

Kalutara Urban Council

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 23 March 2017 and financial statements for the preceding year had been presented on 23 March 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Council on 29 September 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements as at 31 December 2016 give a true and fair view of its financial performance and cash flow for the year then ended in accordance with generally accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a) The discount of Rs.990,962 granted to rate payers for the year under review had not been shown as expenditure in the accounts. However, it had been deducted from the revenue from rates and taxes. As a result, the revenue from rates and taxes and the expenditure of the year under review had been understated in the financial statements.

- (b) Provision for creditors had not been made for the sum of Rs.20,746 payable during the year under review. As a result, the creditors of the year under review

had been understated and the expenditure of the year Rs.20,746 had been understated in the financial statements.

- (c) The Capital Aid of the year under review and the Factory Debtors as at 31 December 2016 had each been overstated by Rs.465,398 in the financial statements.
- (d) The amount payable for the construction of the culvert at the Govijana Seva Mawatha, Kalutara South and the construction of a drain for rainy water was Rs.553,954. However, the amount shown as creditors was Rs.650,996 resulting in an overstatement of the factory creditors of the year under review by Rs.97,042 in the financial statements.
- (e) The actual value of stocks at the stores amounted to Rs.5,185,802 as per board of survey report. However, this had been shown as Rs.16,120,486 in the financial statements thus overstating the stock at stores as at end of the year under review by Rs.10,934,684 in the financial statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs.28,650,545 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.40,755,710 resulting in a deterioration of financial results of the year under review by Rs.12,105,165.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information furnished with regard to the estimated revenue, actual revenue and the arrears of revenue for the year under review appears below.

Item of Revenue	Estimated Revenue	Actual	Accumulated Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
Rates and taxes	27,937	18,469	19,355
Lease rent	7,433	6,943	1,077
Licence fees	638	638	-

2.2 Rates and Taxes

- (a) Out of the arrears of of Rs24,274,938 at the commencement of the year under review, 58 per cent amounting to Rs.14,078,921 had been recovered. The balance still due from the arrears of the previous year amounted to Rs.10,196,617.
- (b) Out of the sum of Rs.22,434,353 billed for rates and taxes of the year under review, 62 per cent amounting to Rs.14,016,172 had been recovered. The balance of arrears at the end of the year under review with regard to the current billing amounted to Rs.8,418,181.
- (c) The overall balance of arrears as at end of the year under review amounted to Rs.18,614,199. The progress of overall recovery was about 60 per cent. Accordingly, the collection of revenue relating to rates and taxes was not at a satisfactory level.

2.2.3 Rent of Stalls

- (a) Out of the arrears amounting to Rs.1,892,210 at the commencement of the year under review, a sum of Rs.1,293,058 representing 68 per cent only had been recovered.
- (b) The amount billed for trade stalls for the year under review was Rs.6,596,511. Of this, a sum of Rs.6,191,998 only representing 94 per cent had been recovered during the year under review.

2.2.4 Stall Rent

- (i) Arrears of stall rent of Rs.42,000 due from 02 stalls of the Council had not been recovered.
- (ii) It had been revealed at the survey carried out by the Council in 2012 that 526 stalls belonging to the Council had been sub let.
 - * Although approval had been obtained to grant the right of lease to 10 stalls, action had not been taken to settle the lease of other stalls upto 30 November 2016.
 - * Action had not been taken to select the stalls that could be given to other persons on lease by calling tenders.
 - * It was observed that 2 stalls of the Council continued to function without agreements being renewed or by revising the rent.

3. **Operating Review**

3.1 **Operating/Management Inefficiencies**

(a) **Approval of Building Plans, Issue of Compliance Certificates and Non-recovery of Rates and Taxes**

- (i) Out of 731 building applications received from 2012 to 30 September 2016, 609 building plans alone had been approved. Compliance certificates had been issued to 86 of those approved plans. 63 of those 86 plans had been referred to the Department of Valuation to assess the rates and taxes. But, action had not been taken to assess the rates and taxes of the balance 23 plans so as to earn revenue.
- (ii) A physical verification had not been carried out with regard to the balance 523 buildings to confirm whether the buildings had been constructed although there were no requests for compliance certificates.
- (iii) A building in the centre of Kalutara town with an extent of 70,674 sq.ft comprising 07 stories had commenced business on 17 March 2016. A compliance certificate had not been issued for this private company in this building. However, the Council had allowed business activities to be carried out and as such the Council had been deprived of an extensive revenue.

(b) **Unauthorized Constructions**

- (i) Test checks carried out with regard to unauthorized constructions revealed that the action taken in this regard was to inform those concerned to suspend such constructions and to take action to legalize such constructions. Accordingly, it was not observed that necessary action had been taken to legalize such constructions referred to in those files and follow up action had also not been taken in this regard.

- (ii) Nine unauthorized constructions had been subjected to physical verification on 12 October 2016 with the assistance of the technical officer and it was observed that the construction continued despite the Suspension Order of the Urban Council. Nine telecommunication towers had been established within the authoritative area of the Council without obtaining the approval of the Urban Council.
- (iii) One of the above unauthorized constructions was at Heenatiyagalaa Road close to the Manikkar Road which consisted of 30 perches of marshy land. This land had been filled with soil and a stores had been constructed for the hardware company at No.132, Galle Road. The Urban Council was unaware of this unauthorized construction.

(c) **Recovery of Parking Charges for Three Wheelers**

Parking charges had been recovered for three wheelers as notified in the Gazette in 2012 based on the approval of the Council. The number of three wheelers to be parked in each parking place with reference to recovery of licence fees revenue for three wheelers had not been gazetted after the year 2012.

(d) **Lease of Land**

An employee of the Urban Council had been allowed to stay in a 06 perches land at 25/1, Gangabada Road, KalutaraSouth by the Chairman, with the approval of the Minister on a 30 year lease basis. An agreement had been entered into to recover Rs.600 per year from 06 May 2004 to 06 May 2034 for this land which was very close to the Kalutara town. The rate had been decided without obtaining an assessment from the government valuer.

(e) **Re-construction of the Trade Stall at the Premises of the library, Urban Council**

- (i) The lessee had again constructed the trade stall according to the plan prepared by the Works Superintendent and according to paragraph 14 of the agreement entered into by both parties, the lessee should not keep trade goods or other goods and should not store or exhibit them at the external verandah or elsewhere. However, trade goods had been exhibited at backyard of the verandah and had constructed a roof, which had not been referred to in this plan.
- (ii) The rent assessed for this stall in February 2013 was Rs.6,250 per month effective for a period of 2 years. Although the rent should have been revised after February 2015, such revision had not been made till December 2016.
- (iii) The agreement had been renewed on 20 May 2016 without a new assessment being made and the monthly rent had been determined on the basis of the assessment made in 2013. As a result, the Council had been deprived of the revenue due to it.

(f) **Board of Survey**

- (i) A solex water bowser, Nishan fire extinguisher and a galie bowser which had not been registered and lying idle for many years were in the vehicle division.
- (ii) Proposals and recommendations had been forwarded to solve the matters arising out of the board of survey. However, action had not been taken by the Sabha to obtain certain goods that were in the possession of officers who had died/gone on transfers or to recover the value of goods.

(g) **Control over vehicles**

Action had not been taken to repair 3 milometers of vehicles although they were inoperative.

(h) **Idle and Underutilized Assets**

A sum of Rs.4,541,754 had been retained in a current account of the Bank of Ceylon from 01 January 2015 to end of the year under review.

3.3 Contract Administration

(a) **Construction of a net fence in front of the Trade Complex at Vettumakada, Kalutara South and a Room for the Works Supervisor (Infron of the Pakistan Playground)**

- (i) Although it had been informed that quotations had been called for, from 04 approved societies at an estimated cost of Rs.1,008,148, evidence to confirm the quotations had not been furnished to audit.
- (ii) The work should have been completed on 05 April 2016 as per agreement. However, the work relating to net fence only had been completed.
- (iii) According to Item No.37 of the estimates, the height of the G.I. pipe required for the net fence was 10 ft. However, the work had been completed with a height of 8 ft. Its existence had n ot been taken into consideration as instead of estimating a high quality G.I pipe, pipes of medium quality had been estimated for.
- (iv) The worksupevisor's room had not been completed as per agreement.

(b) **Work not completed**

Twenty one jobs estimated at Rs.17,869,508 had not been executed.

(c) **Non-preparation of Work Completion Reports**

(i) Work completion reports of 11 jobs estimated at Rs.3,754,579 and completed during the year 2016 had not been prepared and as such the expenditure incurred on jobs of the Council during the year could not be completed.

(ii) An estimate of Rs.27,867 had been prepared to renovate the internal roads of the Kalutara South bus stand and the work had been completed in June 2016, But, the work completion report had not been prepared. Although 63 litres of tar had been estimated to tar the road for the second time, such work had not been performed.

3.4 Solid Waste Material Management

The following matters were observed in this connection.

(a) Four acres of the Pohorawaththa Garbage Management Project and its sales activities out of 06 acres, 02 roods, 05 perches of land where garbage had been disposed of, by the Urban Council within the authoritative area of the Kalutara Provincial Council had been handed over to the Western Province Garbage Management Authority on 23 December 2009. In this connection, a ten year agreement had been entered into with the Western Provincial Management Authority effective from 23 December 2009 to 22 December 2019.

(b) An environmental licence had not been obtained for the land where garbage had been disposed of, by the Urban Council which comes under the authoritative area of the KalutaraPradeshiyaSabha.

- (c) Garbage tax had not been imposed for disposal of garbage.
- (d) A family had encroached the land where garbage had been dumped which belonged to the Council.
- (e) Officers had not been engaged in special long term training relating to garbage management.
- (f) The Council had not maintained necessary information and a data system with regard to garbage management.

3.5 Performance

- (a) The average monthly balance of the current account of the Council had exceeded by Rs.27 million. In addition, there were fixed deposits amounting to Rs.43 million. Accordingly, the financial position of the Council was better. But, the Sabha had executed 33 capital projects costing Rs.8,039,710 during the year under review. The work relating to identification of projects by attending to request of the people, proposals, comments etc, should be carried out and executed by the Secretary, as the authority for exercising the authority and to execute the functions and duties, if the Council is dissolved. Such action had not been taken during the year under review and as such it was observed in audit that the funds of the Sabha had been idling in the bank as deposits without being used for the welfare of the public with responsibility.
- (b) The Action Plan for the year ended 2016 had not been prepared. According to the budget prepared for the year 2016, the Council had proposed to execute 29 projects and the projects to be executed with external aid were 07. According to the progress of execution of projects, only 2 out of 29 projects had been completed. Meanwhile, the names of projects had been periodically altered without any plan.

4. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Project Administration
- (d) Budgetary Control