

**Nawalapitiya Urban Council
Kandy District**

1. Financial Statements

1.1. Presentations of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 March 2017 while Financial Statements relating to the preceding year had been submitted on 30 March 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 Nawalapitiya Urban Council as at 31 December 2016 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 were observed.

- a) According to the asset register, the value of a Gully bowser and a tractor amounted to Rs.3,480,000 since the value of a Gully bowser had been re-recorded as Rs.520,000, the balance in car and carts account showed an excess of Rs. 520,000.
- b) Although the value of a double cab vehicle belonging to the council valued to Rs.7,650,000 had been recorded as Rs. 7,600,000 this caused a decrease of Rs. 50,000 in the financial statements under review.
- c) Although the water bill of the year under review as at 31st December amounted to Rs.108,862 if had been recorded as Rs. 59,259 this caused the water bill amount to be less by Rs.49,603.
- d) As at 31st December during the year under review, the interest amount belonged to four fixed deposits amounted to Rs. 462,798 but it had been recorded as Rs. 350,917 and due to this the balance of interest showed a less amount by Rs. 111,881.

1.3.2 Contingent Liabilities

The claim for the ownership of shops, Tender of meat shops, unauthorized vegetable trade and requesting the ownership of the parking lot, the financial statements did not disclose the eight cases filed by the eight parties.

1.3.3 Un Reconciled Control Accounts

The amount totaled in 02 accounts totaled to Rs. 15,330,048 according to the financial statements under review and while analyzing with other supporting documents a variation of Rs.1,004,432 had been identified.

1.3.4 Payable and Receivable Accounts

a) Receivable Accounts

While the total of 2 balance of accounts receivable as at 31st December amounted to Rs. 156,824,990. According to the time analysis the balance which has overlapped 1-5 years amounted to Rs. 429,633 while the account balances which exceeded 05 years was Rs. 12,997,592 had not been recovered.

b) Payable Accounts

The account payable as at 31st December of four accounts totaled to Rs.25,139,150, According to the time analysis, the unsettled balance which has elapsed 1-5 years amounted to Rs. 1,548,319 while the total of un settle amount which has exceeded 05 years is Rs. 6,967,346.

1.3.5 Lack of Documentary Written Evidence for Audit

Transactions totaling Rs. 22,754,230 relevant to 05 items of accounts could not be satisfactory vouched in audit, due to non submission of required information to audit.

1.3.6 Non Compliance with Laws, Rules and Regulations

Following instances of non compliance with laws, rules and regulations were observed during the audit.

Reference to laws, rules and regulations	Non Compliance
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a) The Financial Regulation of the Democratic Socialist Republic of Sri Lanka FR 189	Three return cheques worth Rs. 45,291 had not been dealt with.

b) Circulars of the provincial commissioner

 The Circular No. 1980/46 dated 31st
 December 1980

i) Paragraph 1

Eventhough the monthly rent had to be decided according to the government estimates, It had not been done so at the market stalls, supermarket near the bus stand and Ambagamuwa Market, during the year 2010.

ii) Paragraph 2

Eventhough the estimated rent should be revised once a five years, the shops that were leased in 2010 had not been reassessed.

iii) Paragraph 7

i) The original leaseholders has subleased the supermarket stalls and stalls near the bus station and earned rentals from Rs.10,500 up to Rs.30,000.

ii) In addition to the monthly rental of the sublease holders, It had been recovered the amount of Rs.570,000 at once by the First lease holders.

iv) Circular No. 2016/03 of 17th
 March 2016. Paragraph - 02

Although any changes in structures of the leasehold and add new parts to the property cannot be done without a proper approval of the Urban Council.

2 Financial Review

2.1 Financial Results

 According to the Financial Statement presented, excess of revenue over recurrent expenditures of the council for the year ended 31 December 2016 amounted to Rs. 26,918,138, as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.14,165,012. When compared with the preceding year, an increase of Rs. 12,753,125 was observed in the financial results for the year under review.

2.2 Analytical Financial Review

The increase of Rs.4,361,594 of lease rent, Rs.2,329,319 other income and 3,015,927 of revenue aid had been basically influence for the increase of Rs.12,753,125 of financial result.

2.3 Working Capital Management

The ratio between the year of review the total current assets and total current liabilities for the last two years were 2.3:1, 1.79:1 and 1.69:1 respectively.

2.4 Revenue Administration

2.4.1 Performance of Revenue Collection

The old building belonging to the Urban Council is to be given to the Ministry of Education for the use of practices, the Urban Council will lose the income earned and unable to the services provided to the people in the city.

2.4.2 Rates

Following matters are observed.

- a) Although arrears amounted to Rs. 14,203,797 as at the beginning of the year under review, only a sum of Rs. 4,333,001 had been recovered during the year. It was only a small portion of 30% of the total arrears.
- b) During the year under review, the balance arrears of rates amounted to Rs. 13,973,461 as at 31stDecember.

2.4.3 Lease Rent

Following matters are observed.

- a) At the beginning of the year under review, sum of Rs.1,142,752 was arrears for the public market lease rent. Only an amount of Rs. 476.692 had been recovered during the year and it was only 41 percent of the total.
- b) At the beginning of the year under review, trading halls with Rs.1,067,973rent balance remained, and only Rs.267,195 had been recovered during the year and it is only 25 present of the total arrears.

2.4.4 Other Income

a) Vehicle Rental Income

At the begin of the year arrears vehicle rent amounted to Rs.2,165,364. The recovering percentage of the rent income is 48 percent charges per year.As at 31st December of the year under review a sum of balance existed of Rs.1,914,665.

b) Income of Fertilizer Sales

At the end of the year under review, earnings due to the sale of fertilizer was Rs.878,955. In this balance there was also a balance of Rs.789,950 due from 1-5 year.

c) Water Chargers

A sum of Rs.914,483 was arrears water charges at the beginning of the year under review and it had been recovered only Rs.113,200 from that balance which is a very less percent of 12 from the total deficit.

2.4.5 Court Fines and Stamp Duty

A sum of Rs.313,956 of Court fines and Rs.2,842,000 of stamp fees were due to be recovered as at 31st December 2016 from the Chief Secretary of the Provincial Council and other authorities.

3 Operational Review

3.1 Performance Evaluation

The following matters are observed.

- a) The Council not had taken the action to lease the several houses and shops in the trading complex belonging to the Urban Council.
- b) Although a building plan was prepared for the proposes commercial complex to be built at the town hall building and a sum of Rs. 1,000,000 had been paid to an architecture but the project had not started at 31st December 2016.

3.2 Management Inefficiencies

The following matters are observed.

- a) Stall number 04 at the bus halt, had been leased out of the former chairman's wife, for a sum of Rs.2,250,000 on 31st May 2010 without following the tender procedures. The chairman of the Urban Councilalso intervened and sublease the shop toa Rs.2,800,000to the private party. After the interim lease, the receipt had been irregularly recovered by the first lessor, who paid

- the receipt number 5152 as at 30th June 2010, a sum of Rs. 1,000,000 key money had been paid at the same time.
- b) The members of the Urban Council had irregularly obtained the 07 stalls belonging to the Urban Council.
 - c) Since the tender and lease money of Rs. 4,318,210 of 04 rooms in supermarket complex the Urban Council has sealed them. Action had not been taken to recover the arrears or tender them to another party.
 - d) The Urban Council ordinance section 36 E II, building no. 153 at Kotmale road without obtaining the permission from the minister of the subject, on a long term lease basis for a monthly rental fee of Rs. 8,531 had been given to 02 lessees. The lease agreement signed by the lessor and the Urban Council has been entered in to with the unfavorable conditions to the Urban Council within the meaning of article 21.
 - e) The supermarket complex no. 173, a small movie theatre had been tendered on 23rd August 2011, to a private party outside the tender procedure, was not subject to a long term lease without being in conformity with paragraph no. 36 E II of the Urban Council ordinance. No security had been obtained in accordance with paragraph 05 of the agreement and at the time of 31st December 2016 it should have been a tender price of Rs. 500,000.
 - f) Five houses in the supermarket complex at the Urban Council had been tendered without following the tender procedures. Although the value of a house had been Rs. 2,302,600, according to the major decisions taken by the Urban Council on 25 October 2010 a minimum bid for a house Rs. 1,000,000 had been decreased and leased. But as at 31 December 2016 an amount of Rs. 3,950,000 remained as arrears for the house.
 - g) 22 advances amounts totaled Rs. 676,320 given to several parties by the council during the year, but action had not been taken to recover them at the end of the year under review.

3.3 Operational Inefficiencies

Following matters were Observed.

- a) 12 shops at the super market complex had a sum of Rs. 8,410,833 and 28 shops at the bus stand had a sum Rs. 26,444,076 as arrears as at 31 December 2016 since the key money had not been earned during lease.
- b) A sum of Rs. 1,241,616 from the stalls at the super market and a sum of Rs. 205,236 from the stalls near the bus stand, had not been earned on a regular basis.
- c) The canteen of Jayathilaka sports grounds had been leased to a sports club on 29 June 2012, but a sum of Rs. 304,093 was arrears as at 02 February 2017

- d) The toilet system of the supermarket complex had been leased on 24 February 2016, while a sum of Rs . 77,545 had not obtained as security and the lessce had not paid a sum of Rs 267,833 regularly.
- e) A commercial building belonging to the Urban Councilhas been tendered for a minimum bid of Rs 225,000 without obtaining an estimate ,to the cargillsptv Ltd on 25 February 2008 on a monthly basic according to the decisions of the Urban Council. One in 5 years the lease amount had been increased on a decreasing rate while obtating lease amount in an irregular manner
- f) Their was no approved staff for the Jayathilaka sport complex and the Trustee of the play ground was responsible for this. While a revenue of Rs. 4,111,887 had been made to the stadium for the year 2016, A responsible officer not have been appointed for administering the money and that had been generated by the workers.

3.4 Idle / Underutilized Assets

End of the year under review 2 assets worthof Rs207,250 had been identified to be left idle and underutilized.

3.5 Contract Administration

The following matters are observed.

a) Construction of a recycle system for sewage

- (i) Under the renewable environment program during the year 2016 a sum of Rs 10,597,950 grants had been received in order to build the recycle system for sewage. Excluded from procurement rule,14 days had been given for a bidding , but the advertisements were not published in three language. While a performance security too had not been obtained for a sum of Rs 437,325 prior to signing the contract.
- (ii) Although the contract had to be accomplished in 40 days starting from 27 October 2016 performance worth Rs 5,378,483 had not been finished but on 26 December 2016 final statement of reports of had been submitted, while the last bills had been prepared on 22 December 2016 and received approval end recommendation from technical officer, work author and the engineer.

b) Maintenance of the Dilapidated in the City

A sum of Rs 435,175 had been paid during the month of August 2016 to reconstruct the ditapitated roadways by removing the block stones. But the roadways not in the condition.

c Herbal Garden Development at Ibulpitiya

A sum of Rs 100,000 allocated for the Development of the herbal Garden, but the total sum had been spent to net around the garden of 8.3m. The herbs had been planted without removing the trees and in an uncoverd manner.

d Improvement of Compost Basin

A contract had been agreed upon Rs 1,198,480 with the provincial council and the local government ministry inoder to build the compost basin. Only a period of 14 days had been given to forward the bids excluded from the procurement rule, Tender had not been called from all Sinhala tamil and English languages. On 22 December 2016 bills had been submitted although 31 January 2017 the project had been finished to Rs. 632,200 had not been accomplished.

3.6 Solid Waste Management

About 8 metric tons of waste collected in the Urban Council were sent to the solid waste management project. The Urban Council and bio system technology institute were in the process of being contract and the income of Rs.798,900 had been receivable from the sale of compost fertilizer as at 31 December 2016.

3.7 Environmental Problem

While in the crowded area, were there is a housing complex and the school near the Jayathilaka stadium, maintained a slaughterhouse in 20 purchase area belonging to the Urban Council . The environmental permit had not been obtained.

4 Accountability and Good Governance

4.1 Budget Control

Even after provision of income and expenses items were exchanged, a noticeable change among budgeted and real revenue expenses did occur. Hence budget was not observed as an effective managerial tool. Following observation were also made in align with above.

- a The total provision had been saved worth Rs 3,971,534 provision allocated for 60 expenditure items.
- b There was a variance of 22 percent to 99 percent range in between the total provisions and the actual expenses relating to 65 expenditure items.
- c Revenue estimates of 3 subject worth Rs 402,000 had not been earned.
- d There was a variance of 14 percent to 40 percent range in between estimated and actual revenue relating to 7 revenue subjects.

4.2 Annual Procurement Plan

It had not been prepared a procurement plan for the year under review.

5 Systems and Control

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

- Fixed Assets
- Accounting
- Money and banking
- Vehicle Administration
- Revenue Administration
- Debtors and creditors
- Contract Administration