

Peliyagoda Urban Council

Gampaha District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements for the year under review had been presented to audit on 08 April 2011 and the financial statements for the preceding year had been presented for the audit on 24 February 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the information given to me I am of opinion that the Peliyagoda Urban Council had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:3 of this report the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Peliyagoda Urban Council as at 31 December 2010 and the financial results of its operations for the year than ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

- (a) Rates amounting to Rs.928,421 received in respect of the ensuing year had not been brought to account as rates received in advance. The discount of Rs.103,158 allowed thereon had been credited to the Rates Account for the year under review instead of crediting the Rates Received in Advance Account.
- (b) The tailoring allowance payable amounting to Rs.238,487 brought to account under the creditors in the preceding year and paid in the year under review had been brought to account as expenditure for the year

under review instead of being brought to account under the Creditors Account.

- (c) Licenced fee revenue amounting to Rs.15,417 received in the preceding year for the year under review had not been brought to account under revenue.
- (d) Even though the petty cash imprest had been settled as at the end in the year under review, accredit balance of Rs.1,489 had been disclosed.
- (e) Even though salary advances paid amounting to Rs.33,200 had been deducted on the pay sheet, the Advance Account had not been settled.
- (f) The Community Hall revenue amounting to Rs.186,000 received in the year under review for the ensuing year had been adjusted by Journal Entry No. 23. It had not been debited to the Lease Rent Revenue Account.
- (g) According to the bank certificate, the value of the fixed deposit inclusive of the interest up to 28 April 2010 amounted to Rs.1,260,663. It had been adjusted with Rs.118,214 as the interest not received and brought to account as Rs.1,378,877. Nevertheless the correct interest receivable amounted to Rs.85,505 and it had not been brought to account as the interest receivable.
- (h) The balances of the 02 Savings Passbooks had been disclosed as an assumed balance of Rs.30,569 without getting the balances updated.
- (i) The Value Added Tax had been remitted to the Commissioner General of Inland Revenue by deducting the allowable tax from the tax collected and the allowable tax mounting to Rs.62,314 had been brought to account as expenditure. As such, that amount had been retained in the Value Added Tax Account without being adjusted to the accounts as revenue.

1:3:2 Unreconciled Control Accounts

- (i) The balances of 02 items of accounting according to the Control Accounts totalled to Rs.16,090,712 whereas according to the subsidiary registers the balances of the accounts totalled Rs.14,519,068.

- (ii) Registers relating to creditors, deposits, prepayments and other revenue had not been balanced and as such the balances appearing in those accounts could not be reconciled.

1:3:3 Accounts Payable

The value of balances of the accounts payable as at the end of the year under review totalled Rs.53,560,746 and the balances older than 01 year totalled Rs.1,779,959.

1:3:4 Lack of Evidence for Audit

- (i) Unanswered Audit Queries

Replies to 05 audit queries relating to the year 2010 had not been furnished by 31 March 2011 and the value of quantifiable transactions relating to those audit queries amounted to Rs.2,968,512.

- (ii) Non-submission of Information for Audit

Transactions totalling Rs.104,339,510 could not be satisfactorily vouched in audit due to the non-submission of required information.

2. Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2010 amounted to Rs.18,967,376 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.6,186,029 for the preceding year.

2:2 Revenue Administration

2:2:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Chairman is given below.

Item of Revenue	Estimated	2010		Cumulative Arrears as at 31 December	2009		Cumulative Arrears as at 31 December
		Actual	Estimated		Actual	Estimated	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	38,500	27,536	22,340	38,500	28,397	26,629	
(ii) Lease Rents	2,288	1,996	813	2,361	1,753	--	
(iii) Licence Fees	2,013	1,036	1,434	2,212	1,140	--	
(iv) Other Revenue	17,367	21,289	--	17,817	13,047	--	

2:2:2 Recovery of Arrears of Revenue

(i) The Secretary of the Council had not taken effective steps in terms of provisions of Section 170(A)(2) of the Urban Councils Ordinance (Cap. 255) for the recovery of the rates amounting to Rs.22,339,830, lease rents amounting to Rs.813,492 and license fees amounting to Rs.1,434,344 recoverable as at the end of the year under review.

In addition, the rates revenue receivable older than 05 years amounted to Rs.5,960,614.

(ii) A procedure in terms of Section 170(2) of the Urban Councils Ordinance had not been followed for distraining of properties for the recovery of arrears of rates.

2:3 Expenditure Structure

The budgeted and the actual expenditure of the Council for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	2010			2009		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<u>Recurrent Expenditure</u>						
Personal	39,950	36,723	3,227	35,082	34,926	156
Emoluments						
Others	46,332	26,014	20,318	46,579	29,593	16,986
Sub-total	86,282	62,737	23,545	81,661	64,519	17,142
Capital Expenditure	50,402	18,346	32,056	45,101	7,699	37,402
Grand Total	136,684	81,083	55,601	126,762	72,218	54,544

2:4 Financial Control

- (a) Follow up action had not been taken in unrealised deposits amounting to Rs.46,050 brought down over a period exceeding 20 years.
- (b) Action in terms of provision of Financial Regulation 189 had not been taken on 08 dishonoured cheques totalling Rs.1,067,968.

2:5 Surcharges

According to the surcharges imposed by me in terms of the provisions of Section 182(1) of the Urban Councils Ordinance (Caps. 255) against those responsible the value of surcharges recoverable as at 31 December 2010 amounted to Rs.138,009.

2:6 Human Resources Management

Approved and Actual Cadre

Information on the approved and the actual cadre of the Council as at 31 December 2010 is given below.

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff	02	01
Secondary	38	31
Primary	92	100
Other (Casual, Temporary, Substitute)	--	04
Project Employees	16	16

2:7 Assets Management

2:7:1 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.1,397,248 and the balances of accounts older than 01 year totalled Rs.708,138.

2:7:2 Staff Loan Recoverable

The staff loans and advances recoverable as at 31 December 2010 totalled Rs.14,656,368 and the balances of accounts older than 01 year totalled Rs.308,675.

2:7:3 Non-moving Current Assets

The debit balance of a Bank Account remaining dormant for over 02 years as at 31 December 2010 amounted to Rs.11,921.

2:8 Uneconomic Transactions

The Vijaya Kumaranathunga Pre-School had been shifted to the vehicle park behind the Council Office from May 2007 as the school building was in a dilapidated and dangerous condition due to cracks developed in the walls. A sum of Rs.2,006,620 had been spent as salaries and overtime paid to two watchers deployed from May 2007 to November 2010 on day and night watch duty of a building marked for demolition. when there were no any valuable assets to protect.

The Chairman informed me on 24 August 2011 that the two watchers were deployed to look after the asbestos sheets which can be reused as there was no storage space keep them. The expenditure incurred up to date exceeds Rs.2.0 million and the possibility of spending more than the expected benefit cannot be ruled out in audit.

2:9 Contract Administration

Concreting of Biyagama Road – Ferry Road

According to Item 03 of the final payment report on the above work dated 30 March 2010, a sum of Rs.406,400 had been paid for 12.8 cubes of concrete at Rs.31,750 per cube for concreting the road surface. Nevertheless, the total area concreted according to the measurements taken by the Superintendent of Works of the Council at the field inspection carried out on 23 November 2010, had been only 11.58 cubes. As such an overpayment of Rs.38,735 had been made for 1.22 cubes of concrete at Rs.31,750 per cube.

2:10 Operating Inefficiencies

The Notification for charging Business Tax for the year 2010 had been published in the Gazette only on 21 May 2010.

2:11 Internal Audit

An adequate internal audit of the institution had not been carried out.

03. Systems and Controls

Special attention is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Internal Audit
- (c) Budgetary Controls
- (d) Revenue Administration
- (e) Assets Management