

Kathankudi Urban Council

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2019 had been submitted to audit on 19 February 2020 and the Summarized Auditor General's Report on that financial statements were sent on 30 June 2020 and the Detailed Management Report was sent on 19 June 2020 to the Chairman.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph of Basis for Qualified Opinion, financial statements give a true and fair view of the financial position of the Kathankudi Urban Council as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

1.3.1 Accounts Receivables and Payables

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Receivable Accounts		
(i) Even though, Electricity Board advances amounting to Rs.2,399,352 have been made available for over 10 consecutive years in the financial statements, it has been presented in the accounts without the documents, books and corroborative evidence, and no action had been taken to recover the arrears or remove them from the books.	Action should be taken to recover.	It was stated as an advance since 1986 amounting to Rs.2,399,352 which had been made available to the CEB Based on the payments made during the period when the Kattankudi Urban Council was in contact with the Electricity Board
(ii) Arrears loan of Rs. 38,876 which should be recovered from 04 employees, who were retired, resigned their posts and deceased had been remained without taking action to recover from their gratuity or from the guarantors.	Action should be taken to recover.	Legal action is being taken against these individuals for non-payment of these loans.

(b) Payable Accounts

Creditors amounting to Rs.6,642,879 representing in the financial statements for over 05 years have not been identified or removed from the books for several years. Action should be taken to settle. The matter is being brought to the notice of the Commissioner of Local Government and the Governor of the Eastern Province and Action is being taken.

1.3.2 Lack of Documentary Evidences

Audit Observation **Recommendation** **Comments of the Accounting Officer**

Due to non-submission of deeds and other title deeds related to the land amount of Rs.107,215,868, it could not be satisfactorily verified. Evidence confirming the account balance should be submitted. Further action is being taken in this regard.

1.4 Non-Compliance

1.4.1 Non-Compliance with the Laws, Rules, Regulations and Management Decisions

Instances of Non-Compliance with the Laws, Rules and Regulations were stated below.

	Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliance	Recommendation	Comments of the Accounting Officer
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(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			

(i)	Financial Regulation 371	Advances granted to various persons in 32 instances from the year 2011 to 2018 had not been settled.	Action should be taken to settle these advances.	Accepted.

1.4.2 Non-compliance with Tax Requirements

Audit Observation	Recommendation	Comments of the Accounting Officer
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VAT Invoice had not been obtained for value added tax paid to various suppliers. Also, the Department of Inland Revenue and the Auditor General were not informed of the VAT paid.	When making VAT payments, payments should only be made on a VAT invoice	Accepted.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2019 amounted to Rs. 11,410,951 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 12,689,496.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue and Collected Revenue and Arrears Revenue

Details of estimated revenue, listed revenue, collected revenue and arrears of revenue relating to the year under review and previous year as per the information submitted are shown below.

Revenue Item	2019				2018			
	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	19,875,000	19,196,489	14,520,979	4,675,449	18,409,850	18,359,223	14,662,263	3,696,960
Lease Rent	11,672,500	6,159,328	6,159,328	-	7,501,500	5,562,342	5,662,342	--
License Fee	3,060,000	3,412,500	3,399,000	13,500	3,060,000	3,110,940	3,090,140	20,800
Other Revenue	<u>31,153,500</u>	<u>28,044,403</u>	<u>16,924,628</u>	<u>11,119,775</u>	<u>26,389,500</u>	<u>25,487,741</u>	<u>25,487,741</u>	--
Total	<u>65,761,000</u>	<u>56,812,720</u>	<u>41,003,935</u>	<u>15,808,724</u>	<u>55,360,850</u>	<u>52,520,246</u>	<u>48,902,486</u>	<u>3,717,760</u>

2.2.2 Revenue Collection Performance

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Action had not been taken as at 31 December 2017 to recover arrears Rates and Tax of Rs.4,084,020 and billed revenue of Rs.16,929,108 during the year under review.	Action should be taken to recover arrears of Rates and Taxes	Accepted.

- (b) Although the Urban Council had given approval for the operation of the old library building complex, job training center, sub office of the Ministry of Culture, Divisional Education Office etc. belonging to the Urban Council, no lease agreement had been entered into with those institutions. Arrangements should be made to enter into agreements with these institutions. Accepted. (It is also in the process of entering into agreements with these institutions.)

3. Operating Review

3.1 Performance

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	<p>By-Laws</p> <p>According to the Chapter 255 of the Urban Council Ordinance, by-laws on the matters of revenue and regularization of the Urban Council shall be prepared and implemented. Nevertheless, the Urban Council had sent its requests for by-laws to the concurrence of the Minister of Local Government in Eastern Province. However, as at 31 December 2019, no approval had been given to implement it.</p>	<p>Action should be taken to obtain the approval of the Minister of Local Government of the Eastern Province as per the by-laws of the Council.</p>	<p>Accepted.</p>
(b)	<p>Measures to regulate solid waste management have not yet been taken.</p>	<p>Measures to regulate solid waste management should have been taken.</p>	<p>Accepted</p>
(c)	<p>With the objective of improving road and drainage system in the municipal area under the(LGIP) loan program a sum of Rs.7,317,456 obtained at an annual interest of 9 per cent on a 10-year repayment basis. But these roads were not formally completed and maintained.</p>	<p>Roads that have not been repaired need to be repaired soon.</p>	<p>Action will be taken soon to repair the Roads that have not been repaired.</p>
(d)	<p>Sustainable Development Goals</p> <p>The Council had not established the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.</p>	<p>Steps should be taken to establish indicators for measurement in relation to sustainable development programs.</p>	<p>Accepted.</p>

3.2 Assets Management

3.2.1 Failure to document assets

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The Council had not taken action to record the immovable and movable property in the register of fixed assets.	Relevant assets should be recorded in the fixed asset register.	Accepted.
(b) It was entered into an agreement for the contract of the construction work including the installation of the Kawasima machine under the Solid Waste Disposal Program for a contract value of Rs. 77,796,553 to commence on 10.06.2019 and to be completed on 19.08.2019. A sum of Rs.29,920,986 had been paid for the contract work but It had not been completed even by 31 December 2019.	The relevant program should be completed within the stipulated time.	The Minister has informed that the program should be completed by August 2020.

3.2.2 Unresolved Audit Observations and un-replied Audit Queries

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Non-remittance of contributions to the Public Service Provident Fund		
In terms of the Circular No. 2/2011 dated 24 February 2011 of the Director General of Pensions, Contributions of casual and temporary employees should be remitted to the Public Service Provident Fund. However, contributions for 77 employees who were appointed in the years 2015, 2016 and 2017 had not deducted from their salaries and remitted to the Public Service Provident Fund.	According to the circular of the Director General of Pensions, the contributions of all the relevant members should be remitted to the Public Service Provident Fund.	I will deal with this in the future.

(b) Renting the Library Building

Although the Department of Valuation had estimated the monthly rent of the library building at Rs. 125,000, in 2014, the building was rented by the council to a private educational institution for a period of four years at a monthly rent of Rs.5,000. As a result, the council had lost a rent of Rs. 4,755,000.

According to the assessment of the Valuation Department, a monthly rent of Rs. 125,000 should be charged for the library building. I will deal with this in the future.

3.4 Procurement

3.4.1 Procurement Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
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the council had not prepared a procurement plan for the goods	A procurement plan should be prepared	Accepted
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4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
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The internal audit of the Council had not been carried out during the year under review	An internal audit should be conducted for the activities of the Council.	Accepted
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