

Balangoda Urban Council

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Ratnapura District

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1. Financial Statements

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1:1 Presentation of Financial Statements

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The financial statements for the year under review had been presented for audit on 05 April 2013 and the financial statements for the preceding year had been presented on 30 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 04 November 2013.

1:2 Opinion

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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 Balangoda Urban Council had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my 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 Balangoda Urban Council as at 31 December 2012 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

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1:3:1 Accounting Deficiencies

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The following observations are made.

- (a) The procedure to be followed to credit deposits to revenue is stated in the Financial Regulation 571 and 572 of the Republic of Sri Lanka. However, instead of paying attention in this regard deposits amounting to Rs.12,008,147 had been credited to general revenue by the Journal Entry No. 59.

- (b) Sale of food and beverages valued at Rs.12,065,286 at the guest house had been debited to Debtors Control Account and the money received had been credited to the Debtors' Control Account.
- (c) According to monthly income statement of the Guest House the total sales for the year 2012 was Rs.14,496,353. However, while preparing the final financial statements the total sales value had been shown as Rs.12,847,240 understating it by Rs.1,649,113.
- (d) The value of land buildings and machinery shown in the balance sheet was Rs.217,773,086. However, it was Rs.202,690,305 as per register of fixed assets.
- (e) The cause for the sum of Rs.79,713 shown as guest house fees receivable from 2010 or for not taking action to settle it had not been disclosed in audit.

#### 1:3:2 Lack of Evidence for Audit

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Although 63 journal entries valued at Rs.264,739,412 had been furnished to audit along with the financial statements of 2012, the source documents to the correctness of the journal entries had not been furnished to audit.

## 2 Financial and Operating Review

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### 2:1 Financial Results

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According to the financial statements presented, the recurrent expenditure exceeding the revenue of the Sabha for the year under review was Rs.2,295,804 as compared with the recurrent expenditure exceeding the revenue of the preceding year amounting to Rs.10,717,758.

2:2 Revenue Administration

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

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The information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review, as presented by the Chairman, appear below.

|       | Source of Revenue | Estimated | Actual  | Accumulated<br>Arrears as at<br>31 December |
|-------|-------------------|-----------|---------|---|
|       | -----             | -----     | -----   | -----                                       |
|       |                   | Rs.'000   | Rs.'000 | Rs.'000                                     |
| (i)   | Rates and Taxes   | 6,500     | 5,598   | 1,683                                       |
| (ii)  | Lease Rents       | 17,107    | 15,783  | 1,652                                       |
| (iii) | Licence Fees      | 1,712     | 1,712   | --  |
| (iv)  | Other Revenue     | 26,018    | 21,179  | 6,264                                       |

2:2:2 Courts Fines and Stamp Fees

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The amount receivable as courts fees and stamp fees from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2012 are shown below.

|                 | Rs.       |
|-----------------|-----------|
| (i) Court Fees  | 1,123,480 |
| (ii) Stamp Fees | 4,200,000 |

2:2:3 Telephone Exchange Tower Fees

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Three telephone exchange towers had been installed within the area of the Council from 2006 to 2012. However, action had not been taken to enact and to recover annual licence fees.

2:3 Irregular Transactions

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- (a) During the year under review payments aggregating Rs.67,772 had been paid to a Revenue inspector on 4 occasions contrary to instructions in the circular No. 19 of 20 November 1984 of the Commissioner of Local Government and circular relating to collection of arrears and arrears of revenue Department councils and the circular relating utilization of services of officers for collection of rates and taxes and tax of local authorities on basis other than the office hours issued by the Commissioner of Local Government dated 19 October 1993.
- (b) It was decided at the Annual General meeting held on 28 January 2010 to grant maximum 500 litre of diesel to the Chairman's official vehicle. But, 1496.5 litre of diesel valued at Rs.181,375 had been used for a period of 5 months from January to May 2013 exceeding the approval limit.
- (c) A sum of Rs.77,500 had been paid on 2 instances during 2012 for the road roller supplied for road maintenance within the limits of the Urban Council. It was not observed in audit as to which work this roller had been made use of.

2:4 Operating Inefficiencies

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- (a) Compliance certificates had been obtained for only 65 out of 1243 constructions approved during 1998 to 2011. Thus, it was observed in audit that the supervision relating to constructions was at a very low level.
- (b) Action had not been taken in terms of Financial Regulation 396 of the Republic of Sri Lanka with regard to 20 cheques not presented for payments with reference to payments from 3 bank accounts totally valued at Rs.727,727.
- (c) The debtors balance recoverable as at 31 December 2012 as per debtors ledger of the circuit bungalow was Rs.669,230.

- (d) The loan obtained from the property Loan and Development Fund for constructing a trade complex together with the bus stand was Rs.111,209,828. Of this, a sum of Rs.20,000,000 had been paid on 11 February 2008. The arrears of loan installment and interest as at 30 June 2013 were Rs.39,057,510 and Rs.38,651,804 respectively.

3. Systems and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Interest
- (d) Revenue Administration
- (e) Assets Management