

Balangoda Urban Council

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 01 April 2014 while Financial Statements relating to the preceding year had been submitted on 03 July 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Council on 18 August 2014.

1.2 Opinion

I am of opinion that except for the effect on the financial statements of the matters referred to in paragraph 1.3 of this report, that the financial statements had been prepared in accordance with Sri Lanka Public Sector Accounting Standards and give a true and fair view of the financial position of the Balangoda Urban Council as at 31 December 2013 and financial results of its operation and cash flow for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

While Financial Statements had not been prepared to reflect budgeted and actual figures in accordance with Public Sector Accounting Standard 1.24, it had not been disclosed whether the budgeted figures had not been exceeded, or if exceeded, reasons for such excess had not given as a foot note in the financial statements.

1.3.2 Accounting Deficiencies

Following deficiencies are observed.

- (a.) Stamp fees amounting to Rs. 6,459,755 received during the year under review in respect of the preceding year had been accounted as an income of the year without crediting it to the Accumulated Fund.
- (b.) Action had not been taken to settle 12 sundry balances amounting to Rs.4,098,785, shown continuously in the bank reconciliation statements relating to two bank accounts.

1.3.3 Un-reconciled accounts

Although the balance of the Value Added Tax payable Account had been Rs. 8,143,378 as at 31 December 2012 according to the ledger account, It had been Rs. 8,302,782 according to the tax register. Accordingly, a sum of Rs. 159,404 had been overstated in the tax register.

1.3.4 Lack of evidence for audit

Transactions amounting to Rs. 5,271,071 could not be satisfactorily vouched in audit due to non-submission of required information to audit.

Reference to Laws, Rules, Regulations etc.

Non-compliance

(a.) Financial Regulations of the Republic of Sri Lanka

(i.) Financial Regulation 396 (d)

- Steps had not been taken settle 232 cheques issued amounting to Rs.7,105,118, but not presented for payment as at 31 December 2013 that had exceeded more than 06 months.

(ii.) Financial Regulations 486

- Action had not been taken settle 50 cheques deposited, but dishonored totalling Rs.2,153,058 as at 31 December 2013.

(iii.) Financial Regulations 751

- Stocks of 17,040 Inter Locking Blocks valued at Rs. 523,950 had not been taken to stock book.

(b.) Code of Procurement Guidelines dated 25 January 2006

Guideline 1.3.2

- Goods and services totalling to a value of Rs. 485,286 had been procured without calling for quotations in 10 instances for the Rest House belongs to the Council.

(c.) Treasury Circular No. IAI/2002/02 dated 28 November 2002

- Although 31 computers, including computers and components purchased for Rs. 146,700 during the year under review and previous years had been owned by the Council, a Register of Computer Assets had not been maintained in terms of the Circular.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue for the year ended 31 December 2013 amounted to Rs.7,207,355, while the corresponding excess of recurrent expenditure over revenue for the preceding year had been Rs.2,295,804 showing a decline of Rs.4,911,551 in the financial results for the year under review.

2.2 Analytical Financial Review

Although the total revenue for the year under review had been increased in a sum of Rs.6,169,328 when compared with the preceding year, increase in expenditure on transport, communication and other services and pairs and maintenance of capital assets in a Sum Rs.9,569,716 had resulted in the decline of the financial results.

2.3 Revenue Administration

Performance in Revenue Collection

An analysis relating to estimated revenue for the year under review and arrears of revenue is shown below.

Item of Revenue	Estimated	Actual	Cumulative arrears as at 31 December
	Rs '000	Rs '000	Rs '000
(i) Rates and Taxes	6,503	6,900	1,285
(ii) Rent of Vehicles	1000	758	409
(iii) Rent of Stalls (Bus Stand)	8,120	8,304	652
(iv) Rent of Stalls	7,073	6,821	956

Following matters are observed.

- (a.) Rates and stall rent in arrears for more than one year amounted to Rs. 61,006 and Rs.352,179 respectively.
- (b.) There were 02 Items of revenue totaling Rs. 2,387,186 estimated, but had not been possible to recover during the year under review.
- (c.) Period of arrears of lease rent totalling Rs. 7,058 due from 07 lessees had been in range from 22 months to 48 months.

- (d.) Steps had not been taken to recover arrears of rent totalling Rs. 942,923 due from 15 stalls in the new bus stand and arrears of rent totalling Rs. 117,000 due from two stalls in the Public Market and fines on account of the delay.

3. Operating Review

3.1 Operating Inefficiencies

Following observations are made.

- (a.) The total of Value Added Tax collected during the past 07 quarters to be remitted to the Commissioner General of Revenue amounted to Rs. 8,302,782.
- (b.) Advances amounting to Rs. 768,460 granted in 06 instances during the period July 2009 to February 2012 had not been settled up to 31 December 2013.
- (c.) Although a sum of Rs.20 million had been settled at once on 15 February 2008, out of the loan of Rs. 111,209,828 granted through the Local Loans and Development Fund on 31 December 2005 for the construction of the market complex consisting of the bus stand, loan installments to be paid quarterly in arrears and the interest payable as at 31 December 2013 amounted to Rs. 91,209,828 and Rs. 43,427,893 respectively.
- (d.) At an Examination of registers relating to visitors to the Rest House during the 03 months period from 03 September to 30 November 2013 taken as a sample, it was observed that visitors had occupied the Rest house in 54 instances without recording entries in the Register of Visits.
- (e.) According to a Bank Reconciliation relating to a bank account belongs to the Council a sum of Rs.1,000,000 had been adjusted to the cash balance continuously during a period of more than 05 years without giving any reasons.
- (f.) Although a judgment had been given by the National Arbitration Centre with regard to repayment of a loan of Rs. 8,815,586 granted to the Council prior to the year 2005 for the construction of a rain water drainage system, action had not been taken by the Urban Council to pay a sum of Rs.14,173, 850 together with arrear of interest amounting to Rs.5,358,264 as at 31 December 2012. Any disclosure had not been made in the financial statements in this connection.

3.2 Under-utilized assets

While the security safe kept for the Rest House had not been used for keeping money in that up to 04 December 2013, date of audit, those moneys had been kept in the personal custody of the Rest House Keeper.

3.3 Un-economic activities

A tax amounting to Rs. 172,806 payable on account of Value Added Tax, had been assessed as Rs. 157,979 and due to that a sum of Rs. 14,848 was due to be paid as a fine on account of an outstanding tax amounting to Rs. 14,827.

3.4 Contract Administration

Following observations were made in this regard.

- (a.) Balangoda Community Centre had been constructed having spent a sum of Rs. 970,689 through provisions made available by the Ministry of Economic Development under the Programme One Job for One Village. Although 05 trees with a stem of 2000 m.m and 02 trees with a stem of 1500 m.m and 1000 m.m had been removed for this construction having spent a sum of Rs. 25,447, it had been failed to produce those timber for audit on 12 December 2013.
- (b.) Although a sum of Rs. 169,005 had been paid for spreading granite dust and laying interlocking blocks thereon for 85.75 square meters in the Sunnandarama Lane, only 76.33 square meters had been completed as at 12 December 2013. Due to that, a sum of Rs. 18,566 had been overpaid for 9.42 square meters.
- (c.) Although the beams to be used in construction of additional 40 sheds for public fair should be of 11feet length, a sum of Rs. 16,773 had been overpaid due to completion of that as 10.5 feet of length. In the field examination carried out on 11 December 2013, it was revealed that the slant of the 12 beams had been changed in fixing the beams and in connecting the beams to the posts those had been welded to the posts instead of using nails. While sheets to a length of 120 feet had not been used for the roof, a sum of Rs. 21,000 had been paid for that.

3.5 Apparent irregularities

Although receipts had been issued by the Balangoda Rest House Keeper to the effect that lodging facilities and foods were obtained for Rs.157,982, according to Register of Daily Income of the Rest House and office copies of the receipts, only an income of Rs. 9,225 had been received. Due to this, a sum of Rs. 148,757 had been lost to the rest house.

3.6 Staff Administration

- (a.) Although the approved number of Office Peons as at 06 December 2013 for the Council had been 07 there were 06 vacancies as at that date. While 06 individuals had been recruited to fill those vacancies on casual basis, salaries had been paid to three individuals out of them without assigning duties since November 2013.
- (b.) A sum of Rs.6,067,364 had been paid as salaries and allowances to 41 individuals holding post of casual laborers not belong to the approved cadre.

4. Systems and Controls

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Special attention is needed in the following areas of controls.

- (i) Accounting
- (ii) Revenue Administration