

**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 under review had been submitted to the Audit on 28 March 2016 while Financial Statements relating to the preceding year had been submitted on 31 March 2015. The Auditor General's Report relating to the year under review was issued to the Secretary of the Council on 01 June 2016.

**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 2015 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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Though the ownership of 04 vehicles amounting to Rs. 35,771,461 given to the Council in the years 2014 and 2015 from the Ministry of Provincial Council and Local Government and Democratic Government under the distribution programme of basic machines and equipment required for maintenance units of the Local Government Institutions had not yet been transferred to the Council, it had not been disclosed in notes to the accounts in this regard.

**1.3.2 Accounts Receivable**

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While the value of 08 Accounts Receivable balances as at 31 December 2015 was Rs. 10,250,468, out of that account balances aggregating Rs. 1,990,221 had been outstanding over 05 years and account balances that had been outstanding over 01 year to 05 years were Rs. 2,075,174. Out of that balances a sum of Rs. 5,591,357 were further been receivable as at 20 May 2016.

**1.3.3 Accounts Payable**

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While the value of 02 Creditor balances as at the end of the year under review was Rs. 6,431,717, out of that, the value of account balances that had been outstanding over 01 year was Rs. 2,076,420. Out of that balances a sum of Rs. 3,226,581 were further been payable as at 20 May 2016.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the amended Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs. 4,935,329 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 9,680,007, accordingly, a decline in a sum of Rs. 4,744,678 was observed in the financial results.

### **2.2 Analytical Financial Review**

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(a) Some significant ratios with regarding the financial position and financial performance of Urban Council were shown below.

(i) **Excess to Operating Income**

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The excess of financial result of the year under review and the previous year as a percentage of the operating income, that percentage is shown a deterioration.

(ii) **Total Income and Total Expenditure**

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It was shown an increase in the percentage of total expenditure for total income during the year under review and the previous year, thus indicating an unfavorable impact on financial control.

(b) A decline of Rs. 6,696,720 was observed in overall surplus of the year under review as compared with the overall surplus of the previous year, and decrease in 02 revenue items and increase in 03 expenditure items in the year 2015 had been the main reason for this decline.

### **2.3 Revenue Administration**

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#### **2.3.1 Performance in Revenue Collection**

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Information furnished by the Secretary relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review and the previous year are shown below.

Item of Revenue	<u>as at 01.01.2015</u>		Billing	<u>Year 2015</u>		<u>Receipt of 2015</u>			Arrears as at 31.12.2015
	Arrears Balance	Receipt in Advance		Surcharges	Discount Given/ Write Off	Receipt in Advance	Receipt from Arrears	Receipt from Billings	
	Rs.	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Rates and Taxes	2,354,379	7,394	3,018,937	186,196	203,334	196,818	974,907	1,912,678	2,279,168
Stall Rent	133,779	30,172	2,960,203	48,110	38,610	170,781	124,210	2,738,625	100,038
Trade License	4,000	4,750	718,080	--	--	3,750	4,000	719,080	--
Other Revenue	3,414,715	16,623	12,699,218	42,175	--	19,112	3,617,050	8,602,500	3,934,068
<b>Total</b>									<b>6,313,274</b>
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It was observed that the arrears of revenue balance as at 31 December of the year under review was Rs. 6,313,274

### 2.3.2 Rates

Following matters were observed.

- While there was a balance of Rates in arrears amounting Rs. 2,354,379 as at 01 January 2015, billing up to 31 December 2015 was Rs. 3,018,937. Out of these balances, the percentage of recovery during the year under review had been 41 per cent and 63 per cent respectively, and it was observed the balance of Rates in arrears as at 31 December 2015 was Rs. 2,279,168. This arrears of rates was a period ranging from 03 months to 20 years was 2,099,644, and Actions had not been taken to in terms of Section 170(2) of the Urban Council
- Receivable outstanding from 09 Government Institutions as at 22 December 2015 was Rs. 309,226 and this outstanding was a period ranging from 03 months to 12 years. Actions had not been taken to recover this outstanding amount.
- Though the Rates new assessment was made at the end of the year 2013, billing of Rates for the year 2015 had been done according to the assessment made on the year 2007.

### 2.3.3 Lease Rent

Following matters were observed.

- When leasing out of stalls, 07 stalls belong to Council had been given on lease without entering into agreement with the lessee.
- Though the rents had continuously been paid by the lessees of 09 stalls in public market and 10 stalls in the upstairs of the building which situated the Kandurata Development Bank, those were continuously being closed without doing business activities.

- (c) Though the provisions had not been made to transfer the lease right of stalls to relatives by the Circular No. 1980/46 of Commissioner of Local Government dated on 31 December 1980, the stall No. 06 in the Railway Station road belong to Council had been given to a relative of the lessee on 28 October 2010 on the decision made by the Council on 31 August 2010.

#### **2.3.4 Other Revenue**

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##### **(a) Water Charges**

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Following matters were observed.

- i. While Water Charges to be recovered as at the end of the year under review was Rs. 2,768,476, out of that, the amount in arrears for a period ranging from 01 to 03 years was Rs. 377,069, and actions had not been taken to recover this amount.
- ii. While Water Meters had not been fixed for the two Water Projects called Mangala Giri Kanda and Punchi Mola, the water charges had been recovered from the water consumers at fixed charges such as Rs. 200, Rs. 300 and Rs. 350, and therefore recovery of charges according to the consumption of water had been prevented. Further, it was observed that the water has been given to consumers without filtering.

##### **(b) Three Wheeler Charges**

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Three Wheeler charges arrears as at 31 December 2015 was Rs. 378,194 and, this amount was outstanding for a period ranging from 01 year to 05 years.

#### **2.3.5 Court Fines and Stamp Fees**

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Court Fines amounting to Rs. 474,389 was receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2015.

### **3. Operating Review**

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#### **3.1 Performance Evaluation**

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Following matters were observed.

- (a) Though the budget should be prepared from the proper estimate values taken from the technical officers for the projects to be implemented in the upcoming year from the priority preparation for the development proposals given in the previous year, without doing so, the budget estimates had been prepared and approved by considering the gross amount of Rs. 5,910,000 as building development and road development activities.
- (b) According to the budget statement of the year under review, construction of Town Hall and assembly hall with latest equipment including the office building and hall premises, market complex; starting all-inclusive complete market complex by consolidating

Municipal Council old building and the railyard store premises of Food Department; development of optional road parallel to railway line starting from railway station; granting the house ownership to the low income householders and taking actions to obtain a Carbonic Fertilizer Processing Center through JAICA institute for managing the solid waste had been main objectives, however those project had not been initiated.

### **3.2 Management Inefficiencies**

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Following matters were observed.

- (a) The amount of Rs. 587,845 which had been spent from Council funds and to be recovered from other institutions had been shown in accounts as payment in advances for a period ranging from 1 to 7 years without recovering.
- (b) Eight vacancies and 21 excess posts were in the Council as at 31 December 2015.

### **3.3 Operational Inefficiencies**

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Following matters were observed.

- (a) Certificate of Conformity should have been taken before occupying the houses after completing the construction of approved housing plans as per the paragraph 21 of Urban Development Authority Act No. 41 of 1978, though 269 building development license had been issued by the Council from the year 2010 to 2015, only 70 Certificate of Conformity had been issued. Therefore issuing of Certificate of Conformity was in poor level.
- (b) According to the inquiries received to Sabha upto 14 December 2015, sending of unauthorized orders to those people with regard to 05 unauthorized constructions had only been done, and any other actions had not been taken.
- (c) Environment Fund had been created by using a sum of Rs. 158,350 given by the Ministry of Provincial Council and Local Authorities in the years 2013 and 2014 and a sum of Rs. 120,000 provided from the general fund, and the balance as at the end of the year under review had been Rs. 278,350. The Fund was idle due to non-implementing the relevant activities during the year under review by using this fund. The legal provisions to create such Funds had not been provided in the Municipal Council Ordinance.

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

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### **4.1 Budgetary Control**

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It was observed according to the budget prepared for the year under review, that the budget had not been made use of as an effective tool of management as there were variations from 14 per cent to 41 per cent in 03 items of revenue and variations from 14 per cent to 80 per cent in 06 items of expenditure, when the estimated revenue and expenditure are compared with the actual revenue and expenditure

#### **4.2 Annual Procurements Plan**

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An Annual Procurement Plan had not been prepared.

#### **4.3 Implementing of Audit and Management Committees**

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According to the instructions of the Circular letter No. CPC/CAM/1/6 dated on 01 August 2014 of the Chief Minister of the Central Provincial Council, though the audit and Management Committee meetings should be conducted at the end of every quarter, the Council had conducted Audit and Management Meeting only in one occasion in the year under review.

#### **4.4 Assets Management**

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

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Following matters were observed.

- (a) Three vehicles amounting to Rs. 25,936,884 received to Council as donations from Ministry of Local Government in the years 2014 and 2015 had not been used even as at 28 December 2015.
- (b) Computer accessories and office equipment amounting to Rs. 369,873 received on 25 February 2014 for an Information Technology Center sponsored by Central Provincial Council under the Concept of “Global Village in time” had been kept idle without using for intended purpose.
- (c) Music instruments amounting to Rs. 193,500 had been idle due to non-performing of the Art Circle from the year 2014 which conducted in the Council from long period with a view of providing welfare service to children in the area of authority of the Council.
- (d) Five items of assets amounting to Rs. 1,984,775 and non-valued items of water and building equipment had been idle and under-utilized for a period from 07 to 13 years.
- (e) The current account No. 70573431 of Bank of Ceylon and savings account No. 074-2-001-9-5239580 People’s Bank with relating to the water project of Asian Development Bank had been idle without using, and the balances as at the end of the year under review was Rs. 117,915 and Rs. 3,371 respectively.

#### **5. Systems and Controls**

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Special attention is needed in respect of the following areas of systems and controls.

- (a) Budgetary Control
- (b) Accounting
- (c) Internal Control
- (d) Revenue Administration
- (e) Creditors and Debtors Control