

Kaduwela Municipal Council

Colombo District

1 **Financial Statements**

1.1 **Presentation of Financial Statements**

The financial statements for the year 2016 had been presented to audit on 28 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 2016 had been forwarded to the Municipal Commissioner of the Council on 02 October 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 give a true and fair view of the financial position as at 31 December 2016 and its financial performance of the Kaduwela Municipal Council for the year the ended in accordance with Generally Accepted Accounting Principles.

1.3 **Comments on Financial Statements**

1.3.1 **Accounting Deficiencies were observed in audit**

The following accounting deficiencies were observed in audit.

- (a) A sum of Rs.500,000 had been shown as debtors instead of considering the cheque for Rs.486,294 received on behalf of the Project No.H68452324024. As a result, the Revenue Aid Account and the Debtors' Account had been oversated by similar amounts.
- (b) Ten cheques valued at Rs.44,838 had not been treated as revenue. As a result, the revenue for the year under review had been understated by a similar amount.
- (c) Two items of stock valued at Rs.133,444 had not been brought to account resulting in an understatement of the value of stock by a similir amount.
- (d) The surplus of the previous year and the balance of debtors had been understated by Rs.168,646,261 received as revenue, exceeding the provision made for stamp revenue for the years 2013 and 2014.
- (e) The employees' salaries of Rs.15,262,972 to be written off had not been deleted from the accounts. As a result, the debtors' account and the accumulated fund had been overstated by similar amounts.

- (f) The arrears of rent due from the lessee for the Jayawardanagama Community Centre had been set off against the electricity connection obtained by him. While doing so, the Subidy Account had been debited instead of the Accumulated Fund. As a result, the surplus of the year had been understated in the accounts by Rs.170,000.
- (g) The sum of Rs.81,227 paid had not been debited to the Creditors' Account. As a result, the creditors' balances had been overstated and the accumulated fund had been understated by similar amounts.
- (h) Although provision had been made for construction creditors for the years 2013/2014,15 constructions proposed to be constructed had been cancelled. However, accounting entries had not been made accordingly. As a result, the creditors' balance had been overstated and the accumulated fund had been understated by Rs.8,349,374.
- (i) The actual cost of 04 industries amounted to Rs.2,598,159. But, the provision for deleted creditors made for this amounting to Rs.1,760,779 had not been from the creditors' account. As a result, the creditors' balance and the accumulated fund had been overstated in the accounts by Rs.1,760,779.
- (j) The employees' loan recovered in excess amounted to Rs.32,952. This had been written off against the initial loan balances. As a result, the balance of employees' loans receivable had been understated in the accounts by Rs.32,952.
- (k) Action had not been taken to compute the value of expired stock included in the Ayurveda stock so as to delete them from the stock.
- (l) Action had not been taken to delete from the accounts the value of 522 books amounting to Rs. 110,035 misplaced in 03 libraries belonging to the Council and the value of 18 books destroyed by floods amounting to Rs.5,355.

1.3.2 Unreconciled Control Accounts

A difference of Rs.25,920,185 was observed between the final accounts balance of Rs.819,172,486 and the balances in the related subsidiary registres amounting to Rs.793,343,701 with reference to 08 items of accounts.

1.3.3 Lack of Evidence for Audit

Two items of accounts aggregating Rs.478,860,653 could not be satisfactorily vouched in audit due to lack of evidence for audit.

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.513,259,716 as compared with the excess revenue over recurrent expenditure of the preceding year amounting to Rs.330,502,111.

2.2 Bank Reconciliations

- (a) Action had not been taken to identify and settle the balances of Rs.1,374,084 related to unrepresented cheques, unrealized receipts and unidentified payments appearing in the dormant account No.PB163869561 (Peoples' Bank) for a long time.
- (b) The unidentified receipts of the Account No.1700010082 (Peoples' Bank) as at 31 December 2016 amounted to Rs.125,461. These had not been identified and brought to account.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information relating to the arrears of revenue for the year under review and the previous year, as furnished by the Council appear below.

Item of Revenue	2016				2015			
	Arrears of Actual Balance	Billing	Actual recoveries	Accumulated arrears as at 31 December	Arrears of Actual Balance	Billing	Actual recoveries	Accumulated arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and taxes	59,206,698	126,882,732	132,744,987	53,344,443	180,019,909	113,144,239	19,358,562	63,929,295
Lease rent	399,586	9,120,182	9,348,190	171,578	13,600,834	11,319,667	1,348,749	-
licence fees	-	13,071,172	13,071,172	-	11,161,970	11,161,970	-	-

2.3.2 **Rates and Taxes**

-
- (a) The arrears of rates and taxes due from properties for which payments had been neglected for a long time amounted to Rs.766,806. Action had not been taken in terms of Section 254(a)(2) of the Municipal Councils Ordinance.
 - (b) An entertainment tax of 15 per cent should be recovered from entrance tickets issued in all the cinema theatres within the authoritative area of the Kaduwela Municipal Council In terms of the Gazette Extra Ordinary notification No.1735/4 of 05 December 2011 of the Democratic Socialist Republic of Sri Lanka (Western Provincial Council) with effect from 01 January 2013. However, action had not been taken to recover entertainment tax of Rs.5,920,171 due from 4 cinema halls from 30 August 2016 within the authoritative area of the Council.

2.3.3 **Entertainment Tax**

According to the Entertainment Tax Ordinance No.12 of 1946, the amount billed as entertainment tax for 04 cinema halls under the authoritative area of the Council for the year under review amounted to Rs.4,344,767. Of this, Rs.1,951,397 had been recovered during the year. The arrears of Rs.5,122,723 at commencement of the year had increased up to Rs.7,516,093 by end of the year. The Council had not taken legal action or to recover the arrears due to negligence in terms of Section 6 of the Entertainment Tax Ordinance.

2.3.4 **Rent of Stalls**

The recovery of rent for stalls of the public market belonging to the Kaduwela Municipal Council had been based on the assessment made in 2001 and the annual rent of all the stalls amounted to Rs.237,900. The annual rent became Rs.2,709,600 according to the assessment of 26 May 2017. Accordingly, the Council had been deprived of over Rs.2 million per annum for 10 years. Agreements had not been entered into for these stalls after the year 1984.

2.3.5 **Recovery of Tax from Lands not Developed**

Although gazette notifications had been issued on 17 November 2014 for recovery of tax for the year 2016 from lands not developed, the above tax had not been recovered during 2016 with reference to the district office at Kaduwela.

3. **Operating Review**

3.1 **Management Inefficiencies**

(a) **Rates and Taxes and Library Software**

A sum of Rs.824,000 had been paid to purchase this software system by 2016. However, the library software had not been scientifically formed and as such it remained unsued at present and the software for accounting rates and taxes had not been connected to the internet.

(b) **Re-establishment of Week end fair**

A sum of Rs.80 million had been paid to the Urban Development Authority in 2014 to acquire 0.98211 hectares of land (the land named Rukaththana Owita and Hakuruge Kumbura) in order to re-establish the Kaduwela Fair. However, action had not been taken by the Municipal Council to acquire the ownership up to 30 June 2017.

In this connection, an agreement had not been entered into between both parties in terms of Section 228 of the Municipal Councils Ordinance.

(c) **Maintenance of Fire Extinguishing Services**

An agreement had not been entered into with the fire extinguishing unit of the Sri Jayawardenapura Municipal Council to obtain the services of extinguishing fire and rescue operations in terms of the Circular NO.LGD/05/11 Volume V of 14 August 2012 of the Commissioner of Local Government.

(d) **Vesting of Battaramulla Public Market with the Ministry of Defence**

The Urban Development Authority had vested 70 stalls of the Battaramulla public market belonging to the Council with the Ministry of Defence on 27 March 2011. The Ministry of Defence had left this public market in 2015. But, action had not been taken to return these stalls to the Council. The financial loss caused to the Council due to the loss of entitlement of these stalls amounted to Rs.3,360,000.

(e) Employees' Loans

The balances of employees' loans recoverable as at 31 December 2016 aggregated Rs.44,393,408. This consisted of Rs.1,649,221 due from 29 officers who had gone on transfers, Rs.96,177 from 21 employees who had retired, Rs.425,531 from 45 employees who had vacated posts, Rs.133,348 from 13 employees under suspension and Rs.266,667 from 38 employees who had expired. The Council had not taken action to recover these loan balances and an age analysis of the balances of arrears had not been furnished for audit.

3.2 Idle/Underutilized Assets

The following matters are observed.

- (a) Three trailers totally valued at Rs.1,325,000 and 04 trailers, the value of which could not be found out, were lying at the Athurugiriya worksite, allowing them to get corroded. A generator, the value of which could not be found out and 03 trailers had been under utilized and were lying at the premises of the Council.
- (b) Action had not been taken to dispose of , 09 trailers, the numbers of which could not be traced and lying in a condemned position at the premises of the Council at Athurugiriya.
- (c) Fifty seven name boards of roads valued at Rs.225,150 had been purchased in 2014 and 2015. These were lying unsecured in the vicinity of the wholesale stores in the premises of the Council.
- (d) Six items of goods valued at Rs.126,836 purchased before 01 January 2015 were lying Idle at the stores.
- (e) The bio-gas unit (value not revealed) donated to the Council by the Western Province Solid Waste Material Management Authority remained idle for many years. The Council had not paid its attention to make it suitable for garbage management.

3.3 Solid Waste Material Management

- (a) A sum of Rs.57,071,536 had been paid to contractors to transport garbage from the Kaduwela Garbage Management Division during the year 2016. However, the place at which the garbage had been disposed of by the contractor could not be confirmed.
- (b) According to the public tenders called for on 28 May 2015, contracts had been awarded to 3 out of 8 tenderers who had responded to the public quotations called for. The following matters were observed.
 - (i) Written agreements had not been entered into with the contractors.
 - (ii) Security deposits had not been obtained in terms of Section 229(1)(a) of the Municipal Councils Ordinance.

3.4 **Transactions of Contentious Nature**

A thanksgiving ceremony had been held on 11 December 2015 on behalf of the victory of the performance competition of 2014 and the total expenditure incurred amounted to Rs.550,000, ninety per cent of this expenditure amounting to Rs.488,000 related to cutouts and decorations of the platform.

3.5 **Contract Administration**

Twelve of the 499 projects planned to be executed during the year under review had been abandoned. The work of 25 industries had not been completed as at 31 December 2016.

3.6 **Identified Losses**

One hundred and forty one flagstaffs valued at Rs.139,381 lying at the open stoeps of the head office and 13 chairs of the Jayawardanapura library had been misplaced.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Significant variances were observed between the budgeted and actual revenue and expenditure showing that the budget had not been utilized as an efficient Instrument of management control.

4.2 **Action Plan**

Although an Action Plan had been prepared for the year 2016, the report relating to the operating progress of the said plan had not been prepared. The plans noted in the action plan had not been fulfilled during the year under review.

5. **Systems and Controls**

The deficiencies observed regarding systems and controls were brought to the notice of the Commissioner from time to time. Special attention is needed in respect of the following areas on control.

- (a) Accounting
- (b) Contract Administration
- (c) Revenue Administration