

**Kegalle Urban Council**  
**Kegalle District**

**1 Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year 2019 had been presented to audit on 08 June 2020 and the summary report and the Detailed Management Report of the Auditor General on the financial statements had been issued to the Chairman on 26 August 2020 and 03 September 2020 respectively.

**1.2 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion Section 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 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Basis for Qualified Opinion**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) The increase of book value in the revaluation of the land and buildings amounted to Rs.3,056,651,842 and the newly identified value amounted to Rs.604,641,000, thus the total revalued amount had been Rs.3,661,292,842. But it was brought to account as Rs.3,595,439,830 and as such the land and buildings had been understated by Rs.65,853,012 in the statement of financial position.	Action should be taken to identify the revaluation value and it should be brought to account accurately.	Action will be taken to rectify all the particulars of fixed assets.
(b) The lands in extent of 2.76 acres relating to 44 assessment properties of the Sabha, had not been assessed and brought to account.	All non-current assets should be brought to account.	Action will be taken in the future to value the assessment properties belonging to the Sabha and accounted for.
(c) The balance of the motor vehicles and cart account had been understated by Rs.978,803 as at the end of the year under review.	The value should not be eliminated until disposing even though discarded from use.	That will be rectified in preparing final accounts in the year 2020.

(d)	The discounts allowed for rates and taxes amounting to Rs.374,014 in the year under review had not been brought to account.	The discounts allowed should be brought to account.	That will be rectified in preparing final accounts in the year 2020.
(e)	The court fines revenue receivable relating to the year under review had been understated by Rs.93,904 in the accounts.	Action should be taken to identify accurately the revenue relating to the year and accounted for.	That will be rectified in preparing final accounts in the year 2020.
(f)	The relevant adjustments had not been made for over provisions of creditors of Rs.2,455,772 and as such the creditors had been overstated by similar amount.	The relevant adjustments should be made for the over provisions of creditors accurately.	The balance of creditors will be cleared in the year 2020.
(g)	A total difference of Rs.34,931,358 was shown between the balances as per financial statements relating to 6 items of accounts as at the end of the year under review and the balances as per subsidiary registers.	Action should be taken to reconcile the differences of relevant balances and to rectify the accounts.	Action will be taken to reconcile the differences of respective balances and to rectify the accounts.

#### **1.4 Non-compliances**

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

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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Public Administration Circular No.30/2016 dated 29 December 2016. paragraph 3.1	The fuel consumption tests of 16 motor vehicles belonging to the Sabha had not been carried out.	Action should be taken in terms of the Circular.	Action will be taken to carry out fuel consumption tests.

##### **1.4.2 Non-Compliance with Tax Requirements**

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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Pay As You Earn Tax of Rs.126,675 relating to the members allowances of Rs.1,266,746 paid for 3 officers who served as Urban Councilors during the year under review and in the	Action should be taken in terms of the Act.	Action will be taken in the future according to the Act.

preceding year had not been recovered in terms of Table 07 of Pay As You Earn Tax under the Employment Revenue of Inland Revenue Act No.24 of 2017.

## 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 2019 amounted to Rs.81,870,582 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.38,369,260.

### 2.2 Revenue Administration

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

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

Source of Revenue	<u>2019</u>				<u>2018</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	13,100,000	12,033,434	13,069,077	2,062,606	11,650,000	11,929,495	12,351,605	2,733,928
Lease Rent	46,453,180	49,770,578	49,647,942	3,991,322	42,686,600	42,816,095	42,801,902	3,853,232
Licence Fees	3,095,500	3,307,174	3,343,515	373,700	2,695,500	3,614,568	3,675,648	412,040
Other Revenue	41,729,000	55,002,030	61,661,097	24,200,234	116,737,953	116,273,133	123,618,300	27,583,559

#### 2.2.2 Rates and Taxes

##### Audit Observation

##### Recommendation

##### Comments of the Accounting Officer

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 The balance of arrears of rates as at end of the year under review amounted to Rs.1,997,165 and out of that a sum of Rs.1,066,108 had remained in arrear for over 01 year. Action had not been taken in terms of Section 170 of the Urban Council Ordinance in respect of recovery of above arrears.

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 Action should be taken in terms of the Section 170 of Urban Council Ordinance.

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 Action will be taken to minimize the arrears of rates further.

### 2.2.3 Lease Rent

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- The lease rentals and charges amounting to Rs.1,299,063 remained in arrear for over 01 year had not been recovered.	----- Action should be taken to recover arrears of lease rent and charges.	----- The market rent, weekly fair rent, rest house rent and toilet charges has been submitted for Council approval to obtain the orders to write off.

### 2.2.4 Other Revenue

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- Action had not been taken to recover the fines amounting to Rs.2,055,639 from the shops of pavement hawkers which remained in arrears for over 01 year.	----- Action should be taken immediately to recover arrears of fines.	----- Action will be taken to recover with the balance amounts of fines in recovery of arrears of shop rent.

## 3. Operating Review

### 3.1 Performance

The matters revealed in respect of the activities that should be carried out by the Council such as regularize and control over the matters of public health, public utility services, and thoroughfares and the comfort, facilities and wellbeing of the people under Section 4 of the Municipal Council Ordinance are given below.

#### (a) By-laws

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- Action had not been taken to pass and gazette the 12 by laws relating to the Urban Council, out of 16 by-laws prepared on public health and sent by the Sabaragamuwa Provincial Council in terms of Section 157 of the Urban Council Ordinance.	----- Action should be taken to pass by-laws and to recover revenue.	----- Action is being taken to pass that by-laws in the future.

(b) **Action Plan**

	<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(i)	The annual action plan did not include any development work, supplies and services and other activities expected to be completed during the year.	Action should be taken to include all development works, supplies and services and other activities.	Action will be taken to rectify in the future.
(ii)	According to the compliance report of the performance report, the matters such as valuation of properties, disposal of vehicles, make recruitments within the approved cadre and make payments, providing corporate information through the website, implementation of citizens charter and develop a methodology for evaluation and compilation of Human Resources Plan had not been executed during the year under review.	Make sure to perform the tasks that need to be performed annually.	Action will be taken to rectify in the future.
(iii)	As not preparing the performance indicators of the institution based on the Action Plan of the Performance Report, it could not be evaluated the performance of the expected output levels.	The performance should be presented according to the Action Plan.	Action will be taken to rectify in the future.

(c) **Solid Waste Management**

	<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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	Even though, the licence issued by the Central Environmental Authority for the compost production project was ended on 18 October 2019, the Council had not taken action to submit the renewal application, 03 months before the cancellation. Even though the relevant licence was issued only for the compost production project the disposal of sewage was also being done in to the same area.	The renewal application should be submitted 3 months before the cancellation of the licence.	Even though the environmental protection licence obtained for the organic fertilizer production process by the land method has expired, a new licence has to be obtained as kawashima organic fertilizer production process has to be adapted.

### 3.2 Management Inefficiencies

	Audit Observation	Recommendation	Comments of the Accounting Officer
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(a)	Even though 02 committees had been appointed on 26 November 2019 for revaluation of lands and buildings in terms of paragraph 3.1(i)c of the Provincial Treasury Circular No.04/2017 dated 16 August 2017, the valuation reports had not been completed and presented. Revaluation values based on incomplete records had been included in the financial statements.	Efforts should be made to complete the valuation reports properly.	The relevant activities relating to revaluation of lands and buildings are being carried out and action will be taken as per the revaluation reports in future.
(b)	Ten wells out of 37 wells belonging to the Sabha had not been surveyed, while 07 wells remained in need of repair. Further 17 wells had been abandoned unused and 2 wells could not be physically found.	Action should be taken to maintain and protect the assets.	Actions are being carried out in respect of the functions to be done in the future such as surveying, repairing relating to the all properties of the Sabha.
(c)	Action had not been taken to settle the balances of creditors totalling Rs.5,507,591 remained brought forward for over 03 years.	Action should be taken to settle the creditors balances.	Action will be taken to settle in the year 2020.

### 3.3 Human Resources Management

	Audit Observation	Recommendation	Comments of the Accounting Officer
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(a)	The vacancies in the posts of Secretary, Accountant, Public Health Inspector, Electric Technician and Ayurvedic Dispenser had adversely affected on providing an efficient public service.	Action should be taken to complete essential vacancies.	Even though the details in respect of the vacancies of the cadre had been submitted to the top management monthly, the solutions thereon were not received from the Provincial Council.
(b)	Action had not been taken either to recover a sum of Rs.85,618 remained brought forward for over a period of 15 years receivable from 18 officers deceased, retired, vacated of posts and the service suspended or to take action in terms of the provisions of Section 4.3, 4.4, 4.5 and 4.6 of the Establishments Code.	Action should be taken in terms of the provisions of Section 4.3, 4.4, 4.5 and 4.6 of the Establishments Code.	Action will be taken to settle the outstanding loans expeditedly.

### 3.4 Assets Management

#### 3.4.1 Idle Assets

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- Two motor vehicles amounting to Rs.1,320,000 had remained idle for over a period of 02 years.	----- Action should be taken to repair and to utilize.	----- These vehicles have to be referred for repairs.

#### 3.4.2 Motor Vehicle Utilization

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- It was decided at the general meeting held on 06 July 2018 to auction of 05 motor vehicles which had been removed from use for about 05 years amounting to Rs.978,803 and it was informed to assess the vehicles and the prices should be submitted to the Council. Even though, the Valuation Board had been appointed by the letter No.CLG/10/7/1 of the Commissioner of Local Government dated 15 August 2019, further action had not been taken even by the end of the year under review.	----- Assessment values should be obtained and action should be taken for disposal activities immediately.	----- The requests has been made to the Motor Vehicle Examiner Kegalle by informing to assess the values of the motor vehicles removed from use to be sold at public auction and action will be taken accordingly.

### 3.5 Procurements

#### Procurement Plan

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- The Urban Council had not prepared a major procurement plan in terms of Guideline 4.2.1(a), (b) of the Government Procurement Guidelines and a detailed procurement plan for the ensuing year in terms of its 4.2(c). Nevertheless, the woks, supplies and services amounting to Rs.29,405,377 had been executed during the year under review without the procurement plans.	----- Action should be taken in terms of the provisions of the Procurement Guidelines.	----- Action will be taken to prepare a formal procurement plan including the works and the supplies and services as well for the year 2021.

#### **4. Accountability and Good Governance**

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##### **4.1 Audit and Management Committee**

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Even though 04 Audit and Management Committee meetings should be held per year in terms of Audit and Management Circular No.DMA/01-2019 dated 12 January 2019, only 01 Audit and Management Committee had been held in the year under review.	Action should be taken in terms of the provisions of circulars.	It will be expected to conduct Audit and Management Committees in the year 2020.

##### **4.2 Unresolved Audit Observations**

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) Action had not been taken to settle the credit balance of the suspense account of Rs.3,657 shown in the financial statements from the year 2012.	Action should be taken to settle the suspense account.	Suspense account will be rectified immediately.
(b) As agreements had not been entered into with the owners of the trade stalls, a sum of Rs.1,532,780 receivable from 52 trade stalls of the old weekly fair could not be recovered and it was observed that action is being taken to write off.	Action should be taken in terms of the legal provisions.	The relevant approval had been requested as per the Council decision dated 15 June 2015 to obtain the directives to write off the amount which could not be recovered, the relevant decisions thereon were not received upto now.
(c) In terms of Section 160 of the Cap – 255 of the Urban Council Ordinance, an assessment tax may be levied by an Urban Council on the annual assessment on any immovable property or any specific type property. Nevertheless, an annual assessment had not been made after the year 2009.	Action should be taken in terms of Section 160 of the Cap. 255 of the Urban Council Ordinance.	The valuation of assessment properties had been informed in several times upto now from the year 2014, but it is not a weakness of the Urban Council as the Department of Valuation has not yet been activated.