

## **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 31 March 2016 while Financial Statements relating to the preceding year had been submitted on 30 March 2015. The Auditor General's Report relating to the year under review was issued to the Secretary of the Council on 29 July 2016.

##### **1.2 Qualified 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 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

##### **1.3 Comments on the Financial Statements**

###### **1.3.1 Accounting Deficiencies**

The following deficiencies are observed.

- (a) An amount of Rs.12, 731 which was the value of 07 stock items had been understated in the Balance Sheet.
- (b) As assets valued at Rs.94, 965 purchased within the year had not been accounted for as fixed assets, Fixed Assets and Contribution from Revenue to Capital Outlay Account was understated by Rs.94, 965.
- (c) 47 units of office furniture and equipments made by using the timber belonging to Sabha were not calculated and accounted for as fixed assets in the Financial Statements.
- (d) As Value Added Tax value of 05 fixed assets items had been accounted to Fixed Assets Account, the balance of Fixed Assets Account had been overstated by Rs.124, 204.
- (e) As the assets valued at Rs.5, 938,125 received as donation to Sabha in 2015 had not been accounted for in the Financial Statements, Fixed Assets and Contribution from Revenue to Capital Outlay account had been understated by same amount.
- (f) As a discount of Rs.254, 734 received for the books purchased in 2015 had not been accounted for as discount given rather than discount received, Library Books Account and Contribution from Revenue to Capital Outlay Account had been understated by Rs.254, 734. Therefore, and the expenses in the year under review had been overstated by same amount.

- (g) Although the value of Rs.11, 099 for removal of library books should have been debited to Contribution from Revenue to Capital Outlay Account the same had been debited to Accumulated Fund Account.
- (h) As an amount of Rs.953, 418 received to Industries Account under receipt No.28608 in November as per Summary Revenue Schedule had not been credited to the relevant Capital Account, capital receipts in the the year under review had been understated by the same amount.
- (i) As receipts of workers' loan had been overstated by Rs.3,855 , Workers Loan Account balance as at the end of the year under review had been understated by the same amount in the Financial Statements.
- (j) Although Rs.7, 200 under subsidy and contributory expenses (1-470) was adjusted to Expense Account as expenses to be paid, Creditors Account had not been credited by the same value.
- (k) Capital Grants receipts in the year under review had been overstated by Rs.370,719.
- (l) Although the balance in the Fixed Assets Account and the Contribution from Revenue to Capital Outlay Account should be the same according to the accounting procedure of Local Authorities there was a discrepancy of Rs.330,584 between those two accounts during the year under review.

### **1.3.2 Non-reconciled Accounts**

- (a) A difference of Rs.12, 731 between the office stationery stock book and stores schedule was observed as at 31 December, 2015.
- (b) As the aggregate of Creditors Account, Rent Account and pre-paid expenses was Rs.58, 482,351 as per the financial statements and the same was Rs.45, 819,822 as per the schedules. Therefore a difference of Rs.12, 662,529 was observed.

### **1.3.3 Lack of Evidence for Audit**

Two account balances totaling Rs.23, 588,161 could not be satisfactorily vouched in audit due to non-submission of detailed schedules and the balance verification letters.

### **1.3.4 Non-compliance with laws, rules and regulations**

#### **Financial Regulations of Republic Of Sri Lanka**

- (i) In terms of Financial Regulations F.R 571, action had not been taken to settle or take into revenue the lapsed deposit balance of Rs.1, 040,049 even up to the audited date of 30 June, 2016 after identification the balance.
- (ii) Though the daily running charts and original copy of the monthly summary on travelling written in General Form 268 with daily running charts in each month should be submitted to the Auditor General before 15 of the following month in terms of Financial Regulation 1645(a) (d) and 1646, running charts and monthly summaries had not been furnished to audit accordingly.

- (iii) In terms of Financial Regulations F.R 756,757 and 1647(a), a complete board of survey should be conducted on the equipment of the vehicle and also a survey should be conducted when the security of the vehicle is transferred to another officer. But such kind of survey had not been conducted for the vehicles owned by Sabha.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.16,034,684 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 16, 172,065.

### **2.2 Revenue Administration**

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#### **2.2.1 Arrears of Revenue**

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Arrears of revenue amounting to Rs.9, 537,659 as at the end of the year under review had not been recovered in accordance with the provisions in sections 160,165 and 170 Chapter 255 of the Urban Council Ordinance.

#### **2.2.2 Rates**

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A sum of Rs.8,890,760 out of outstanding rate balance of Rs.11,397,487 on 31 December 2014 had been recovered as at 31 December 2015 and the balance of Rs.2,506,727 had not been recovered. A sum of Rs..Rs.14,775,674 had been billed in respect of the year 2015 and a sum of Rs.2,303,646 remained recoverable as at 31 December 2015.

#### **2.2.3 Industrial and Business Tax**

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Action had not been taken to recover outstanding Industrial Tax of Rs.23, 500 and outstanding Business Tax of Rs.6, 000 relevant to 2014 and previous years even up to 31 December 2015. Also, no action had been taken to recover outstanding Business Tax of Rs.15, 000 relevant to 2015 even up to the audited date of 31 December 2015.

#### **2.2.4 Rents**

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Outstanding rent balance of Rs.6, 455 as at 31 December 2014 had not been recovered even up to 31 December 2015.

### **2.2.5 Stall Rents**

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Though the stalls No.37 and 38 leased out to the public institution had been removed from the lease on 24 September 2014, action had not been taken to recover the outstanding rent of Rs.6,000 even up to 31 July, 2015.

### **2.2.6 Income from Advertising Boards**

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- (a) Though revenue of Rs.4, 025,000 had been estimated as digital advertising boards and name boards by the budget estimate in 2015, only Rs.513, 990 out of them had been recovered as at 31 December 2015 and a sum of Rs.3,511,010 remained recoverable.
  - (b) As per the Para 11-378/3 of the Gazette Notification of Republic of Sri Lanka dated 14 November 2014, the relevant fees should have been charged for advertising boards, banners name boards and digital advertising boards within the limit of Horana Urban Council. At the sampling physical inspection conducted on 23 February 2016 around Hoprana –Panadura road, it was observed that 23 fixed advertising boards on which fees had not been charged resulting loss of revenue amounting to Rs.203,200 to the Sabha only for the year under review.

## **3. Operational Review**

### **3.1 Vehicle Control**

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- (a) Though Sabha had to pay Rs.1, 416,788 to Sathosa Motors and Fibre Glass Company in 2014 and 2015 for repairs to water bowser damaged by an accident that occurred in 2012, only Rs.929, 321 had been received from the Insurance Corporation as compensation for that. That was because the said vehicle had been insured less than its assessment value by Sabha. Accordingly, a cost of Rs.487, 467 had been incurred by Sabha exceeding the insurance compensation.
  - (b) Similarly, action had not been taken to recover the value of the damage from the responsible persons even up to the audited date of 01 September, 2015 after conducting investigation and determining the responsible persons for the damages related to this accident in terms of Financial Regulation 104.
  - (c) A large number of tyres and tubes removed from the vehicles of Sabha had been idly heaped by blocking the space. However, action had not been taken by Sabha to use or sell after refilling. Even up to the date of audit, 01 September 2015.

### 3.2 Operational Inefficiencies

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- (a) As per the report of Board of Survey 2014 there was a deficiency of 25000 Usage Licenses B format counter foils for market stalls and floors which had financial value owned by the Store Keeper but no action had been taken in that regard.
- (b) Action had not been taken to take back 06 mobile phones and 1 GI pipes (3") of Pakistani type provided to the Chairman and Urban Councilors by Sabha incurring a sum of Rs.87,000 from their fund after expiry of the term of Sabha.
- (c) Action had not been taken to recover the value of Rs.7, 537 of unreturned 34 books or get them which had been lent to the readers by 03 libraries of Sabha.
- (d) As per Section 4.1 of the Circular of Director General of Pensions No.2/2011 dated 24 February 2011, though the contributions of casual and temporary workers should be sent to the Secretary and the Accountant of Public Services Provident Fund, no action had been taken in that regard. Due to the late remittance of contributions to the Employees Provident Fund, an amount of Rs.51, 234 had been paid to the fund as a penalty.
- (e) 02 projects for which provision of Rs.2,500,000 had been allocated for implementation through the funds of Council within the year by budget estimate 2015 had not been implemented.
- (f) Action had not been taken to settle the creditors valued at Rs.150, 198 provisioned as expense creditors in 2014 even up to 11 April 2016.

### 3.3 Unauthorized Transactions

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Though the sanction of the Minister should be obtained in writing for expenses of civic receptions or the celebration or observance of any events or occasions of public interest, or any religious, charitable, cultural, health, recreational or educational purposes exceeding aggregate of Rs.5, 000 in a year in accordance with the section 159(f) of the Urban Council Ordinance and for the cost of towards the cost of public entertainments or recreations, or towards the support of any libraries, or any educational, scientific, charitable or benevolent institutions, or any religious, charitable, cultural, health or educational exceeding aggregate of Rs.2, 500 allocated by Sabha in a year as per section (g), an expense of Rs.76,982 for Vesak Festival and Rs.210,000 as donation had been given without such approval.

### 3.4 Solid Waste Management

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The following matters are observed.

- (a) Though the equipment had been purchased incurring a cost of Rs.496, 144 in 2014 and 2015 for a waste management project implemented on the aids of World Bank, any waste management project had not been implemented within Sabha. An amount of Rs.214, 971 had been paid to Moratuwa Municipal Council for 04 months and Rs.563, 750 had been paid to a private institute for 2 ½ months on 10 August 2015 for the disposal of non-

degradable waste collected in the limit of Sabh. A Waste Management Project could be implemented for this Council in an area with less population outside the limit of the Urban Council .(even outside the limit of the Sabha.).

- (b) Similarly, out of 80 compost containers purchased in 2014 05 containers had been only issued for the relevant purpose even up to the audited date of 01 September, 2015 and the rest of 76 containers had not been used for any purpose. In addition, as per the information given to audit 1200 plastic containers of 11 L received to Sabha in 2013 for the waste management had been provided to the Health Unit from the stores to issue to the outsiders on 20 August 2015 and 396 containers out of them remained in the Health Unit even up to the audited date of 01 September 2015.

### 3.5 Contract Administration

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- (a) Construction of Royal Garden Badminton Ground- cost Rs.650, 000  
Although the gullies of 2’x2’x2’ should be used for water drainage as per the work details under estimate item No.(12) for this industry, circular type gullies with 6’ in depth and 1’ diameter had been used. Those were not compliance with estimate work details.
- (b) Repairs to the Pavilion of the Public Ground Estimated amount to Rs.12, 790,000
- (i) Though as per the preliminary estimate, it was planned to construct 02 rest rooms, that (room No.06) had been completed as 02 bathrooms and ceiling fans also were fixed in those bathrooms as per original estimate. The final measurements were not done even on 01 September 2015. Further, the preliminary estimate had not been amended relevant to change of the items.
- (ii) Many parts of roof trusses and steel rafters used for the roof were not applied rust-proof paint and those were highly rusted.
- (iii) It was observed that raining water dropped into the stadium from front and both sides of stadium due to the height of the roof.
- (c) Fixing of front doors of the Stadium Estimated amount Rs.325, 000
- (i) Even after closing Aluminium roller shutter doors, raining water leaked in to the stadium.
- (ii) Though this project was given to Galadadugoda Community Board technological knowledge for that was not with them. It was informed by the society that such technological knowledge would be obtained from outside.
- (c) Fixing a barbed wire fence behind the public ground Estimate amount Rs.250,000  
Though an estimate of Rs.325, 000 was prepared to fix a barbed wire fence in undermentioned quantities covering the stadium, only 30% of the estimate had been actually completed as follows. The reasons for that were not revealed int the audit.

<u>Item No.</u>	<u>Item performed</u>	<u>Estimated unit</u>	<u>Quantity (Qty)</u>	<u>Quality Control(Qty)</u>
2	Barbed wire fence	Feet	5960	1901
3	Concrete posts Pre-made	Number	106	34

As the barbed-wire fence had been fixed for only a part without covering the whole area required, expected objective of fixing a fence had not been fulfilled. It was revealed at the physical inspection carried out on 31 August 2015 that a wide range of area was not secured without a fence.

- (i) The right side of the stadium (area where the fence was fixed) became a marshy land due to water filling. The right side of the ground heavily covered with weeds and it was unable to go to many places in that area.
- (ii) Some concrete posts fixed had broken at certain places and iron bars came out from some places.

### **3.6 Idle Assets**

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Even though, in terms of the para 02 of the Planning Circular of Urban Development Authority No.15 dated 18 November 1993, it was mentioned how the money of Urban Development Authority Account No.719675 could be used for a development project, balance of Rs.99, 885 brought forward in the above account from 2006 remained idle without using for any such work even up to 13 June 2016.

### **3.7 Human Resource Management**

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It was observed that there were 27 vacancies in 5 approved posts while an excess of 38 officers in 09 posts of Sabha as at 31 December 2015.

## **4. Systems and Control**

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The special attention of Sabha is needed in the following arrears of systems and controls.

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Asset Management
- (e) Contract Control