

Seethawakapura Urban Council

Colombo District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 25 March 2011 and the financial statements for the preceding year had been presented on 26 March 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Seethawakapura 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 Seethawakapura Urban Council as at 31 December 2010 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

The accounting deficiencies observed in the accounts in terms of expenditure and assets are given under the number of instances and values in the following table.

| Item ----- | Effect on the Accounts ----- | | | |
|------------------------------------|---------------------------------|----------------|---------------------------------|----------------|
| | Expenditure ----- | | Assets ----- | |
| | Number of Instances ----- | Value ----- | Number of Instances ----- | Value ----- |
| | | Rs.'000 | | Rs.'000 |
| Omissions in the Accounts | -- | -- | 01 | 74,747 |
| Understatements in the Accounts | -- | -- | 01 | 11,150 |
| Classifications Errors | 01 | 42,875 | -- | -- |
| Total | 01 | 42,875 | 02 | 85,897 |
| | == | ===== | == | ===== |

1:3:2 Unreconciled Control Accounts

The balances of 02 items of account according to the Control Accounts totalled Rs.22,603,247 whereas according to the subsidiary registers, the balances of those accounts totalled Rs.22,484,747.

1:3:3 Non – compliances

Action in terms of Financial Regulation 396 (d) of the Democratic Socialist Republic of Sri Lanka had not been taken on 10 cheques valued at Rs.40,667 lapsed for over 06 months since issue.

2 Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of recurrent expenditure over the revenue of the Council for the year ended 31 December 2010 amounted to Rs. 16,428,291 as compared with the corresponding excess of recurrent expenditure over the revenue amounting to Rs.20,999,168 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 | <u>2010</u> | | | <u>2009</u> | | |
|---------------------|-------------|---------|--------------------------------------|-------------|---------|--------------------------------------|
| | Estimated | Actual | Cumulative Arrears as at 31 December | Estimated | Actual | Cumulative Arrears as at 31 December |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| (i) Rates and Taxes | 11,137 | 8,089 | 4,997 | 11,898 | 8,548 | 4,967 |
| (ii) Lease Rents | 12,221 | 10,897 | 1,774 | 12,570 | 11,355 | 1,574 |
| (iii) Licence Fees | 182 | 160 | 76 | 261 | 262 | 53 |
| (iv) Other Revenue | 26,527 | 23,292 | 3,854 | 32,728 | 30,898 | 6,453 |

It was observed in audit that the amounts presented did not reconcile with the accounts.

2:2:2 Advertising Hoarding Charges

Even though the advertising hoarding charges should be recovered in terms of the Decisions No. 8.4 of the General Meeting of the Council dated 21 October 2009, the physical inspection carried out on 11 November 2010 revealed that the charges amounting to Rs.82,560 on 08 advertising hoardings had not been recovered.

2:2:3 Trade Stall Rents

- (i) Action had not been taken in the following instances in terms of clause 15 of the lease agreements entered into with the lessees by the Council.

| Particulars of Trade Stalls | Number of Trade Stalls | Closed down period | Arrears of Trade Stall Rents as at 31 December 2010 |
|-----------------------------|------------------------|--------------------|---|
| ----- | ----- | ----- | ----- |
| | | | Rs. |
| Seethawaka Bus Stand | 08 | Not furnished | --- |
| Near Chandra Playground | 07 | Over 03 months | 206,292 |

- (ii) In terms of Clause 24 of the lease agreement, the sale or sub – lease of the relevant property in full or in part, to any other person by the lessee is prohibited. Nevertheless, the lessees of 05 trade stalls had sub – leased the premises to other person at higher lease rentals.

2:2:4 Licence Fees

Nine businessmen running businesses specified in the bylaws published in terms of Sections 164 and 165 of the Urban Councils Ordinance in the Gazette dated 12 March 2010, had not paid the Licence Fees and the Business Tax for the year 2010.

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 | <u>2010</u> | | | <u>2009</u> | | |
|---------------------|-------------|---------|----------|-------------|---------|----------|
| | Budgeted | Actual | Variance | Budgeted | Actual | Variance |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| <u>Recurrent</u> | | | | | | |
| <u>Expenditure</u> | | | | | | |
| Personal Emoluments | 43,808 | 36,505 | 7,303 | 45,966 | 33,515 | 12,451 |
| Others | 45,257 | 59,980 | (14,723) | 37,510 | 61,639 | (24,129) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Sub-total | 89,065 | 96,485 | (7,420) | 83,476 | 95,154 | (11,678) |
| Capital Expenditure | 10,691 | 11,647 | (956) | 10,248 | 13,638 | (3,390) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Grand Total | 99,756 | 108,132 | (8,376) | 93,724 | 108,792 | (15,068) |
| | ===== | ===== | ===== | ===== | ===== | ===== |

2:4 Budgetary Control

Significant adverse variances were observed between the budgeted revenue / expenditure and the actual revenue / expenditure , thus indicating in audit that the budget had not been made use of as an effective instrument of management control.

2:5 Human Resources Management

2:5:1 Approved and Actual Cadre

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

| Grade of Employees ----- | Approved ----- | Actual ----- |
|-----------------------------|-------------------|-----------------|
| Staff Grades | 05 | 03 |
| Secondary Grades | 43 | 33 |
| Primary Grades | 105 | 92 |
| | ----- | ----- |
| | 153 | 128 |
| | ==== | ==== |

2:6 Assets Management

2:6:1 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 totalled Rs.33,648,328 and out of that the balances older than 01 year totalled Rs.13,201,133. Out of that, balances amounting to Rs.2,072,703 remained over a period exceeding 06 years.

2:6:2 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.4,827,991 and the balances outstanding for over 01 year totalled Rs.154,034.

2:6:3 Assets not Surveyed

The value of assets not supported by Physical Verification / Board of Survey Reports and computed at the book value as at 31 December 2010 amounted to Rs.26,884,565.

2:7 Internal Audit

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

3. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Stock Control