

Horana Urban Council

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 May 2014 while Financial Statements relating to the preceding year had been submitted on 28 March 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Council on 19 November 2014.

1.2 Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Horana Urban Council as at 31 December 2013 and its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Although a Cash Flow Statement should be submitted with the financial statements in terms of Sri Lanka Public Sector Accounting Standard No.2 published through Circular N. 3/2013 dated 02 October 2013 of the Director General of Public Enterprises, a Cash Flow Statement had not been submitted for the year under review

1.3.2 Accounting Deficiencies

Following observations are made.

- (a.) Provisions amounting to Rs. 324,477 had been made as Creditors in the accounts in respect of 2 Projects not commenced even up to 24 June 2014, date of audit, and therefore expenditure for the year and the Work Creditors balance had been overstated to the extent of that value.
- (b.) Rest House Income in arrears amounting to Rs. 1,119,552 shown according to the registers as at 31 December 2013 had not been accounted.
- (c.) Value of 4 Ceiling Fans purchased for a sum of Rs.21,700 during the year under review had not been capitalized.

- (d.) Instead of crediting the Other Revenue in Arrears Account having debited the Advance Account for correction of the error in accounting relating to the Graduate allowances Receivable and Staff Loan Interest amounting to Rs. 140,330 in the Advance Account, Accumulated Fund had been debited. Due to that, the balances of the Accumulated Fund Account and the Advance Account had been understated to the extent of that value.
- (e.) Instead of correcting the error in the cashbooks with regard to the sum of Rs. 49,117 which was being brought in the bank reconciliation statement for December 2013 shown as Internal Cash Transfers, a cheques had been written for that value from the General Cash Account to the Works Cash Account and thereafter the Accumulated Fund Account had been credited having debited the Internal Cash Transfer Account.
- (f.) While the Loan payable for the cab vehicle provided by the Commissioner of Local Government on loan basis during the year under view had not been accounted, relevant installments payments too had not been capitalized.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs.21,315,431 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.11,730,375.

2.2 Dormant Accounts

- (a.) While the bank Current Account opened in favour of the Urban Development Authority and the Peoples' Bank Current Account had been dormant since the year 2006, the balances of Rs. 99,885 and Rs.941,985 in the two accounts respectively, remained unutilized.
- (b.) A balance of Rs.771,892 opened as a savings account in the National Savings Bank, Colombo City Branch on 31 December 1973, remained unutilized even as at the end of the year under review.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	17,916	11,351	10,263
(ii)	Lease Rent	6,581	2,608	6,140
(iii)	Licence Fees	159	159	-
(iv)	Other Revenue	1,175	1,123	131

2.3.2 Rates

While the balance of Rates in arrears as at 31 December 2013 amounted to Rs.8,929,567, a sum of Rs.3,186,665 only had been recovered up to July 2014, and the balance of arrears amounting to Rs.5,742,902 had not been recovered.

2.3.3 Stalls Rent

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- (a.) While the balance of Stall Rent in arrears relevant to the year 2013 and prior years was Rs.2,702,848 according to the schedules submitted, out of that a sum of Rs. 959,382 had not been recovered even up to July 2014. There was Stall Rent balance of Rs.426,930 due from 69 lessees brought forward from the year 1989 in that balance of arrears.
- (b.) Although the agreement period of the Function Hall of the New Shopping Complex had expired on 30 November 2011, action had not been taken to either to renew or extend the lease up to 19 June 2014, date of audit.
- (c.) According to the Rent Revenue Register, while there were 6 stalls for which rent had not been recovered throughout the year under review, the total of balances in arrears from those stalls was Rs. 42,700.
- (d.) Although a period between 2 years and 28 years had elapsed exceeding the validity period of the agreements of 6 stalls, action had not been taken to renew those, even as at 19 June 2014, date of audit.

2.3.4 Business Tax

Action had not been taken to recover Business Tax in arrears amounting to Rs. 134,160 relevant to the year 2013 and prior years even as at 30 May 2014, date of audit.

2.3.5 Court Fines

The Council had filed cases against places in the Urban Council's limit where foods had been sold without complying with the provisions in the Foods and Drugs Act No. 26 of 1980, having

carried out 7 raids during the year 2012 and 4 raids during the year 2013 and fines amounting to Rs. 60,000 and Rs.109,000 respectively had been imposed. Action had not been taken to get the sum of Rs.133,500 being the Fines Revenue of 75 percent receivable to the Council on account of fines imposed.

2.3.6 Rest House Revenue

Action had not been taken even as at 15 June 2014, date of audit, to recover the sum of Rs. 980,000 being Rest House Revenue in arrears for 14 months from November 2012 to December 2013. A Register too had not been maintained indicating the billing, recovery of cash and amounts in arrears with regard to Rest House Revenue.

3 Management Inefficiencies

3.1 Time Lapsed Deposits

Although Time Lapsed Deposits amounting to Rs. 2,988,644 should be cleared in terms of Financial Regulation 571, those deposits had been kept in the Deposits Register without taking such action.

3.2 Improper Transactions

A sum of Rs. 100,000 had been paid out of the Council Fund as sponsor contribution for a Volley Ball Match series conducted by a Recreation Club on approval granted by the Council on 19 December 2013, without obtaining a written approval of the Minister in terms of Clause 159(f) of the Urban Councils Ordinance.

3. Systems and Controls

Special attention of the Sabha is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Revenue Administration
- (iii.) Stocks Control
- (iv.) Assets Management
- (v.) Projects Administration