

Panadura 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 14 March 2017 and the financial statements for the preceding year had been presented on 31 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 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 balance of expense creditors as at 31 December 2016 amounting to Rs.13,263,170 had been shown as Rs.16,163,055 resulting in an overstatement of expense creditors by Rs. 2,899,885 in the financial statements.
- (b) According to the accounting procedures adopted by local authorities, the balance of the Fixed Assets Account should be equivalent to the Revenue from Contributions to Capital Outlay Account. However, the difference between these two accounts during the year under review amounted to Rs.932,764.
- (c) Provision for the sum of had not been made as at 31 December 2016 Rs.1,780,482 payable to the Director of Pensions
- (d) The expenditure incurred on machinery and machines and construction of roads during the year under review amounted to Rs.282,371. This had been shown as expenditure in the financial statements.
- (e) A Becko Loader had been purchased from the loan obtained from the Local Loans and Development Fund. The interest paid for the loan amounting to Rs.2,140,772 had also been capitalized. As a result, the balances of Fixed Assets and the

Revenue Contributions to Capital Outlay Account had been overstated by Rs.2,140,772.

- (f) The stamp fees of Rs.47,025,421 obtained for the years 2013 and 2014 had been treated as revenue of the year under review in the financial statements.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure for the year ended 31 December 2016 amounted to Rs.60,395,961 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.31,428,682 resulting in an improvement in financial results of the year under review by Rs.28,967,279. Increase in both revenue and expenditure by Rs.53,590,950 and Rs.24,623,671 respectively could be attributed to the improvement in financial results by Rs.28,967,279.

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 appear below.

<u>Item of Revenue</u>	Estimated		<u>Accumulated Arrears</u>	
	<u>Revenue</u>	<u>Actual</u>	<u>as at 31 December</u>	
	Rs.'000		Rs.'000	Rs.'000
(1) Rates and Taxes	43,994		29,156	23,564
(11) Lease Rent	3,528		3,404	593
(111)Licence Fees	364		356	08
(1v) Other Revenue	36		36	--

2.2.2 **Rates and Taxes**

- (a) Out of the arrears of rates and taxes of Rs.25,196,795 at commencement of the year under review, a sum of Rs.14,764,572 or 59 per cent had been recovered.
- (b) The amount billed for rates and taxes of the year under review was Rs.40,888,525. Of these, a sum of Rs.26,182,574 or 64 per cent had been recovered during the year.
- (c) The balance of rates and taxes recoverable as at 31 December 2016 amounted to Rs.23,350,372. Arrears of Rs.1,975,229 exceeding 3 years and arrears of Rs.4,449,561 exceeding 5 years had been included in this. Accordingly, it was observed that there were weaknesses in the recovery of arrears of rates and taxes.
- (d) Included in the above balances of rates and taxes were 52 units of rates and taxes exceeding Rs.50,000.

2.2.3 **Rent of Trade Stalls**

The balance as at commencement of the year under review amounted to Rs.708,687. Of these, Rs.238,877 or 34 per cent had been recovered. The amount billed for the year under review was Rs.3,261,124 of which Rs.3,137,647 or 96 per cent had been recovered.

2.2.4 **Parking Charges of Three Wheelers**

A decision had been made to recover Rs.1,000 per three wheeler as parking charges in terms of the decision made at the general council meeting No.6:1:14 of 29 January 2015 and bye-laws had been framed accordingly. However, charges had not been recovered from 42 out of 67 three wheeler parks during 2016. Further, the Council had not taken action to carry out a survey of three wheelers in the parks.

2.2.5 **Revenue from Notice Boards**

- (a) A survey of notice boards had not been carried out for the year 2016 and as such the revenue due to the Council from notice boards could not be assessed.
- (b) Action had not been taken to recover revenue due from 11 notice boards amounting to Rs.368,875. Identified in audit. Instead, it had been informed that those notice boards had been cut and removed.

2.2.6 **Stamp Fees**

Stamp fees amounting to Rs.78,189,060 was due from the Chief Secretary of the Provincial Council as at 31 December 2016.

3. **Operating Review**

3.1 **Operating/Management Inefficiencies**

(a) **Control over Vehicles**

Vehicles not used

A vehicle which had been identified as worthless repairing by the respective agency had been repaired and become inoperative after 5 months. A sum of Rs.76,070 had been paid to external parties to repair it. It had been removed from usage after the repair. .

(b) **Payments made to a private institution for removal of garbage**

Tenders had been called for removal of garbage in the authoritative area of the Council and the work had been entrusted to a private company. A sum of Rs.31,059,000 had been paid by the Council for 1479 loads of garbage in 2016. A technical evaluation committee had not appointed in this connection. The procurement committee had neglected the lowest quotation of Rs.17,570 per load (3 cubes) furnished by the Super Compost Company and had selected the highest quotation of Rs.21,000 furnished by the G.F.C. Machinery (Private) Company. As a result, the loss caused to the funds of the Sabha amounted to Rs.5,072,970. Further, the Council had disposed the garbage at distant places such as Veyangoda without considering matters such as, lack of proper supervision during disposal of garbage, abnormal differences observed in the monthly disposal of garbage ranging from 88 to 156 loads, lack of environmental licence for the place of disposal of garbage, lack of operation of the bio gas unit constructed in 2010 and not introducing systematic methods to produce fertilizer from the garbage collected within the area of the Council.

(c) **Dangerous situation prevailing at the Public Market Complex Building**

This trade complex planned during 1993 and 1994 consisting of 25,830 square feet with 2 stories had been completed with one story only. This contained 250 stalls internally and 70 stalls externally. According to the report furnished by the National Building Research Organization on 24 August 2016, the concrete structure of this building had eroded and could endanger the users and needed demolition. The Council had notified this to the stall holders and although it had been informed that they would leave the stalls by end of December 2016, the stall holders continued trade in their stalls. It was observed that the continuation of trade activities in this collapsible building may affect the traders as well as the visitors at any moment. Further, electricity bills for Rs.79,485 for the months of

January and February 2017 had been settled with regard to this buildings and bills for water and electricity bills amounting to a further sum of Rs.114,440 had been received.

(d) **Verification of Land and Buildings**

The Council owned only 2 declaration deeds with regard to 45 land either entered or not entered in the register of fixed assets which had not been updated. A test check of land belonging to the Council revealed that certain land of the Council could not be separated and identified. Further, instances were observed where land had been encroached by unauthorized settlers and it was also observed that land vested with deeds to persons had been entered in the register of fixed assets.

4. **Systems and Controls**

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

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