

**Katunayaka Seeduwa Urban Council**  
**Gampaha District**

**1. Financial Statements**

**1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 09 September 2016 and the financial statements for the preceding year had been presented on 31 March 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 10 January 2017.

**1.2. Adverse Opinion**

In view of the significant matters pointed out in Paragraph 1.3 of this report, I am of opinion that the financial statements do not give a true and fair view of the state of affairs of the Katunayaka Seeduwa Urban Council as at 31 December 2015 and the financial result of its operations for the year then ended, in accordance with the Generally Accepted Accounting Principles

**1.3. Comments on Financial Statements**

**1.3.1. Accounting Deficiencies**

The following deficiencies are observed.

- (a) The value of 03 computers amounting to Rs.318,000, and the value of 02 finger print machines amounting to Rs.110,000, purchased during the year under review had been capitalised as Rs.3,180,000, and Rs.11,100 respectively. Therefore the plant and machinery account and the revenue contribution to the capital outlay account, had been overstated by Rs.2,763,100.
- (b) The balance of other revenue in arrears account as at 31 December 2015 had been overstated by Rs.207,795.
- (c) According to the revenue registers, arrears had not existed as at 31 December 2015, in respect of 05 items of revenue which are accounted on cash basis. But according to the other revenue in arrears account, a balance of arrears totalling to Rs.3,419,319 had been shown.
- (d) According to the lease rent register, the correctly billed value in respect of meat stalls was Rs.893,535. But this had been shown in the account as Rs.1,123,535. Therefore said revenue, had been overstated by Rs.230,000.
- (e) According to the letter dated 31 March 2015 of the Assistant Commissioner of Labour, the contributions to the Employees Provident Fund in arrears and the value of the surcharges payable by the Council in respect of the period from the year 2004 to year 2011 amounted to Rs.12,363,015. This had not been disclosed in the financial statements as contingent liabilities.
- (f) Though the balance of loan instalments in respect of 03 projects, payable to the Local Loans and Development Fund as at 31 December 2015 amounting to Rs.17,755,719, had been shown in accounts, as Rs.17,755,719 according to the loan repayment schedule issued by the Fund, the balance as at the said date amounted to Rs.17,147,708. Therefore the amount had been overstated

in the accounts by Rs.608,011. Further, the interest on the said balance of loans had been overstated in the accounts by Rs.399,504.

(g) According to the creditors register submitted, a sum of Rs.77,000 payable to a private institution in respect of purchasing of a computing machine had been shown as RS.777,000, whilst debtors amounting to Rs.700,300 had been shown as creditors. Therefore the total creditors had been overstated by Rs.749,300.

(h) The balance of Ayurvedic medicine stock amounting Rs.843,285 and balance of library books amounting to Rs.6,333,572, as at 31 December 2015 had not been brought to account.

(i) Though the total revenue billed in respect of water charges in 2015 amounted to Rs.17,357,233, this had been shown in the revenue account as Rs.22,421,422. Therefore a sum of Rs.5,064,189 had been overstated in the accounts.

### **1.3.2. Suspense Account**

Under the Note 10 of the financial statements submitted for the year under review, a sum of Rs.337 had been shown as the suspense account of 2014, and to the said opening balance; a sum of Rs.11,718,181 had been added as the difference for the year 2014, and Rs.592,382 had been added as the difference for the year 2015. Therefore the balance as at the end of the year under review had been increased further up to Rs.12,310,900. The said balance of suspense account existed as per the ledger, had not been disclosed in the financial statements, whilst action had not been taken even up to 31 December 2016, to identify and settle the said balance.

### **1.3.3. Accounts Receivable and Payable**

Though a balance of Value Added Taxes payable as at the end of the year under review, amounting to Rs.6,363,425 had been shown in the account erroneously, action had not been taken to settle the said value from the accounts. Action had not been taken to recover the licence fees amounting to Rs.93,925, due from 06 institutions relevant to 03 types of businesses in respect of the year under review.

### **1.3.4. Un-reconciled Control Accounts**

The following matters are observed.

(a) There were differences amounting to Rs.71,754,819 in balances as at 31 December 2015, between the balance in the account and the relevant registers / schedules in respect of 17 items of accounts.

(b) A trial balance had not been prepared as at 31 December 2015.

### **1.3.5. Lack of Evidence for Audit**

Transactions totalling to Rs.45,390,985 in respect of 09 items of accounts could not be vouched satisfactorily during the audit, due to non-submission of detailed schedules / information to the audit.

### **1.3.6. Non-compliance with Laws, Rules, Regulations and Management Decisions**

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

- (a) While withdrawing 02 fixed deposits amounting to Rs.10,066,575, the approval had not been obtained from the Commissioner of Local Government, as stipulated in the Commissioner of Local Government Circular No.88/20 dated 20 April 1988.
- (b) The delegation of authority for financial control had not been carried out in accordance with the F. R. 135 of Financial Regulations of the Republic of Sri Lanka. According to the F. R. 139(10), when payments are made in cheques, the bank balance should be verified to ensure that it is adequate to pay all the payments. Since this had not been carried out, an overdraft balance amounting to Rs.4,183,109 existed as at 30 November 2015 according to the cash book of Peoples Bank.

## 2. **Financial Review**

### 2.1. **Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.18,109,878 as against the excess of recurrent expenditure over revenue amounting Rs.41,139,611 for the preceding year.

### 2.2. **Working Capital Management**

Though the healthy current ratio should be 2:1, the said ratios in the year under review and in the preceding year had been 1.77:1 and 0.92:1 respectively. Therefore the liquidity position of the Urban Council had been in a very weak state.

### 2.3. **Revenue Administration**

#### 2.3.1. **Estimated Revenue, Actual Revenue and Revenue in Arrears**

The Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review are indicated below.

<b>Item of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Cumulative Arrears as at 31 December</b>
	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>
Rates and Taxes	108,572	110,874	83,385
Lease Rent	7,433	10,864	3,298
Trade Licence Fees	4,084	2,502	100
Other Revenue	48,031	40,890	3,474

#### 2.3.2. **Rates and Taxes**

The following deficiencies are observed.

- (a) The recovery of rates and taxes had been in a weak state, and out of the arrears as at the end of the year 2015, only 45% or Rs.37,319,699 had been recovered up to November 2016.
- (b) Whilst a difference amounting to Rs.17,514,599 existed between the rates and taxes register and the account as at 31 December 2015, maintaining of the rates and taxes registers had been completely stopped in the year 2106, and a computer package had been used.

### **2.3.3. Stall Rentals**

Out of the government valuers assessed value dated 09 December 2009, in respect of 18 stalls leased out in the Seeduwa New Trade Complex, only 50% of the value had been charged. Though a period of 05 years had passed by the year 2014 for this assessment, the same amount had been charged even during the year under review.

### **2.3.4. Trade Licences and Business Taxes**

The business tax had not been recovered for the year under review, in respect of a famous readymade garment factory with in the area under the authority of the Urban Council, whilst licence fees had not been charged for the year under review, in respect of 07 hotels and guesthouses which had been registered under the Sri Lanka Tourist Board Act.

## **2.4. Bank Accounts**

(i) According to the bank reconciliation statement of December 2014, the balance of the cash book as at 31 December 2014 had been shown as Rs.23,631,773, but according to the bank reconciliation statement of January 2015, the balance of the cash book as at 01 January 2015 had been shown as Rs.23,632,608.

(ii) Action had not been taken to identify and settle; the direct remittance to the bank amounting to Rs.2,971,687 which had not been shown in the cash book; a sum of Rs.5,723 deposited more by the bank and a sum of Rs.67,431 deposited less by the bank.

(iii) According to the bank reconciliation statements for the months February and November 2015, the payments relevant to said months had been shown as Rs.27,760,608 and Rs.20,900,090 respectively. But according to the payment cash book, the total payments during the said months had been Rs.26,752,971 and Rs.20,896,500 respectively.

## **2.5. Identified Losses**

Loans obtained from the Local Loans and Development Fund for the rain water drainage project and the library project, amounted to Rs.8,332,123 and Rs.18,058,218 respectively, and the instalments and interests payable in respect of loans had not been paid properly up to the year 2014. Therefore Rs.71,219 and Rs.229,941 respectively had been paid as payments for delays as at 31 December 2015.

## **3. Operating Review**

### **3.1. Management Inefficiencies**

The following matters are observed.

(a) 06 employees had been attached for watch duties, for 03 wells which are not operated at present and Rs.1,568,886 had been paid as salaries during the year under review.

- (b) 61 units valued at Rs.636,595, belongs to 12 items shown in the motor cars and carts account as at 31 December 2015, had been eliminated from the goods verification, and necessary action had not been taken in respect of the said assets.

### **3.2. Operating Inefficiencies**

- (a) Though it had been revealed that sundry revenue receipt books bearing numbers 11801, 11851, 11901 and 11951, had been misplaced, no action had been taken by the management in respect of the misplaced receipt books.
- (b) 07 items indicated in the action plan of the Council relevant to the year 2015 had not been implemented.

### **3.3. Solid-Waste Management**

#### **Levelling of Waste in the Seeduwa Ambalanmulla Waste Disposal Yard**

The following matters are observed.

- (i) A contract had been entered into in respect of levelling the waste in the said waste disposal yard, for the period from 01 October 2014 to 30 September 2015 at the rate of Rs.168,000 per month, and the tender had been awarded to the previous contractor, without following the tender procedure.
- (ii) Environment licence had not been obtained in respect of the land where the waste is disposed, whilst records and registers had not been maintained to record the quantity of waste brought into the waste disposal yard. The provisions regarding the daily levelling of waste had not been incorporated in the agreement, during the periods, where a machine used for levelling of waste is unavailable due to repairs.
- (iii) According to the agreement, 30 tractor loads of waste received at the waste-disposal yard should be levelled daily and the waste disposal yard should be maintained in the proper way. But during the audit check carried out on 08 October 2015, it was revealed that the levelling of the waste had not been carried out properly and waste had not been levelled and covered with soil.

### **3.4. Control over Contracts**

#### **3.4.1. Tarring and Developing of Robin Fernando Mawatha**

An agreement had been signed on 03 April 2014 for the tarring of Robin Fernando Mawatha at a cost of Rs.1,709,199. Since the financial position of the Council was not healthy, the work had been commenced after a delay of 08 months, and by that time there had been potholes on the road. Therefore in addition to the initial estimate, a sum of Rs.90,364 had been paid in respect of 27 cubes of gravel used.

#### **3.4.2. Exchange of Land between a Private Institution in Liyanagemulla and the Urban Council**

A property development company had auctioned a land in Liyanagemulla village and the block of land named Lot 15 with an extent of 30 perches had been legally vested with the Council for common activities. Since the said block of land had not been acquired in time, the private institution had utilised this land and built a parapet wall around the land. According to the decision taken at the monthly

meeting held on 30 October 2012, the Council should obtain the prevailing market price for 15 perches out of this 30 perches block of land and a multipurpose building and a children's park should be constructed in the balance area of 15 perches by the private institution. But the said work had not been implemented and a sum of Rs.3,000,000 had been obtained on 11 September 2015 for the entire block of land since the money relevant to the assessment of Rs.3,000,000 made on 08 August 2013, had been received on 11 September 2015, the Council had incurred a huge financial loss.

#### **3.4.3. Repairing a Tractor Owned by Council**

A Tractor owned by the Council had been handed over to a private institution for repairs on 02 February 2012 and the said institution had submitted an estimate amounting to Rs.670,406, and the Council had not agreed for repairs at the said amount. The Mechanical Engineers view was opined that, it was most appropriate to dispose the said tractor valued at Rs.780,000 as the estimated amount was very high. But the Council had not taken action to bring the tractor back to the Council even by 04 October 2016. According to the letter of demand sent by the repairing institution on 11 November 2015, it had been informed that the Council should take the tractor back after making a payment at the rate of Rs.100 per day, for the period of 03 years, 07 months and 15 days. It was further revealed during the audit that the said garage was not located in the previously located premises at present.

#### **4. Systems and Controls**

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

- (a) Accounting
- (b) Internal Audit
- (c) Budgetary Control
- (d) Revenue Administration
- (e) Human Resource Management
- (f) Contract Administration