

Eravur Urban Council

Batticaloa District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 21 April 2014 and the financial statements for the preceding year had been presented on 18 April 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 04 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 Eravur Urban Council as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Compliance with Sri Lanka Public Sector Accounting Standards

The financial statements had not been prepared in accordance with the Public Sector Accounting Standards, as stipulated in the Circular No. PL/05/PA/SFPSAS dated 27 January 2014 issued by the Secretary to the Ministry of Local Government and Provincial Councils.

1.3.2. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) Provisions had not been made in the accounts for the audit fees of Rs.36,000 payable in respect of the year under review.
- (b) Though 1400 books in the Public Library owned by the Council had been completely destroyed due to the floods which took place in the year 2010, action had not been taken to write-off them from the books. Therefore value of assets in the accounting statements had been overstated.

1.3.3. Accounts Payable and Receivable

The following observations are made.

- (a) The lease rent in arrears in respect of the stalls in '*Kantha Pola*' for the period from the year 2007 to 2012 amounted to Rs.150 510, and action had not been taken till the end of the year under review to recover the amount.
- (b) The lease rent in arrears due from leaseholders of 40 stalls in the *Mahajana Pola* for the period from the year 2008 to 2013 amounted to Rs.2,897,460, and action had not been taken till the end of the year under review to recover the amount or write-off from the books.
- (c) The licence for the meat stalls for 05 consecutive years had been given to three persons who had not paid the full annual licence fees in the same year itself. Therefore action had not been taken to recover lease rent in arrears amounting to Rs.344,429, recoverable for the period from the year 2010 to 2013.
- (d) The entertainment tax in arrears due from one cinema hall from the year 2010 amounted to Rs.204,945, and action had not been taken to recover the amount or write-off from the books.
- (e) The loan balance amounting to Rs.181,871, had been recoverable from two officers who had died, and action had not been taken till 30 August 2014 to recover this from the death gratuity or from the sureties.
- (f) Advances amounting to Rs.3,446,050 had been given for various requirements had continued to be shown in accounting statements for ten years, without taking action to recover or write-off them from the books.

1.3.4. Lack of Evidence for Audit

The evidence indicated against the following subjects in the financial statements, had not been submitted to the audit.

Subject	Value – Rs.	Evidence not submitted
Lands and Buildings	85,177,866	Title Deeds
Plant and Machinery	3,348,826	Registers of Fixed Assets, Detailed Schedules of Assets
Motor Vehicles	2,342,888	
Furniture and Fittings	2,167,358	
Computers	157,500	Reports of Survey Boards

1.3.5. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with Laws, Rules and Regulations were observed during the audit.

Reference of Laws, Rules and Regulations

Non-compliance

(a) Town Council Act (Chapter 255)

(i) Section 40

Contracts amounting to Rs.564,512 had been given to repair the slaughterhouse, without following the tender procedure.

(ii) Section 177 (2)

The council had not taken action till 31 July 2014, to publish the summary of the financial statements of the year under review, in the Government Gazette, for public information.

(iii) Section 180 (1)

The detailed annual administration report in respect of each accounting year should be prepared by the Chairman of the Council. However, such report had not been prepared for the year under review.

(iv) Section 227 (1)

The members of the Town Council, officers and the employees should not directly or indirectly involve in contract work of the Council. Contravening this, container repairing work had been given to a Multipurpose Corporative Society in which a member of the Council is the General Manager.

(b) Financial Regulations
No.371

An overtime payment of Rs.69,099 had been paid from the Council funds, to 11 officers who had participated in “Deyata Kirula” exhibition. However, necessary action had not been taken to get this amount reimbursed from the relevant Ministry.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.2,881,587 as compared with the excess of revenue over recurrent expenditure amounting to Rs.2,396,642 in the preceding year. Therefore financial result of the year under review had shown an improvement of Rs.484,945 in comparison to the preceding year.

2.2. Revenue Management

2.2.1. Performance on Revenue Collection

Significant variances were observed between the Estimated Revenue and the Actual Revenue, submitted by the Sabha for the year under review.

Source of Revenue	Estimated Revenue	Actual	Variance	Percentage
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	Rs.	Rs.	Rs.	%
(i.) Rates and Taxes	2,570,312	1,938,592	631,720	25
(ii.) Lease Rent	1,436,420	1,247,340	189,080	13.2
(iii.) Taxes	1,366,200	625,300	740,900	54
(iv.) License Fees	788,500	655,7000	132,800	17

2.2.2. Rates and Taxes

Action had not been taken as stipulated in Section 160 of the Town Council Act (Chapter 255), to recover the rates and taxes due for the period from the year 2010 to the end of the year 2012, amounting to Rs.8,918,457, in respect of the lands, and constructed houses and buildings, situated within the area under the authority of the Council.

3. Operating Review

3.1. Management Inefficiencies

The following observations are made.

- (a) A monthly telephone charge of Rs.3,000 had been decided as the telephone charges for the residence of the Vice Chairman of the Council, and Rs.8,307 had been paid exceeding this limit. But the Council had not taken necessary action to recover the excess amount paid. Further, over payment of Rs.12,446 had been made in the year 2012, and action had not been taken by the Council to recover the amount, though the period was over 2 years.
- (b) The Council had not taken action since the year 1995 to pay the monthly contributions for the pension scheme of Local Authorities. Therefore the contributions payable by the Council till the end of the year under review, amounted to Rs.2,777,757.
- (c) Before establishing the Pradeshiya Sabha in 1987, the Council had functioned as a Town Council, and during this period the electricity had been provided to the general public on behalf of the Electricity Board. The following were observed in respect of this matter.
- (d) The electricity charges in arrears recoverable from the customers in respect of the electricity provided from the year 1988, to the date of this report, amounted to Rs.786,122, and necessary action had not been taken, to recover the arrears.

4. Accountability and Good Governance

4.1. Budgetary Control

The variances in the range of 53% to 75% were observed between the estimated expenditure and the actual expenditure. Therefore it was observed that the budget had not been made use of as an effective tool of management control.

5. Systems and Controls

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

- a) Accounting
- b) Contract Administration
- c) Fixed Assets Control
- d) Revenue Management
- e) Budgetary Control