

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 30 March 2015 while Financial Statements relating to the preceding year had been submitted on 31 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Council on 06 July 2015.

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 2014 and its financial performance for the year then ended and cash flows in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following observations are made.

- (a) Although the amount of loan payable for the cab vehicle provided by the Local Government Department was Rs. 3,178,456, a sum of Rs. 7,000,000 had been accounted for that. Value of loan installment amounting of the Rs.706, 272 paid during the preceding year had not been capitalized.
- (b) Although the sum of Rs. 34,190 being the value of Library Books removed, should be deleted from the Contribution from Revenue to Capital Outlay Account, it had been debited to Accumulated Fund Account.
- (c) Instead of debiting the issues of Stores Stocks amounting to Rs. 932,868 during the year under review to the Planning and Equipment Account, those had been debited to the Accumulated Fund Account.
- (d) While a sum of Rs. 64,950 payable to a supplier for the purchases during the year 2014 had been debited to the Deposits Account instead of debiting the Expenditure Account having credited the Creditors Account, Vehicles Repair Expenditure amounting to Rs. 16,576 had been debited to Pre-payments Account instead of debiting the Expenditure Account.

1.3.2 Lack of Evidence for Audit

Transactions totalling Rs. 28,569,157 could not be satisfactorily vouched in audit due to Non-submission of required information to audit.

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 2014 amounted to Rs. 16,172,065 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 21,315,431.

2.2 Revenue Administration

2.2.1 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	24,946	17,600	11,551
(ii)	Lease Rent	6,139	9,703	1,716
(iii)	Licence Fees	150	150	-
(iv)	Other Revenue	491	488	1,147

2.2.2 Rates

While the balance of Rates in arrears amounted to Rs. 8,929,567, billings for the year under review were 21,409,809. Recoveries out of balances in arrear had been Rs.4,767,698 while recoveries out of billings for the current year had been Rs.13,933,481 as at 31 December 2014. Accordingly progress in recovery of Rates had been 62 per cent.

2.2.3 Entertainment Tax

Out of the balance of Entertainment Tax in arrears as at the beginning of the year under review amounting to Rs. 1,092,361, a sum of Rs. 27,272 only had been recovered as at 04 October 2014.

2.2.4 Rent of Trading Places

Out of the balance of Trading Places Rent in arrears as at the end of the year under review a sum of Rs. 1,388,342 had not been recovered even as at 20 February 2015.

2.3 Operating Review

2.3.1 Transactions not covered with Adequate Authority

Following observations are made.

- (a) Although it has been stated that, providing financial assistance for any religious, educational, charitable and welfare activities, an aggregate of Rs. 5000 per annum should not be exceeded and in the event of exceeding that limit, written sanction of the Minister should be obtained according to Section 159(f) of the Urban Councils Ordinance (Chapter 255), a sum of Rs. 411,203 had been spent for Literary Function of the Council without obtaining such approval.
- (b) Dormant Staff Loans in arrears amounting to Rs. 90,265, Industrial Taxes amounting to Rs. 10,500 and Stalls Rent amounting to Rs.4,363,916 had been written-off on the basis of Council decisions without sanction of the Minister.

2.3.2 Improper Transactions

Although the amount of advance to be provided for any work should not exceed 20 per cent of the estimated expenditure in terms of Clause 5.4.4.1 of the Circular dated 25 January 2006 of the National Procurement Agency, a sum of Rs. 110,824 or 50 per cent of the estimated expenditure had been paid as advance for repairing the Electricity Generator of the Council.

2.3.3 Operational/Management Inefficiencies

- (a) The Secretary had not taken action in terms of Section 170(a) and Section (170(2) of the Urban Councils Ordinance (Chapter 255) to recover the balance of Revenue in arrears amounting to Rs. 14,414,322 outstanding to be recovered as at 31 December 2014.
- (b) While 295 children had received education in the Montessori Development Center during the year 2014, a Teaching Staff of 29 had been engaged in service. Although one teacher should be engaged for 20 children according to Pre-school Statute, one teacher had been engaged for 10 children during the year 2014 and payments had been made having recruited surplus staff.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Expenditure Control
- (d.) Assets Management