

## **Kaduwela Municipal Council**

### **Colombo District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

The financial statements for the year 2017 had been presented for audit on 29 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Mayor on 22 October 2018.

##### **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 of the Kaduwela Municipal Council give a true and fair view of the financial position as at 31 December 2017 and 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 accounting deficiencies were observed .

- (a) The balances of twenty year old fixed assets valued at Rs.6,949,837 which had not been confirmed by board of survey or by physical verifications had been included in the accounts.
- (b) Provision for creditors had been made for 03 three wheelers valued at Rs.2,247,000 for which orders had not been placed even by 31 December 2017, 02 container boxes valued at Rs.1,375,000 and 03 generators valued at Rs.6,141,000.
- (c) The interest for the year under review receivable from Rs.50,000,000 deposited in 05 fixed deposits dated 01 November 2017 amounted to Rs.307,876. This had not been brought to account resulting in an understatement of revenue for the year under review by Rs.307,876.
- (d) A sum of Rs.32,686 had been recovered in excess while recovering the loans granted to employees. This had been written off against the initial loan balances. As a result, the balances of employees' loans receivable had been understated by Rs.32,686.

- (e) Twenty two work for which provision for creditors amounting to Rs.9,369,587 had been made in 2015 and 2016 had been abandoned and as such the Accumulated Fund and Creditors had been understated and overstated respectively in the accounts by similar amounts.
- (f) The mobile library bus valued at Rs.4,750,000 received by the Council by 31 December 2017 had not been capitalized.
- (g) Money had been allocated to construct houses for low income earning families with the financial contributions of the Kaduwela Municipal Council. The sum of Rs.26,110,000 paid in this connection in 2014, 2015 and 2016 had not been deleted from the Creditors' Account. As such, the creditors and the accumulated fund had been overstated and understated respectively by similar amounts.
- (h) Stamp duty of Rs.111,797 payable to the Department of Inland Revenue had been noted under General Deposits.

### **1.3.2 Contingent Liability**

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The Council had filed 45 cases valued at Rs.288,480 against outsiders and the outsiders had filed 28 cases valued at Rs. 25,369,299 against the Council. But, these had not been disclosed in the financial statements.

### **1.3.3 Unreconciled Accounts**

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According to the financial statements presented, the debit balance of the Peoples' Bank Current Account amounted to Rs.24,387,101. However, the amount shown in the schedule as cash book balances based on bank reconciliation statements amounted to Rs.4,975,471. Accordingly, the unreconciled balance amounted to Rs.19,411,630.

### **1.3.4 Accounts Receivable and Payable**

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#### **Accounts Receivable**

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- (a) Action had not been taken to reassess and give on rent 14 stalls of the Council which had been sealed for non payment of arrears of stall rent. The arrears of stall rent as at 31 December 2017 amounted to Rs.2,354,369. Action had not been taken either to recover the rent or to write off the amount concerned which prolongs for a long time.
- (b) The arrears of rent of Rs.307,430 of the Jayawadanagama Reception Hall belonging to the Battaramulla sub office had not been recovered.

### 1.3.5 Lack of Necessary documentary Evidence for Audit

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#### Non rendition of Information for Audit

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Two items of accounts valued at Rs.26,847.072 could not be satisfactorily vouched in audit due to lack of evidence.

### 1.3.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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<b>Rs.</b>		
(a) Municipal Councils Ordinance Section 254(a)(2)	58,640,348	It is the duty of the Municipal Commissioner to take all necessary steps to collect all taxes and money due to the Council and credit it to the Council 's Fund. However, the arrears of 09 items of revenue as at December 2017 had not been recovered.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) F.R.371(5)	896,472	Unsettled advances continued to be shown In the financial statements.
(ii) F.R. 571	1,242,151	Deposits over 02 years should be identified/ inquired into and credited to revenue. However, such action had not been taken regarding balances of deposits of 03 years
(c) Circulars		
(i) Local Government Circular No.1980/46 of the Commissioner of Local Government dated 31 December 1980	-	The lease rent should be revised at least once in 05 years by the Chief Valuer or by a valuer of the Local Government service. However, the assessed lease rent of the trade stalls of the Kaduwela Public Market Complex had not been revised since 2001.

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|-------|--|-------------|--|
| (ii)  | Circular No.LG-95-4 of the Commissioner of Local Government dated 19 March 1995                | 470,000,000 | Thirty one fixed deposits had been cashed during the year by the Council without prior approval of the Western Commissioner of Local Government.   |
| (iii) | Circular of the Western Commissioner of Local Government No. WP/IPD/01/2012 dated 11 July 2012 | -           | A sum of Rs.194,000 had been paid to 2   |
| (iv)  | Planning Circular No.15 of the Urban Development Authority dated 18 November 1993              | 5,542,851   | The service charges recovered by a local authority should be deposited in a bank account for urban development. However, the service charges recovered by the Council had been credited to the revenue of the Council without being deposited in such account. |

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.799,722,412 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.513,259,716.

### **2.2 Financial Control**

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The balance of Rs.824,084 existing for a long time in the Dormant Current Account No.196-1-001-6-3869561 of the Peoples' Bank had not been identified and settled.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	132,453,000	147,813,564	107,299,737	27,047,891	132,053,000	143,701,501	91,394,666	53,344,443
Rent	11,347,325	19,323,989	8,514,434	1,899,115	10,993,114	17,716,693	7,805,879	1,314,304
Licence Fees	12,700,000	13,749,903	9,608,221	-	12,655,000	17,918,621	13,071,172	-
Other Revenue	683,196,500	787,783,777	187,520,341	15,096,773	-	-	-	-

### 2.3.2 Performance in Collection of Revenue

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Weakness in collection of the overall revenue existed with regard to rates, rent of stalls, entertainment tax and licence fees of the Council.

### 2.3.3 Rates and Taxes

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(a) Rates

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The arrears of rates and taxes recoverable as at 31 December 2017 amounted to Rs.46,101,907. Of this, a sum of Rs.1,687,272 had not been recovered during 2018.

(b) Entertainment Tax

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The entertainment tax billed for 03 cinema halls within the area of the Council for the year under review in terms of the Entertainment Tax Ordinance No.12 of 1946 amounted to Rs.3,736,409. Of this, Rs.3,564,460 had not been recovered during the year. The opening balance of Rs.7,516,093 had increased up to Rs.9,730,039 by end of the year. Action had not been taken by the council to recover/to take legal action for default of payment of arrears, in terms of Section 6 of the Entertainment Tax Ordinance.

(c) Tax on Land not Developed

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A Gazette notification had been issued on 23 December 2016 to levy tax on land not developed. But, the above tax had not been recovered by the Council during the year 2017.

### 2.3.4 Licence Fees

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(a) Trade Tax

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Arrears of trade tax due from 209 trade establishments of the Kaduwela and Athurugiriya district office areas as at end of the year under review amounted to Rs.589,000.

(b) Industrial Tax

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The arrears of industrial tax due from 380 industries of the Kaduwela and Athurugiriya district office areas as at end of the year under review amounted to Rs.1,835,000.

(c) Trade Licences

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The arrears of trade licence revenue due from 191 trade establishments of the Kaduwela and Athurugiriya district office areas as at end of the year under review amounted to Rs.953,000.

(d) Environmental Protection Licences

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The validity period of 21 environmental protection licences had expired during the year 2017. The Council had been deprived of a revenue of Rs.84,000 as those environmental protection licences had not been updated.

**2.3.5 Rent**

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The rent of stalls of the public market belonging to the Kaduwela Municipal Council had been recovered on the basis of an assessment made in 2001. The annual rent of all the stalls amounted to Rs.6,999,795. No agreement had been entered into regarding these stalls after the year 1984. As a result of not making annual assessments for these stalls on the due dates, the Council had been deprived of a revenue of over Rs.2 million during the 10 years.

**3. Operating Review**

**3.1 Performance**

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The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Municipal Councils Ordinance such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

(a) Work Abandoned

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Although tenders had been awarded for 130 work valued at Rs.92,041,659 during the year under review and the previous year, these had not been implemented and abandoned subsequently. These included 40 work related to Athurugiriya sub office amounting to Rs.27,383,558, 49 work related to Battaramulla sub office amounting to Rs.28,608,799 and 41 work related to Kaduwela sub office amounting to Rs.36,049,302.

(b) Delays in execution of Work

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Fourteen work costing Rs.24,057,654 which should have been commenced during 2017 had not been commenced even by June 2018

(c) Solid Waste Material Management  
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The Council collects the garbage generated in its area by utilizing the employees and vehicles of the Council and the amount spent in this regard during the year under review amounted to Rs.135,755,158. Meanwhile, a sum of Rs.44,635,812 had been paid during the year under review to 02 institutions selected on contract basis for disposal of these garbage. Accordingly, a total sum of Rs.180,392,970 had been spent on disposal of garbage during the year under review. The following matters are observed in this connection.

- (i) An agreement had not been entered into with the institution executing the contract as required by Section 228 of the Municipal Councils Ordinance.
- (ii) The security to be obtained from the contractors had not been obtained in terms of Section 229(1) of the Municipal Councils Ordinance.
- (iii) The Council should make arrangements for disposal of garbage without affecting the environment, public and wild animals as required by Section 131 of the Municipal Councils Ordinance. However, the Council was not aware of the fact whether the disposal of garbage had been properly done and where the garbage had been disposed of.
- (iv) Although the Council had adequate resources of employees and vehicles for garbage management of the area, a future plan or study had not been made by the Council so that in future the Council could do these functions in a most favourable manner.

(d) Sustainable Development Target  
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It was observed that the Council was not aware of the 2030 Agenda relating to sustainable development objectives.

**3.2 Management Inefficiencies**  
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(a) Library Administration  
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Four hundred and thirty condemned books valued at Rs.59,564, 625 books valued at Rs.116,559 which had been misplaced and 814 books valued at Rs.227,587 which had not been returned by readers were observed at three libraries belonging to the Council, namely, Battarmula, Kaduwela and Athurugiriya respectively. Action had not been taken to recover the value of these books from those who were responsible and to make suitable arrangements for usage.



(b) Bio-gas Unit  
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The bio-gas unit donated to the Council by the Western Province Solid Waste Management Authority remained inoperative for many years. The Council had not paid attention to make use of it for garbage management by doing necessary rectifications.

(c) Pre-school and Day Care Centre  
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A pre-school teacher and an assistant had been assigned to work in pre-school and day care centre of Battaramulla. But, there were only 2 small children at the day care centre while there were no children in the pre-school. It was observed that the pre-school building was not spacious enough and had no sanitary facilities and as a result children had not entered this centre. Accordingly, the services of the pre-school teacher and the assistant had been limited to 2 children only.

(d) Stores Control  
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Spare parts removed from vehicles had been irregularly kept in the stores.

### 3.3 Human Resources Management

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(a) Vacancies and Excesses in the Cadre  
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Details of approved and actual cadre of the Council as at 31 December 2017 appear below.

<b>Grade</b>	<b>Approved</b>	<b>Actual</b>	<b>Vacancies</b>
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Executive	20	10	10
Secondary	113	102	11
Primary	467	430	37
Total	-----	-----	-----
	600	542	58
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- (i) There were 10 vacancies in the posts of executive grades. Of these, 8 vacancies represented vacancies in the posts of Deputy Municipal Commissioner, Municipal Secretary, Engineer, Medical Officer of Health, Ayurveda Medical Officer, Veterinary Surgeon, Technical Officer (Special Grade) and Revenue Inspector (Special Grade) and 02 vacancies of Administrative Officers.

- (ii) In addition to the approved cadre, 84 casual labourers had been recruited to the head office of the Council and sub offices during the year under review. Those employees had not been assigned with duties in writing. Many of them had been assigned to do work connected with documents and computers.

(b) Employees' Loans  
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The balances recoverable as at 31 December 2017 aggregated Rs.54,214,598, made up of Rs.51,428 from 16 officers who had been transferred, Rs.383,783 from 62 retired officers, Rs.127,555 from 12 officers under interdiction, Rs.389,810 from 28 officers who had vacated posts and Rs.7,500 from an officer who had expired. The Council had not taken action to recover these arrears.

**3.4 Operating Inefficiencies**  
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- (a) The Council had been deprived of a revenue of about Rs.80 million as a result of not recovering rates on the basis of assessment of rates at the Battaramulla area in 2011. Although assessments should be made every 05 years in terms of the Circular No.1988/22 of 17 May 1988 of the Department of Local Government, the Council had been deprived of an extensive revenue as a result of recovering rates on the basis of assessments made in 2000 and 2008 in three areas namely, Kaduwela, Athurugiriya and Battaramulla.
- (b) Three stalls of the second floor of the Royal Plaza shopping complex belonging to the Battaramulla District Office remained closed for a long time and the arrears of Rs.29,782 had not been recovered from those stalls. Of these, 2 stalls remained closed for 06 years and the rest remained closed for over 03 years.

**3.5 Assets Management**  
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**3.5.1 Assets not registered**  
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The register of lands maintained by the Council had not been updated. Title deeds of 49 blocks of land entered in the register land had not been furnished for audit. The administration of the Council relating to the of land belonging to the Council and the land given for common amenities was very poor.

**3.5.2 Assets not Acquired**  
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Re-establishment of the Week end Fair  
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- (a) A sum of Rs.80,025,000 had been paid to the Urban Development Authority by the Kaduwela Municipal Council in 2014 to acquire 0.982111 hectares of land for re-

establishment the Kaduwela fair. In this connection, Rs.40 million had been obtained as loan from the Local Loans and Development Fund at an interest rate of 6.5 per cent for which Rs.14,023,246 had been paid as loan instalments and interest by 31 December 2017. But, action had not been taken to acquire the land where the fair had been established by paying compensation to owners of the land.

- (b) This week end fair had been declared open to the public on 09 September 2017. However, permanent electricity connections had not been obtained as at that date and 46 stalls had not been handed over for trade purposes.

### **3.5.3 Idle/Under Utilized Assets**

- (a) The electric lift valued at Rs.3,900,000 installed at the Kaduwela bus stand in 2013 remained inoperative for many years. Action had not been taken to repair and use it.
- (b) The generator purchased for Rs.968,688 and installed in 2014 to operate the above electric lift had been removed from there and kept in the premises of the Municipal Council allowing it to get corroded.
- (c) The bailing machine valued at Rs.494,500 received in 2016 as donation to bail polythene had been kept in the premises of the Council without being used.
- (d) Forty five name boards of roads valued at Rs.178,750 purchased in 2014 and 2015 for usage in the authoritative area of the Council had been kept in the premises of the Council, close to the stores. without safety.
- (e) A physical verification carried out in May 2018 revealed that 06 units of machinery purchased for Rs.66,612,046 on 20 October 2017 for carpeting the roads remained idle in the premises of the Athurugiriya sub office.

### **3.6 Identified Losses**

One hundred and forty one flagstaffs valued at Rs.139,380 at the stores unit of the head office had got misplaced.

## **4. Accountabilty and Good Governance**

### **Budgetary Control**

A comparisons of the estimated recurrent expenditure of the Council for the year under review with the actual expenditure showed that less than 50 per cent of the provision made for 104 Objects amounting to Rs.81,396,500 had been spent.

**5. Systems and Controls**  
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Deficiencies observed during the course of audit were brought to the notice of the Commissioner from time to time. Special attention is needed in respect of the following areas of systems and controls.

<b>System</b> -----	<b>Deficiency</b> -----
(a) Accounting	Omission of transactions and erroneous accounting.
(b) Contract Administration	Abandonment of contracts.
(c) Revenue Administration	Non recovery of arrears of revenue.
(d) Assets and Properties	Land belonging to the Council and land for common amenities not entered in the register and action not being taken to safeguard them.