

Kegalle Urban Council

Kegalle District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 15 March 2017 and the 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 presented to the Secretary of the Council on 30 June 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kegalle Urban Council as at 31 December 2016 and its financial performance and cash flows 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 deficiencies are observed.

- (a) Action had not been taken to obtain the particulars relating to the courts fines receivable from September 2014 to 31 December 2015 and to allocate provisions under debtors.
- (b) In accounting stamp fees revenue, the schedules had not been obtained from the offices of the Land Registry and the revenue receivable had not been brought to account. According to the schedules received, the receivable amount up to October 2015 had been Rs.9,631,667. But, that had been shown in the accounts as Rs.4,198,188.

- (c) In capitalizing the value of the rest house and the land belonging to the Sabha which valued in the year under review had been understated by a sum of Rs.300,000.
- (d) The books valued at Rs.39,428 received for the Library as donations during the year under review and a sum of Rs.73,014 received as discounts in purchasing books had not been shown as revenue in the Income and Expenditure Account.

1.3.2 **Unreconciled Control Accounts**

The balances of 02 items of accounts aggregated Rs.27,143,225 as per financial statements whereas the balances of accounts aggregated Rs.23,127,447 as per subsidiary registers/reports resulting in a difference of Rs.4,015,778.

1.3.3 **Suspense Account**

Action had not been taken to settle the credit balance of the suspense account amounting to Rs.3,657 as at 31 December 2016.

1.3.4 **Accounts Receivable**

The balances of accounts receivable for over 01 year period as at 31 December 2016 aggregated Rs.7,986,863.

1.3.5 **Evidence not made available for Audit**

Detailed schedules in respect of 02 items of accounts amounting to Rs.13,402,537 had not been furnished.

1.3.6 **Non-compliance with Laws, Rules and Regulations**

Vehicle Running Charts and Monthly Performance Summaries should be furnished to audit before the 15 day of the month following of which the travelling was performed in terms of Financial Regulations 1646 of the Democratic Socialist Republic of Sri Lanka. Nevertheless, the action in respect of any of the vehicle belonging to the Council had not been taken so on.

1.3.7 **Unauthorized Transactions**

Twenty employees had been recruited on the service agreements without obtaining the approval of the Provincial Council.

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.42,086,583 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.53,037,862 indicating a decrease in financial results of the year under review amounting to Rs.10,951,279 as compared with the preceding year.

2.2 **Analytical Financial Review**

The decrease in 3 items of revenue and increase in 3 items of expenditure had mainly attributed to the decrease of Rs.10,951,279 in financial results.

2.3 **Revenue Administration**

2.3.1 **Performance in Collection of Revenue**

The information relating to revenue billed, actual revenue and the arrears of revenue furnished for the year under review, appears below.

Source of Income	<u>Arrears as at 31 December 2016</u>						
	Arrears as at 01 January 2016	Recoveries out of the arrears as at 31 December 2016	Amount billed for 2016	Recoveries out of the amount billed for the year	Arrears as at 01 January 2016	Arrears out of the amount billed for the year	Total arrears
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(i) Rates and Taxes	4,764	2,041	10,593	8,685	2,724	1,908	4,632
(ii) Lease Rent	3,167	612	45,956	45,419	2,554	537	3,091
(iii) Licence Fees	81	59	759	754	22	5	27
(iv) Other Revenue	4,492	1,805	17,243	14,315	2,687	2,929	5,616
Total	12,504	4,517	74,551	69,173	7,987	5,379	13,366

A decrease of Rs.32,161,658 was observed more than the arrears of revenue shown in the total arrears of revenue account as at 31 December 2016 in comparing the above arrears of revenue reports with the financial statements of the year under review.

2.3.2 Recovery of Rates and Taxes

The following matters were observed.

- (a) Even though, action should be taken to recover the money by a restraining order and selling the properties belonging to the owner of the place in respect of any unpaid rates and taxes or acreage tax, legal action had not been taken to recover rates and taxes amounting to Rs.683,795 which unrecovered for over a period of 05 years from 46 owners of the lands and places of assessment according to the test checks.

- (b) The properties should be assessed once in 05 years and recoveries should be made accordingly for recovery of annual rates and taxes. As the rates and taxes had been recovered on the basis of assessment made in the year 2001, the revenue due to be receivable from rates to the Council was not recovered properly.

2.3.3 **Trade Licence Fees**

Action had not been taken to recover Rs.22,000 recoverable from 01 trade institution which maintained within the authoritative area of the Urban Council from the year 2014.

2.3.4 **Other Revenue**

(a) **Lavatory Fees**

In billing of fees for lavatories it had been accounted over by Rs.3,000 for the year under review and action had not been taken to recover unidentified balance of arrears amounting to Rs.55,801 remained brought forward for a number of years.

(b) **Rest House Rental**

Arrears of rest house rental amounting to Rs.502,026 outstanding from the year 2014 had not been recovered even by the end of the year under review.

(c) **Weekly Fair Charges**

Action had not been taken by the Sabha to recover weekly fair charges amounting to Rs.1,532,780 recoverable from 52 trade stall owners of the old weekly fair.

(d) **Non-recovery of rent from the Attorneys Office Complex**

Action had not been taken to recover arrears of rent amounting to Rs.40,000 and penalty amounting to Rs.71,500 in respect of a room maintained on a monthly rental of Rs.1,000 in the Attorneys Office Complex of the Kegalle Urban Council.

(e) **Advertising Hoardings**

A survey relating to the advertising hoardings in the authoritative area of the Urban Council had been carried out in the year 2016. However, it was observed during the physical examination carried out that charges of Rs.135,600 recoverable for 12 advertising hoardings had not been recovered.

(f) **Bus Parking Fees**

A sum of Rs.14,155 recoverable from Passenger Transport Authority prior to the year 2011 and a sum of Rs.4,380 recoverable from Sri Lanka Transport Board, Alawwa from the year 2012 to 31 December 2016 had not been recovered.

3. **Operating Review**3.1 **Performance**

A sum of Rs.8,865,977 had been spent from the year 2011 to 2015 for the construction works of the Olagama Swimming Pool, first stage but the work of the second Stage had not been commenced and the pool could not be utilized. As such the amount spent had become fruitless expenditure.

3.2 **Solid Waste Management**

The following matters were observed.

- (a) The Garbage collection per day about 15 or 20 tones approximately of the authoritative area of the Urban Council has been disposed to an area with the hilly surroundings.
- (b) The service of the gully bowsers had not been implemented by the Urban Council in the year under review due to not found a place to dispose the excreta of the gully.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Hundred per cent of provisions aggregating Rs.5,026,000 made for 04 Objects and 26 per cent to 97 per cent of the provisions amounting to Rs.23,343,941 made for 20 Objects in the Budget relating to the year under review had not been utilized, while a sum of Rs.13,358,396 had been incurred exceeding the provisions allocated for 09 Objects.

5. **Systems and Controls**

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

System -----	Observation -----
(a) Fixed Assets Control	(i) Non-furnishing of a schedule for machineries. (ii) Failure to conduct a survey on Fixed Assets.
(b) Stock Control	(i) Non-reconciliation of accounts balance with schedules. (ii) Non-maintenance of Stores Debtors Account regularly.
(c) Accounting	Written off of over/ under provisions without a proper authority.
(d) Debtors/ Creditors Control	(i) Making under/ over provisions due to non-considering of materiality of the value. (ii) Non-recovery of Revenue debtors.