

Embilipitiya Urban Council

Ratnapura 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 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 Chairman of the Sabha on 10 August 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 Embilipitiya Urban Council as at 31 December 2014, its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following lapses are observed.

- (a.) Although the surplus for the year under review shown in the Statement of Financial Operations was Rs. 6,403,435, the amount adjusted to the Accumulated Fund was the sum of Rs. 15,159,172 shown in the Memorandum Ledger Account prepared in the Main Ledger.

- (b.) Discount allowed amounting to Rs. 234,263 had not been accounted as expenditure in the financial statements for the year under review.
- (c.) Value of cheques deposited, but dishonored amounting to Rs. 296,046 during the year under review had not been accounted as expenditure in the financial statements.
- (d.) When correcting the error occurred pointed out through the audit report for the preceding year, in accounting the value of the loan amounting to Rs. 7,750,000 relating to the cab vehicle obtained under, it had been recorded in the Memorandum Revenue and Expenditure Account instead of crediting the Accumulated Fund.
- (e.) While loan installments amounting to Rs. 1,029,763 paid for the cab vehicle purchased under leasing had been accounted under Capital Expenditure, payments of interest and taxes amounting to Rs. 1,155,401 too had been accounted under Capital Expenditure.
- (f.) Although the arrears of Stamp Fees outstanding as at the end of the year under review was Rs.2,971,840, it had been shown as Rs.2,311,842 in the financial statements causing understatement of arrears of Stamp Fees at the end of the year under review in a sum of Rs.659,998.
- (g.) Although the arrears of Courts Fines outstanding as at the end of the year under review was Rs.1,631,791, it had been shown as Rs.2,208,798 in the financial statements causing overstatement of arrears of Courts Fines at the end of the year under review in a sum of Rs.577,007.

- (h.) Although the loan balance payable to the Local Loans and Development Fund was Rs.21,629,722, according to the Ledger Account, that balance had been Rs. 14,217,482 and therefore external liabilities had been understated in a sum of Rs.7,412,240.
- (i.) Although the Interest in Arrears payable to the Local Loans and Development Fund was Rs.2,558,512, a sum of Rs. 294,338 only had been accounted under Creditors. Due to that the expenditure for the year had been understated in a sum of Rs. 2,264,174.
- (j.) Although tenders had been awarded for a sum of Rs. 2,000,100 for recovery of bus parking fees in the bus stand, that revenue had not been accounted as a revenue for the year under review.

1.3.2 Non-reconciled Control accounts

The difference between the balances of 03 items of accounts according to the financial statements for the year under review and the balances according to the subsidiary records amounted to Rs. 1,485,285.

1.3.3 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

**Reference to Laws, Rules,
Regulations etc.**

Non-compliance

Financial Regulation of the Republic
of Sri Lanka – 1992

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|--|--|
| (i.) Financial regulation 371(2) | Action had not been taken get settled the advances amounting to Rs. 1,142,679 brought forward over number of years. |
| (ii.) Financial regulation 570 and 571 | Action in terms of the provisions had not been taken with regard to Deposits totalling Rs.3,148,327 brought forward since the year 1999. |

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.21,178,284 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.12,744,440.

2.2 Analytical Financial Review

While surplus of financial operations during the year under review had been increased by Rs.8, 433,844, when compared with the preceding year, it was an increase of 66 per cent over the preceding year. It was mainly due to higher pace of increase in Lease Rent, Warrant Charges and Fines and Other Revenue by 59 per cent, 117 per cent and 299 per cent respectively and reduction in Travelling Expenses and Pensions by 56 per cent and 32 per cent respectively.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished 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	18,374	17,869	29,339
(ii)	Lease Rent	9,958	11,325	-
(iii)	Licence Fees	3,492	1,447	-
(iv)	Other Revenue	8,699	8,247	6,005

2.3.2 Performance in Revenue Collection

When estimated revenue for the year under review is compared with the revenue collected, a decreases of 35 per cent, 58 per cent, 06 per cent, 78 per cent and 15 per cent are indicated in Rates and Taxes, License Fees, Service Charges and Warrant Charges and Fines respectively.

2.3.3 Rates

While Rates in Arrears due to be recovered to the Council as at 31 December 2014 amounted to Rs.29,264,017, an annual increasing trend was shown in the Rates in Arrears.

2.3.4 Lease Rent

Although Trade Licenses should be obtained before 30 April in terms of provisions in Gazette Notification No. 1890 dated 21 November 2014, 51 instances of arrears in obtaining Trade Licenses, by July 2015 and 104 instances of arrears in recovery of taxes during the year 2014 when compared with the year 2013 were observed.

2.3.5 Other Revenue

Following observations are made.

- (a.) Although the period for renewing after payment of relevant fees for 15 Public Advertisement Boards exhibited in the Area of Authority of the Council had matured, period had not been extended having paid the relevant fees. Due to that revenue lost to the Council amounted to Rs.62,000. Although taxes should be recovered after identification of advertisement boards for which fees could be recoverable, necessary action had not been taken for that.

- (b.) Although tenders had been called for recovery of bus parking fees during the year 2014 for the bus stand belongs to the Council and the tender had been awarded, the relevant lessee had given up the that work and it was observed that recover of charges from buses is not taking place.

2.3.6 Court Fines and Stamp Fees

Although it had been estimated to recover Rs. 787,687 as Court Fines Receivable from the Embilipitiya Magistrate Court during the period from 01 May 2014 to 27 February 2015, a delay was observed in recovery of those amounts.

2.3.7 Lease Rent of Stalls in Public Market

- (a.) While a sum of Rs. 126,000 as agreement bonds relevant to 32 stall in the Market Complex in the Weekly Fair Ground of the New Town had not been deposited, a sum at the rate of Rs.25,000 had been deposited in place of full security deposit of Rs. 100,000 by 17 lessees.
- (b.) A sum of Rs. 444,500 was due to be recovered as rent for the period from 14 July 2013 to June 2015 from lessees of 08 stalls in the Public market. Taking action against for the lessees not entered into proper agreements and defaulted payments continuously and taking back the possession had been continuously delayed.
- (c.) Out of the 59 stalls in the Pallegama Public Market, the number of stalls leasing out the trading right through calling for tenders annually was only 04 and the number of lessees who had not entered into agreements was 32. These lessees had defaulted in payment of their rent continuously and the revenue lost to the Council at the end of the year under review was Rs.1,253,300.
- (d.) While 32 stall holders out of the 40 temporary stalls constructed in the bus stand premises had not entered into agreements, arrears rent of Rs. 2,215,500 was outstanding to be recovered during the year under review from 36 stall holders.

3. Operating Review

3.1 Operational Weaknesses

Although a sum of Rs. 210,000 had been paid to a private entity on 04 July 2013 as advance for a foreign tour in Thailand by Members of the Council and the Female Secretary that tour had not been made. Although more than a period of one year had elapsed after making that payment, action had not been taken to recover back that money or to take legal steps.

3.2 Improper Transactions

- (a.) Although it had been specified in the Circular No.C.L.G. 1/2009 (Amendments) dated 22 December 2009 of the Commissioner of Local Government, that combined allowance could be paid for the Heads of Local Authorities only for travelling involved outside the area of authority for performance of duties directly connected with the administrative functions of the Establishment, a sum of Rs.63,750 had been paid as combined allowance to the Chairman for the years 2011,2012,2013,2014 without any confirmation relating to own role or duty. In incurring the above mentioned expenditure, budgetary provision or provision under Expense Creditors had not been made in the relevant years.
- (b.) While a sum of Rs. 35,848 had been paid to the Driver of the Chairman as travelling expenses for the years 2011, 2012 and, 2013, according to the Local Government Circular No. 2/2009 dated 07 October 2009 of the Commissioner of Local Government, with regard to payment of overtime and combined allowance to drivers of the Local Government Institutions, the number of days that could be allowed for such payments is 06 days per month. Expenditure had been incurred disregarding those provisions, without making provision relevant to past years and exceeding the provision made under Expenditure Head 11421.

3.3 Contract Administration

Following observations are made.

- (a.) It was observed that up to June 2015, at the time of audit inspection, only 10 cubes of gravel had been brought and dropped at the work site, for development work of the road from Right Bank Canal, Newtown up to the Bridge in the Newtown implemented under Urban Council provisions costing Rs. 981,418, agreed to be completed in three months on 26 June 2013. Attention of the Council had not been made to complete the Work by earth filling in places of the road to be elevated. The advance of Rs. 190,000 provided on 29 July 2013 for this work too had not been settled.

- (b.) A sum of Rs. 387,008 had been paid on 27 October 2014 for construction of culverts of the road from Right Bank Canal, Newtown up to the Bridge in the Newtown implemented under Urban Council provisions for an agreed value of Rs. 469,931. It was observed that work had not been properly completed by filling earth and that any benefit had not been accrued in constructing those culverts, even up to the time of audit inspection carried out in June 2015.
- (c.) A payment of Rs. 69,046 made on 10 March 2014 for a part of work in 100 meters length not performed relevant to improvement of Darsanagama Wewa Road by spreading gavel implemented for an agreed value of Rs. 966,894 under Council's provision and a sum of Rs. 276,183 paid relevant to 400 meters not properly developed could not be accepted in audit.

3.4 Solid Waste Management

At the physical inspection carried out on 06 July 2015 it was observed that, the drain for the water flow from Garbage Yard of the Kandurugasara Garbage Project in the planning process with the objective of recycling garbage accumulated in the area of authority of the Council to the Lee weight water holding tank had not been constructed and that the roofing sheets fixed in the yard had got unfastened and that garbage accumulating in the area of authority are dumped into an open land of the Embilipitiya Paper Mill.

5. Systems and Controls

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

- (a) Accounting
- (b) Budgetary control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contract Control
- (f) Solid Waste Management