

**Wattegama Urban Council
Kandy District**

1. Financial Statement

1.1 Presentation of Financial Statements

Financial Statement for the year under review had been submitted to the audit on 30 March 2017 while Financial Statements relating to the preceding year had been submitted on 7 July 2016.

1.2 Qualified Opinion

I am of opinion that, except the effect on the financial statements of the matters referred in paragraph 1.3 on this report, the Financial Statements had been in accordance with generally accepted accounting principles and give a true and fair view of the state of affairs of the Wattegama Urban Council as at 31 December 2016 and Financial Results of its operations for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Interest income of Rs.87,668 relating to 3 fixed deposit had been understated in accounts.

1.3.2 Contingent Liabilities

Litigation by three external parties against the sabha was not disclosed in accounts.

1.3.3 Non-Reconciled Control Accounts

Financial Statement stated the value of general stock as Rs.3,516,563 while subsidiary books stated it as Rs. 2,981,810. Hence a difference of Rs. 534,753 remains.

1.3.4 Accounts Receivables and Payables

(a) Account Receivables

While the total value of 2 accounts receivables balances of the year under review end was Rs.9,352,793. Out of the balances that had been outstanding over 01 to 05 year totaling Rs.429, 913 and over 05 year totaling Rs.1,452,025.

(b) Accounts Payables

While the total value of 02 accounts payables balances of the current year end was Rs.11,082,806. Out of the balances that had been outstanding over one year was Rs.354,772.

1.3.5 Lack of Evidence for Audit

Transaction totaling Rs.6,624,210 could not be examined satisfactorily in audit due to non-submission of required information.

1.3.6 Non- Compliance with Laws, Rules and Regulations etc.

Following instances of non- compliance with laws, rules and regulations etc. were observed in audit.

Reference to lows, rules and regulations

Non - compliance

A) Circular No. 2016/03 of Commissioner of Local Government Dated on 17th March 2016

Paragraph 10

Although interim leasing was strictly prohibited by the lease agreement, the leaseholders had furnished four shops at the inspection of Audit Officer's on November 09, 2016.

Paragraph 19

Even though the lessee and the sabha had to enter into new contracts, they had not entered into new contracts with the 16 parties of shop by November 10, 2016.

B) Extraordinary gazette notification issued by the Minister of Environment and Natural Resources on January 25, 2008 issued under section 23 (a) of the National Environmental Act. No. 47 of 1980, No. 1533/16 dated 25.01.2008.

An amount of Rs. 127,600 had been lost due to not issuing environmental licenses for 29 trade businesses. Three follow-on licenses were not issued.

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 2016 amounting to Rs.9,490,412 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.5,076,577. When compared with preceding year, there is an improvements in a sum of Rs.4,413,835 was observed in the Financial Result.

2.2 Analytical Financial Review

An improvement of Rs.4, 413,835 was observed in the Financial Result of the year, an increase in revenue of 3 items and decreases in travelling expenditure had been the reasons for that.

2.3 Working Capital Management

Changes of working capital for the years 2016,2015 and 2014 was 2.1:1,2.5:1 and 2.1:1 respectively.

2.4 Revenue Administration

2.4.1 Rates

Following observations were made.

(a) A due of Rs. 2,279,168 was present at the commencement of the current year and bills of the current year are assessed at Rs.5,419,810. Rate collection of the current year was 67 present of the total due amount and 61 present of the billings. Total due by 31st of December 2016 was marked as Rs.3,158,364 and out of them Rs. 736,014 has exceeded a period of one year.

(b) Receivable rate of 9 Governmental Organizations was Rs.377,386 . This applies for a time period of 3-12 months.

2.4.2 License Fees

There were no necessary steps taken to conduct a survey on the institutions that should be applied for the land permits and postal taxes.

2.4.3 Other Income

Following observations are made.

(a) Three Wheeler Parking Fees

By the interim constitution on December 12, 2010, 27 three wheelers stand had been identified and no proper permits had been issued and due to this, authority had lost income.

(b) Water Charges

While under charges to be recovered at the 31 December of the year under review was Rs.2,470,146. Out of that the amount in arrears for a over one year was Rs.352,861.

3 Operating Review

3.1 Performance

Four out of the 26 projects which were planned to be functioned by the funds of the Council, were operated. Since the approval for operating industries was granted later on 20th of December 2016, 22 projects were not operated within the year under review.

3.2 Management Inefficiencies

Following matters are observed.

- (a) Upper floor of the old library building was used as a training center by the National Apprentice and Industrial Training Authority for years. Nevertheless it was done without a contract and no rent has been paid either.
- (b) Though No.12 Mutton shop and No.15 Beef shop premises were advertised for lease tenders were not placed. Yet the council had not taken any measure for searching the alternatives and generating an income out from them.
- (c) One shop was found to be given in non-compliance with the tender process.

3.3 Operational Inefficiencies

Following observations are made

- (a) Although Section 36 (e) II of the Urban Council ordinance should be obtained on lease on long term lease basis, the approval of the subject Minister should be obtained, but without such approval, 19, 20, 21 and 46, 4 shops from 2000 to 20 March 2017 up to the day fishery business was provided on a long-term lease basis.

- (b) 256 Building Development Licenses have been issued by the Council from 2010 to 2015, out of which only compliance certificates have been issued for 69 of them.

3.4 Idle / Underutilized

Following Observations are Made.

- (a) A Motorcycle, two hand casters, a Backhoe Machine and a Piyet Model car were put without using at the office and wood carving machine worth of Rs. 333,700 also did not put to any work.
- (b) The truck and the backhoe machines received from Ministry of Provincial Councils and Local Government had been kept in sabha due to the lack of the driver. The maintenance cost for these inert vehicles was Rs.248,471.
- (c) Computer equipment and office equipment worth of Rs. 369,873 which had been received from the Department of Local Government on 25th February 2014 had been kept idle to 10 November 2016 without any management.
- (d) Musical instruments worth of Rs.193,500 had been maintained for the purpose of providing welfare services to the children around sabha, which had not been operating from the long term since the year 2014.

3.5 Solid Waste Management

Daily around 2 ½ tons of garbage were added each day and decaying garbage was handed over to the pradeshiya Sabha site of the kundasale area. Although the public had been informed about the garbage collection and separation they have not follow those procedures properly. Therefore, authority had incurred a huge cost on that.

4 Accountability and Good Governance

4.1 Budgetary Control

Even after provisions of income and expenses item were exchanged, a noticeable change among budgeted and actual revenue and expenses did occur. Hence budget was not observed as an effective managerial tool.

5 System and Controls

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

- a) Fixed Assets
- b) Accounting
- c) Vehicles Administration
- d) Revenue Administration
- e) Accounts Receivables and Payables.