls in the ground floor of the of the New Shopping Complex had been sealed on 17 July 2013 due to arrears of rent amounting to Rs. 132,400, those stalls had been opened on the same day on the orders of the Chairman, without recovering the arrear rent.
- (d.) While the Agreements for leasing out the stalls belong to the Council had been the agreements signed during the year 1986 and years prior to that, action had not been taken to renew any of those agreements up to 30 November 2013.
- (e.) In a situation where the lessee is not in a position to carry on the business further or death of the lessee, ownership of the stall could be transferred to the spouse or a child of the lessee, subject to a resolution passed by the Council in terms of the Paragraph 07 of the Circular No. 1980/46 dated 03 December 1980 of the Commissioner of Local Government of the Western Province. Similarly, it had been stated that the sub-leasing of a stalls is prohibited and in such an occasion, license or the lease of the lessee should be cancelled. In terms of the Clause 11 of the lease agreement too it had been stated that a stall given on rent should not be sub leased. Although Council had found on 19 March 2012 that 75 stalls belong to the Council had been sub-leased, action had not been taken to vest those stalls and to call for tenders, even up to 30 December 2013, date of audit, in spite of the above provisions.
- (f.) While action had not been taken to recover a sum of Rs. 91,800 due from 6 fish stall at the Ferry Junction, these balances in arrears related to a period ranging from 10 month to 9 years.

- (g.) Although the Beef Stall No.2 in the Friday Fair had been sealed and vested in the Council during April 2013, re-tendering had not been done up to 30 November 2013, date of audit.
- (h.) Action had not been taken to recover an arrears balance of Rs. 105,350 from 02 stalls leased out to lawyers up to 31 July 2014. The balance in arrears was relevant to a period ranging from 1 to 7 years.

#### **2.2.4 License fees, Industrial Taxes and Business Taxes**

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License fees amounting to Rs. 5,500 from 06 businesses, Industrial Taxes amounting to Rs. 1,300 from 02 businesses and Business Taxes from 187 businesses amounting to Rs. 336,800 relevant to the year 2013 were in arrears even as at 30 October 2014.

#### **2.2.5 Other Revenue**

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Action had not been taken to recover Advertisements Boards Charges amounting to Rs. 736,539 due for the years 2012 and 2013 in respect of 14 advertisement boards fixed in the area of authority, even as at 30 November 2013.

#### **2.3 Transaction not covered with Adequate Authority**

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##### **(a.) Travelling Expenses**

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- (i.) In obtaining travelling expenses or combined allowances by the Chairman, it is necessary to furnish an evidence to support that it is journey relating to a function assigned to him based on a resolution or a journey connected with an administrative function or an instance of summoning him by a particular body. However, a sum of Rs. 52,865 had been obtained as combined allowances for 107 days during the year under review by the Chairman without furnishing any such evidence.
  - (ii.) While telephone charges up to the maximum limit had been paid for a bungalow telephone of one Urban Council Member, the telephone had been disconnected with effect from April 2013 due to a further outstanding balance of Rs. 15,019. Approval for payment of that amount had been given according to a decision of the General Council dated 05 November 2013 and payment had been made.
- (b.) Following observations are made with regard to the reimbursement of telephone expenses of the post of Secretary to the Council during the years 2012 and 2013.
- (i.) In terms of Paragraph 4.3.1 (vii) of the Public Finance Circular No. 446 dated 01 September 2010, approval of the relevant Secretary to the Ministry should be obtained for the settlement of bungalow telephone bills of the officers not entitled

to settle telephone bills at the expense of the Government. However, approval of the Governor should be obtained for making payment under this circular for Local Government Officers. A sum of Rs. 52,045 had been paid out of Council Fund for bungalow and mobile telephone expenditure of the ex-Secretary, for the period from January 2012 to February 2013 without obtaining such approval.

- (ii.) Similarly, a sum of Rs. 27,128 had been paid under the monthly limit of Rs. 4,000 per month, out of Council Fund for office, bungalow and mobile telephones expenditure of the present Secretary, for the period from March to December 2013 based on the above circular.
- (iii.) While Council Secretary's Official Bungalow was being used by the ex-Secretary even as at 15 January 2014, date of audit, the telephone expenditure in arrears as at 30 December had been Rs.14,503 and only a sum of Rs. 5,000 had been paid as at 30 December 2013. Action had not been taken by the Secretary to pay the further sum of Rs. 9,503 in arrears even up to February 2014.

## **2.4 Improper Transactions**

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Following matters were revealed at the audit inspection carried out on 27 November 2013 with regard to the Kalutara South Pre-school conducted by the Council.

- (a.) It was revealed in the audit inspection carried out on 27 November 2013 that a sum of Rs. 45,000 had been recovered at the rate of Rs. 600 per child when admitting children to the Pre-school during the year 2013 without any approval of the Council. While the money recovered in this manner had not been deposited in any bank account, money had been kept in trust of a mother of a Pre-school child. It was revealed that the recovering money in this manner had been carried on for a number of years.
- (b.) It was revealed that money recovered in this manner had been spent to meet the expense incurred on food and other petty expenses connected with the school's variety entertainment show held at the end of the year. However, any evidence was not available with regard to the money spent out of the collection made annually, while bills amounting to Rs. 36,601 were submitted to audit by the school matron and the person who retained the money after 2 ½ months from the date of audit inspection.
- (c.) It was further observed in audit that the money had been recovered at the commencement of the year and kept in hand for the variety entertainment show to be held at the end of the year.

## 2.5 Contracts Administration

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### (a.) Tarring the Kalutara North Fonseka Place

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An estimate of Rs. 928,944 had been approved on 26 September 2012 for tarring the above road to a length of 1160 feet and to width of 15 feet and the work had been performed on direct labour basis. Following matters were revealed at the physical inspection carried out on 02 January 2014.

- (i.) Materials had been issued by the Council for an estimate not approved.
- (ii.) Although the length of this road had been 343.5 meters (1126.7 feet) and the average width had been 5.6 meters (18.4 feet), according to the measurements reports taken by the Superintendent of Works, length of that had been shown as 353.65 meters (1160 feet) and the width had been shown as 5.4 meters (18 feet).
- (iii.) Although the second coat of tar should be applied within two weeks after the applying the first coat, in spite of the fact that a period of 7 months had elapsed after applying the first coat of tar as at 03 January 2014, date of audit, applying the second coat of tar estimated for Rs. 275,583 had not been done.
- (iv.) According to materials and labour list, it had been stated that 275 unskilled labour days are required to perform the work for a length of 1160 and a width of 18 feet. In the examination of the check roll it was revealed that a sum of Rs.252,800 had been paid having utilized 316 days for that resulting in an additional payment of Rs.32,800 as alaries for 41 days.

### (b.) Tarring the Kalutara South Samaranayake Place

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An expenditure estimate of Rs. 501,344 had been approved on 26 June 2012 for tarring the above road to a length of 325 feet and to width of 20 feet. While the work had been performed on direct labour basis, the following matters were revealed at the physical inspection carried out on 04 January 2014.

- (i.) Although the Project had been finalized having commenced the work on 17 July 2013 up to July 28 and again attending to that work from 20 to 30 September according to the check roll, Work Completion Report had not been prepared.
- (ii.) Measurement Reports had not been obtained after completion of the Project.
- (iii.) While the length of this road had been 78.9 meters (259 feet) and the average width according to the measurements taken in 9 instances had been 5.6 meters (18 feet), it could not compared due to lack of measurement reports.

- (iv.) While application of first coat of tar had been finalized on 30 September 2013, second application of tar had to be done within 2 weeks from the date of application of the first coat. Although a sum of Rs.98,778 had been allocated in the approved estimate for that, application of second coat of tar had not been done even as at 03 January 2014, date of audit.

## **2.6 Operational and Management Inefficiencies**

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### **2.6.1 Un-settled Accounts**

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- (a.) Action had not been taken during the year under review too, to recover Electricity Debtors amounting to Rs. 2,471,702 and Rest House Income amounting to Rs.991,283 which are being brought forward over a number of years.
- (b.) Although provisions of Rs.438,900, Rs.62,000 and Rs.1,046,657 had been made as Creditors during the year 2001 for a Private Entity, an Individual and as Valuation Charges respectively, action had not been taken to settle those even as at 24 July 2014.
- (c.) Action had not been taken to settle an un-identified Advance balance of Rs.137,726 which is being brought forward over a period prior to the year 1995.

### **2.6.2 Assets Management**

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- (a.) Inventory goods including various types of 07 Vehicles, Machinery Equipment and Components exceeding Rs. 204 million in value provided under Stage I during the years from 2006 to 2008 and under Stage II during the years from 2009 to 2010 of the Project for Improving 18 Disaster Reaction Systems in the Western Province and selected urban areas under the Netherland Government Foreign Aid Project (ORET) had not been recorded in a Main Inventory Register in terms of Financial Regulation 751(I).
- (b.) Annual Board of Surveys to be done in terms of Financial Regulation 756 with regard to the inventory goods of the Fire Brigade Section had not been carried out since the year 2008 up to the time of audit inspection in November 2013.
- (c.) Action had not been taken to maintain a proper register indicating particulars relating to all buildings and land belong to the Council even as at 30 June 2013, date of audit.
- (d.) Although it was requested to furnish the tile deeds relating to lands belong to the Council for examination on 03 January 2014, those deeds had not been submitted.

### **2.6.3 Settlement of Advances**

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Following observations are made.

- (i.) Action had not been taken to settle the advances totalling Rs. 6,088,166 paid during a period from prior to the year 1995 up to 31 December 2013 even as at 24 July 2014, date of Audit. While a sum of Rs. 10,480 had been over recovered in settlement of the advances, there was an un-identified balance of Rs. 137,726 in the balance of unsettled advances.

- (ii.) Although the advance of Rs. 1,000,000 paid for the construction of Himidiriyawa Crematorium on 09 October 2008 to the relevant entity had been shown deducted on the bills payable to that entity, that value had not been adjusted in the Advance Account. Action had not been taken either to take into accounts or disclose the sum of Rs.1,511,827 payable further (inclusive of 15% Value Added Tax ) for the construction.
- (iii.) While 03 cheques for Rs. 72,127 received in respect of Meat Stalls Rent Revenue for the year 1998 and cheques for Rs. 20,984 received in respect of Rates Revenue during the years 2000, 2001 and 2002 had been dishonored, those amounts were being brought forward in the accounts as un-settled advances without action being taken to recover those amounts.

#### **2.6.4 Unauthorized Constructions**

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According to the entries made in the Registers, 68 unauthorized constructions had been reported as at 30 November 2013 and relevant parties had been informed in writing to suspend those constructions. However, no follow up action had been taken in that connection.

#### **2.6.5 Staff Management**

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- (i.) There was a shortage of 35 employees and a surplus of 2 employees in the approved cadre as at 31 December 2013.
- (ii.) The post of the Council's Secretary had been vacant over a number of years.
- (iii.) Four Health Instructors/Instructresses recruited on substitutes basis during the years 2007, 2008 and 2011 had been engaged in duties of the Revenue Section, without being engaged in Health Consultancy works even as at 30 December 2013, date of audit.

#### **2.6.5 Vehicles Control**

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- (a.) While 4 vehicles had been used by the Members of the Council during the period from 23 February to 15 December 2013, to travel journeys to the extent of 17,684 kilo meters, indicating that those journeys were to performed on the instructions of the Chairman/Secretary, any written evidences were not available with regard to their duties connected with these journeys. Initials too had not been placed in the Running Charts to the effect that these vehicles were used in the above instances.
- (b.) A test had not carried out with regard to the fuel consumption of these vehicles.
- (c.) While Monthly Summaries had not been prepared relating any vehicle of the Council during the year 2013, Running Charts for a period from 2 to 9 ½ months relevant to 05 vehicles were not submitted to audit up to 31 December 2013.



- (d.) Although charges had been recovered on the basis of a Council Decision for rendering services for fire extinguish, works in areas outside the area of authority of the Council, providing Fire Risk Avoid Certificates, Certification of Building Plans and Fire Security Systems, providing Ambulance Services, Conducting Fire Extinguish Service Training Sessions etc., Council By-Laws had not been sanctioned for that.

## **5. Systems and Controls**

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Special attention of the Sabha is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Revenue Administration
- (iii.) Assets Management
- (iv.) Contracts administration
- (v.) Budgetary Control