

Kesbewa Urban Council.

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 27 June 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 15 July 2016.

1.2 Qualified Opinion

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 Kesbewa Urban Council as at 31 December 2015 and its financial performance for the year then ended and cash flows in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following deficiencies are observed.

- (a) A sum of Rs.523,458 payable to the Public Service Provident Fund relating to the project employees from August to December of the year under review had not been brought to account as an expenditure of the year.
- (b) A sum of Rs.110,526 payable to the Public Service Provident Fund in respect of the project employees relating to March of the year under review had been omitted from the accounts.
- (c) The audit fees amounting to Rs.1,500,000 allocated for the preceding year had been brought to account as an expenditure of the year.
- (d) The interest of Rs.23,961 excessively debited for the Asian Development Bank loan during the year under review had been adjusted to the Accumulated Fund without deducting it from the relevant expenditure.

1.3.2 Unreconciled Control Account

When comparing the balances relating to 06 items of accounts shown in the financial statements with the balances stated in the subsidiary documents and the records, understatement of Rs.12,048,935 and overstatement of Rs.793,719 in the financial statements could be observed.

1.3.3 Accounts Receivable and Payable

- (a) Out of the employees loan amounting to Rs.17,124,670 due to be recovered as at 31 December 2015, balances totaling Rs.244,316 that remained unrecovered over a long period of time had not been recovered even in the year under review.
- (b) The refundable deposit balance of Rs.42,164,795 existed by the end of the year under review had included the balances totalling Rs.8,078,383 older than a period of 05 years. Nevertheless, action had not been taken to dispose of that lapsed deposit in terms of Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka.
- (c) Audit fees totalling Rs.1,296,491 payable for the year 2014 had not been settled to the Auditor General even by 31 July 2016.

2. Financial Review

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.103,195,690 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.57,235,862.

2.2 Revenue Administration

2.2.1 Performance of the Collection of Revenue

Summarized information as furnished by the Chairman relating to Actual Revenue and Arrears of Revenue for the year under review is shown below.

Source of Revenue	2015				2014	
	Amount to be collected	Actual Collection	Arrears for the year	Total Arrears as at 31 December	Amount to be collected	Total Arrears as at 31 December
	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000	Rs. ,000
Rates and Taxes	41,207	36,600	4,607	27,175	38,002	22,392

Lease Rent	12,610	11,701	909	2,937	11,855	2,428
License Fees	6,150	5,444	706	1,150	5,235	420
Other Revenue	218,303	38,303	180,000	275,212	178,354	127,993
	<u>278,270</u>	<u>92,048</u>	<u>186,222</u>	<u>306,474</u>	<u>233,446</u>	<u>153,233</u>

2.3.2 Rates

As action had not been taken to recover rates in terms of Section 170 of the Urban Councils Ordinance, the total arrears according to the financial statements as at 31 December of the year under review had been Rs.26,749,745. In this balance, rates for more than Rs.50,000 relevant to 05 places totalling Rs.1,099,094 had remained unrecovered even by 30 June 2016.

2.3.3 Lease Rent

A sum of Rs.2,176,712 was in arrears as at 31 December 2015 for 143 stalls out of 355 stalls belong to the Council which had been given on rent.

03. Operational Review

3.1 Management Inefficiencies

Following observations are made.

- (a) Having demolished the old rest house belonging to the Council which was generating income, the first stage of a new building had been constructed under an estimate of Rs.52,929,240 and it had been handed over to the Council on 04 December 2014 on completion of the project. As this building had not been used for any effective income generating purpose up to 31 May 2016, the Council had been deprived of the income due to be received. The Audit had pointed out the defects relating to the construction of this rest house during the audit of the final accounts of the year 2014, whereas no step whatsoever had been taken to use this building so as to earn an income to the Council even by 31 May 2016, the date of audit.
- (b) There was a balance of Rs.14,539,286 as at 31 December 2015 in the current account jointly maintained by the Council with the Urban Development Authority for the renovation of the rest houses. As action had not been taken to deposit that amount in a savings or fixed deposit account, the Council had been deprived of the interest income which could have been annually earned by the Council.

3.2 Operating Inefficiencies

Following matters are observed.

- (a) Action had not been taken to settle the advances totalling Rs.353,026 granted before the year

2013 even by the end of the year under review.

- (b) It was not possible to obtain any updated information of the Rates Section by combining or in summarized form by a computer software system purchased by the Council from a private institution during the year 2007 for revenue management and the Council had not taken action to rectify numerous lapses found in the system. Lack of proper supervision with regard to computerized information and not following any security measure by the Council was observed.
- (c) In terms of the Circular No.LGB/7/7/1/D1-2013 dated 09 February 2014 of the Commissioner of Local Government (W.P.), it had been informed not to employ any employee older than 60 years of age. Nevertheless, 4 employees older than 60 years of age had been employed on contract basis and salaries of Rs.2,164,721 had been paid from the date of exceeding their 60 years up to 31 July 2016.

3.3 Failure to reconstruct the road excavations

A sum of Rs. Rs.24,020,350 granted by the National Water Supply and Drainage Board to the Council for the reconstruction of the roads that had been excavated to lay water pipes within the Divisional Secretaries Division of Kesbewa under the second stage of the Kaluganga Water Supply Project had been retained in the General Deposit Account from the years 2011 and 2013 and out of that, only a sum of Rs.7,018,885 had been used by 31 December 2015. Nineteen roads damaged under this project had to be reconstructed. The following matters were observed at the physical verification carried out by the Audit on 21 September 2015 with regard to those roads.

- i Most of the roads under this project had been tarred under the Maganeguma Project and filling of indentations only had been done in the other roads.
- ii As some roads had not been subject to any reconstructions, those had become badly dilapidated condition.
- iii Only a part of some roads had been reconstructed and the remaining parts had been in dilapidated condition.
- iv The rods that had been damaged for the supply of water for the houses at either side of the road had not been reconstructed.

Accordingly, the money received for the reconstruction of these roads had not been effectively utilized for the relevant purpose.

3.4 Assets Management

Idle and Underutilized Assets

The following matters are observed.

- (a) Five motor vehicles valued at Rs.385,300 belonging to the Council had remained idle for a period from 02 years to 05 years.
- (b) The Concrete Mixture Machine received from the Ministry of Disaster Management in

February 2012 and the canoe valued at Rs.140,000 purchased by the Council on 13 November 2013 had been parked in the Kesbewa Sub-office without being used for any purpose.

3.5 Identified Losses

The following matters were observed.

- (a) The Council had not maintained a proper financial administration in accordance with the provisions specified in the Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and as such a sum of Rs.487,204 had been paid as the interest of the bank overdrafts during the year under review.
- (b) The Council had not taken action to take back 300 unreturned books obtained by the external readers from the Piliyandala Public Library during the period from the year 2008 to the year 2014 or to recover their value amounting to Rs.61,880 from the persons responsible even by 30 June 2016.

3.6 Contract Administration

Agreements had been entered into for 213 development projects implemented within the jurisdiction of the Council in the year under review and out of that, 42 projects had not been completed. Out of the 213 agreed projects, the number of projects agreed to be implemented by the Fund of the Council was 41 and one of those projects had been cancelled.

04. Accountability and Good Governance

4.1 Budgetary Control

Seventeen instances were observed where variances ranging from 01 per cent to 236 per cent were observed between the budgeted and actual income and expenditure even after the transfer of provisions between the item of income and expenditure during the year under review , thus indicating that the budget had not been made use of as an effective instrument of management control

4.2 Internal Audit

Activities of the Internal Audit Division had not been arranged in terms of the provisions specified in the F.R. 133 (1) and (2) of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka.

4.3 Replies to Audit Queries

Replies to 05 audit queries issued for the year under review had not been furnished even by 10 June 2016 and the value of quantifiable transactions relating to those audit queries amounted to Rs. 5,811,019. Replies to two audit queries issued for the preceding year as well had not been furnished even by the above mentioned date.

5. Systems and Controls

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

- (a) Internal Audit
- (b) Financial Control
- (c) Budgetary Control
- (d) Accounting
- (e) Revenue Administration
- (f) Assets Management
- (g) Debtors and Creditors Control.