

Kalutara Urban Council

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 23 March 2016 while Financial Statements relating to the preceding year had been submitted on 26 March 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Council on 22 July 2016.

1.2 Qualified 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 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following deficiencies are observed.

- (a) Although the Revenue Heads of the current year should be credited having debited the Accumulated fund for correction of non-accounting Receipts in Advance according to paragraph 2.2.1 (b) in the in the audit report for the preceding year, it had not been done so causing understatement of revenue for the year in a sum of Rs. 781,827.
- (b) While Stamp Fees Revenue amounting to Rs. 38,508,455 relevant to the years 2013 and 2014 received during the year under review had been accounted as revenue of the year under review, Stamp Fees Revenue relevant to the year under review had not been computed and accounted.
- (c) Receipt of Salary Reimbursements amounting to Rs. 6,050,167 relevant to the year 2014 withheld, had been accounted as revenue for the year under review.
- (d) Interest Receivable for 02 Fixed Deposits in the Peoples' Bank and National Savings Bank had been overstated in a sum of Rs 47,450. Due to that; revenue for the year and current assets had been overstated to that extent in the accounts.

- (e) While expenditure relevant to the year under review in 4 items of expenditure totaling Rs. 259,650 had not been accounted as expenditure of the year, due to that; expenditure for the year and Creditors had been understated to that extent in the accounts.
- (f) Capital Grants and and Capital Expenditure amounting to Rs. 1,485,469 relevant to the year under review had been shown under Recurrent Revenue and Expenditure.
- (g) Ownership of A Foton Cab Vehicle and Foton Backhoe Loader valued at Rs.2,000,000 and Rs.16,695,000 respectively, received from the Ministry of Provincial Councils and Local Government during the year 2015 and Single Drum Vibrating Roller of which value not assessed, had not been transferred in favor of the Council and not accounted.

1.3.2 Lack of Evidence for Audit

Stock of Stores Material in Hand amounting to Rs. 14,703,849 at the end of the year under review could not be satisfactorily vouched in audit, as the relevant schedules were not furnished.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 had been Rs.40,755,710 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 4,778,582 in the preceding year.

2.2 Revenue Administration

2.2.1 Arrears of Revenue

Arrears of Revenue totaling Rs. 32,233,369 at the end of the year under review had not been recovered in terms of provisions in Sections 160, 165, 170 in the Urban Councils Ordinance Chapter (255).

2.2.2 Rates

- (a) While estimated revenue for the year 2015 was Rs. 24,108,640, out of that a sum of Rs. 14,865,586 or 62 percent only had been recovered as at 31 December 2015.
- (b) While balance of Rates in arrears as at 31 December 2014 was Rs. 26,711,62, out of that a sum of Rs. 9,707,206 or 36 percent only had been recovered as at 31 December 2015.

2.2.3 Industrial Tax

While balance of Industrial Tax in arrears as at 31 December 2014 was Rs. 36,959, out of that a sum of Rs. 13,250 or 36 percent only had been recovered as at 31 December 2015.

2.2.4 Entertainment Tax

While the estimated revenue for the year 2015 was Rs.4,473,294, out of that a sum of Rs.2,608,534 or 58 percent only had been recovered as at 31 December 2015.

2.2.5 Rest House Rent

While the balance of arrears as at 31 December 2014 was Rs. 745,035, out of that a sum of Rs.74,750 or 10 percent only had been recovered as at 31 December 2015.

2.2.6 License Fees

As per notification published in the Gazette No. 1889 dated 14 November 2014 of the Republic of Sri Lanka, in the event of any hotel, restaurant or lodging house in the area of authority of the Kalutara Urban Council have been registered in the Sri Lanka Tourism Development Board have been approved or accepted for the functions under Tourism Act No. 14 of 1968, a sum of 1 percent of the gross income for the year 2014 should be imposed and recovered as License Fee for the year 2015. Following observations are made in this connection.

- (a) While financial statements submitted by 05 private establishments for the recovery of 1 percent tax were not audited statements, the relevant Accountancy Firm had stated that, the accounting statements were prepared according to information furnished to them by the relevant establishment. Under these circumstances, it could not be satisfied in audit with regard to the income declared for the computation of the 1 percent tax.
- (b) Although the 1 percent tax should be recovered on the basis of the income for the year 2014, the private establishments had not furnished information relating to income for the year 2014 and first 3 months period of the year 2015. Accordingly, the tax relevant to the year 2015 had not been computed correctly.

2.2.7 Court Fines

Any attempt had not been made by the Council since the year 2012 to get the Court Fines revenue of the Council which is in the hands of outside parties. It was not possible to determine the amount receivable to the Council, as the Council had not maintained at least a register connected with that.

3. Operating Review

3.1 Operational Inefficiencies

- (a) While the loan balance of Rs. 67,680 of a female officer left on transfer had not been recovered even as at 20 January 2016, loan balances due from officers deceased and vacated service as at 31 December 2015 amounted to Rs. 362,920.
- (b) A shortage of 18 employees were observed as at 31 December 2015 when the approved cadre and actual cadre of the Council was taken into consideration. 6.
- (c) Action had not been taken to obtain security from 48 employees of the Council who are required to furnish security.
- (d) In spite of the fact that the Planning Committee had not been held for more than 2 hours, allowances amounting to Rs. 13,000 had been paid contrary to the provisions in paragraph 15 of the Circular No. LG/07/2004 of the Commissioner of Local Government dated 15 December 2004.
- (e) A surcharge of Rs. 19,493 had been paid on 15 October 2014 due to the delay in payment of contributions to the Employees Provident Fund relevant to the period from the year 2002 to 2013.

3.2 Defunct and Under-utilized Assets

Suitable course of action had not been taken with regard to Backhoe Loader, a Tractor and 13 vehicles proposed for disposal of by the Board of Survey for the year 2011.

3.3 Contracts Control

(a.) Maga Neguma Rural Roads

Reimbursement of funds for 02 roads constructed at an expenditure of Rs.810,383 had been refused during the year under review by the Ministry, due to non-compliance with Circular No.HM/MG/03/01/Gen dated 24 December 2009 of the Ministry of High Ways and Investments Promotion under Maga Neguma Rural Roads Development Program.

(b.) Tarring Kalutara North Temple Road

The Project for reconstruction of the road by tarring from Kalutara North Temple Road, Second Cross Street up to Vivekarama Road, Third Cross Street had been temporarily suspended on the instructions of the Assistant Commissioner of Local Government due to overestimating. Following observations are made in this connection.

- (i) Although payment reports and measurement reports had been submitted by the contractor for the parts of works performed before suspension of works temporarily, those had not been examined and confirmed by the Technical Officer who supervised the project and prepared the estimates.

- (ii.) Many weaknesses of the constructions had been revealed by the Engineer of the Roads Development Authority and the Kalutara Assistant Commissioner of Local Government who examined the Work.

3.4 Vehicles Repairs

Following matters are observed.

- (a.) Although a sum of Rs. 551,718 had been spent out of Sabha Fund for repairing the Gully Bowser met with an accident on 19 September 2015, action had not been taken by the officers responsible to get insurance claims.
- (b.) While the JCB Machine had met with an accident in the Garbage Yard on 24 September 2015, an estimate for Rs. 110,594 had been received for repairs from a private company. However, repairs had not been carried out even up to 15 January 2016.
- (c.) While the Water Bowser Engine had been sent to Sathosa Motors for repairs, it had been replaced with new engine parts having spent a sum of Rs. 984,295. These repairs had been carried out according to the estimate of the Sathosa Motors without a recommendation of the Mechanical Engineer of the Roads Development Authority.
- (d.) Mahindra Tractor and the Nissan Fire Extinguish Vehicle received from the Disaster Management Center as Tsunami Grants had not been registered even as at 15 January 2016, date of audit, it was observed at the physical inspection, that those were getting decayed in the vehicle yard.

3.5 Idle Assets

The basic structure of the ground floor only had been constructed as at 12 January 2016 for the construction of the three storied building of the Health Division for which provision had been approved under Provincial Criteria Based Development Grants Program – 2007. While that part had been utilized for parking vehicles, it had been kept idle during period exceeding 08 years.

4. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Vehicles Control
- (d.) Assets Management
- (e.) Projects Control
- (f.) Budgetary Control