

Chillaw Urban Council

Puttlam District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 11 May 2014 and the financial statements for the preceding year had been presented on 20 March 2013. The report of the Auditor General for the year under review was sent to the Chairman on 11 December 2014.

1.2 Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Chillaw Urban Council as at 31 December 2013 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a.) Charges in arrears amounting to Rs.375,000 receivable by the Council during the year under review in respect of the SLTB Bus Stand owned by the Council and interest amounting to Rs.147,641 received for the period from 14 May 2013 to 14 November 2013 in respect of the fixed deposit certificate No.818555 valued at Rs.2,343,000 at the Peoples Bank had not been taken to revenue.
- (b.) Income from salary reimbursements amounting to Rs.477,390 receivable as at 31 December 2013 and interest amounting to Rs.193,590 receivable on savings deposits had not been brought to account.
- (c.) According to the revenue registers, quarters' rent, trade locations rent and lease rent amounting to Rs.3,224,770 billed had not been brought to account. Further, charges for laying water pipes and environment licence fees totaling Rs.402,688 also had been understated in the accounts by Rs.13,822,446.

- (d.) The value of stocks amounting to Rs.145,162 received by the stores during the first 03 months of the year under review had been erroneously credited to the pre-payment advances account.
- (e.) Necessary adjustments had not been made in the financial statements in respect of over-provision of Rs.380,376 made for works creditors of the preceding year.
- (f.) Although a provision of Rs.2,825,494 had been made for creditors payable in respect of development of roads of the Urban Council under Maga-Neguma Programme, a total cost estimate of Rs.7 million had been prepared for the Project again. Therefore, creditors and capital expenses had been overstated in the financial statements by a similar amount.
- (g.) The value of closing stock as at end of the year had been over-stated by a sum of Rs.6,701,664.
- (h.) According to the stores advance account stocks received up to 31 March of the year under review amounted to Rs.1,451,628. However, according to the cash book the purchases made through stores advances during the same period amounted to Rs.97,025 only.

1.3.2 Unreconciled Control Accounts

According to the financial statements, the total of 08 items of accounts amounted to Rs.144,858,111 whereas the total of the relevant balances as per subsidiary registers amounted to Rs.147,960,583 and as such an unreconciled difference of Rs.3,102,472 was revealed.

1.3.3 Accounts Receivable and Payable

- (a.) The recovery of entertainment tax amounting to Rs.501,257 in arrears recoverable from the Commissioner of Local Government since prior to 2011 is doubtful.
- (b.) The accounts payable as at 31 December 2013 amounted to Rs.67,768,317 and of this, a sum of Rs.10,193,902 had not been settled for over one year.

1.3.4 Lack of Evidence for Audit

Transactions totalling Rs.90,205,613 relating to 08 items of accounts could not be satisfactorily vouched due to non-submission of required information to audit.

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 2013 amounted to Rs.21,186,075 as compared with the excess of revenue over recurrent expenditure amounting to Rs.20,060,148 for the preceding year.

3. Operating Review

3.1 Operating Inefficiencies

- (a.) By-laws had not been enacted in respect of guidelines and charges for display of permanent hoardings, cut-outs and banners within the area of Council and the charges had been recovered on a decision taken by the Council. Therefore, it was unable to remove the unauthorized hoardings and the hoardings display at unwanted locations or to fix limitations for them.
- (b.) Provisions for creditors had been made in the financial statements for Rs.1,285,852 payable in respect of repairs to machinery during the year under review. However, provisions had not been made in the annual budget in respect of these expenses.

3.2 Delay in Implementation of Projects

13 Projects valued at Rs.2,686,500 on which agreements had been entered into during the year under review had not been completed even as at end of the year.

3.3 Solid Waste Management

Since year 2010, project reports and plans are being prepared in respect of "Solid Waste Management". Nevertheless, it had not been implemented even during the year under review.

4. Systems and Controls

Special attention of the Council is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Control over Debtors and Creditors
- (f.) Stock Control