

Embilipitiya Urban Council

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2016 and the financial statements for the preceding year had been furnished on 31 March 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Council on 15 June 2016.

1.2 Qualified Opinion

In my opinion, except for the effects on the financial statements of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Embilipitiya 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 Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The revenue from stamp fees receivable had been understated by Rs.34,400 during the year under review. As a result, the current assets of the year under review had been understated by a similar amount.
- (b) The arrears due from the temporary stalls at the Pallegama bus stand at the commencement of the year amounted at Rs.1,542,800. This value had not been identified and accounted for in the following year. Instead, the account had been balanced by adjusting the arrears of the year under review. As a result, the balance of Rs.1,888,900 of the account had been accounted as revenue receivable. Accordingly, the revenue receivable had been overstated by Rs.346,100.
- (c) The vehicle worth Rs.20,050,000 received as donation during the year under review had been credited in the Revenue Contributions to Capital Outlay Account instead of Donation Reserve.

- (d) The loans payable to the Local Loans and Development Fund amounting to Rs.19,069,621 had been shown as Rs.18,560,436 in the ledger account and the external liabilities had been understated by Rs.509,185.
- (e) (i) The arrears of balances of the Pallegama Public Market Stalls as at 31 December 2014 was Rs.930,800. This had not been shown as opening balance of the year. The reconciled balance of Rs.553,900 only had been adjusted by Journal Entry No.34. A further sum of Rs.376,900 had to be adjusted as opening balance. Accordingly, the current assets had been understated by a similar amount.
- (ii) The revenue billed for the stalls at the New Town Public Market for the year under review was Rs.757,600. But, the difference observed in the balancing of ledger account amounting to Rs.878,340 had been accounted as the revenue billed for the stalls at the Public Market, New Town. Accordingly, the revenue billed for the year under review had been overstated by Rs.120,740.
- (f) The prepayment of rates and taxes during the year under review was Rs.155,713 as per register of rates and taxes. This had been shown as Rs.30,664 in the financial statements. Accordingly, the revenue for the year under review had been overstated and the liabilities had been understated by Rs.125,049 each.

1.3.2 Unreconciled Control Accounts

The balances of 06 items of accounts as appearing in the financial statements and the subsidiary registers differed by Rs.541,1447.

1.3.3 Lack of Evidence for Audit

Advances amounting to Rs.721,567 had been granted in 2010 and 2013 to carry out 06 contracts of the Urban Council. Action had not been taken to settle it even by 26 November, the date of audit.

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

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Deficiencies

Non-compliance

- (a) Municipal Councils Ordinance (Chapter 255) Section 159(f)

The Sabha could incur expenditure on religious, charitable, cultural, health, entertainment or educational affairs with the written authority of the Minister. But,

Rs.95,000 had been spent without such approval during the year under review.

(b) Circular of the Commissioner of Local Government No.03/2012 of 29 May 2012

Advances for fuel should be given at the initial stage to members which should be subsequently reimbursed. However, fuel allowances had been paid for bills produced.

(c) Financial Regulations of the Republic of Sri Lanka

Financial Regulation 317(2)

Advances should be settled immediately after the fulfillment of purpose. Action had not been taken to settle advances of Rs.1,122,292 from 2007 to 2015.

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 2015 amounted to Rs.25,367,723 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.21,178,284.

2.2 Analytical Financial Review

The financial operating surplus for the year under review had increased by Rs.4,189,439 as compared with the previous year and it was 20 per cent more than the previous year. The increase in recurrent revenue and the decrease in recurrent expenditure of the year under review as compared with the previous year had mainly attributed to this.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information furnished for the year under review with regard to the estimated revenue, actual revenue the arrears of revenue for the year under review appear below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
-----	-----	-----	-----
	Rs.000	Rs.000	Rs.000
Rates and taxes	18,195	17,883	31,630
Lease rent	10,867	13,033	3,611
Licence fees	3,496	1,513	1,256
Other revenue	38,446	36,956	1,490

2.3.2 Performance in Collection of Revenue

A comparison of the estimated revenue of the year under review with the revenue collected showed decrease in revenue collected with regard to rates and taxes, licence fees, service charges and other revenue by 17, 57, 22 and 11 percent respectively.

2.3.3 Rates and Taxes

The arrears of rates and taxes due to the Sabha for the year under review amounted to Rs.31,630,167. Increasing trend in the arrears of rates and taxes was observed with regard to each year. It had become difficult to obtain an age analysis of rates and taxes due to the difficulties existing in the present computer system.

2.3.4 Other Revenue

The following observations are made.

- (a) Revenue amounting to Rs.346,148 had been obtained from 27 institutions which exhibited advertisement boards. The persons concerned pay their dues at the Sabha. Suitable procedure had not been adopted to recover fees or to take adequate steps to remove unauthorized advertisement boards.
- (b) Action had not been taken to recover the Pallegama bus stand fees by framing bye laws. Revenue for 2014 and 2015 had not been received by the Sabha in this connection. Proper procedure had not been adopted to receive fees in co-ordination with Road Passenger Transport Authority or by engaging an officer on duty.
- (c) The lease agreements of 03 lessees, such as, Week end Fair of the new town, stall No.03 of Pallegama and the car park of 2015 had been cancelled as the lessees had breached the agreements. Action had not been taken to call for fresh tenders for the lease. As such, the Sabha had been deprived of a revenue of Rs.1,363,321 by 31 October 2015.
- (d) The arrears of lease rent of 12 stalls at the Pallegama Public Market and 37 stalls at the Pallegama Bus Stand by 27 November 2015 were Rs.358,700 and Rs.2,732,000 respectively. Agreements had not been entered into for the lease.

2.3.5 Lease of Stalls at New Market

The following observations are made.

- (a) The collection of key money for lease of stalls at the new market after demolishing the old market had been stated in the Circular No.2009/01 of 09 March 2009 of the Commissioner of Local Government. The Sabha decided to obtain Rs.100,000 from the previous lessees for 30 permanent stalls. The minimum key money had been recovered resulting in a loss of Rs.232,000 to the Sabha by collecting the least amount and without considering the Chief Valuers' assessment of 06 April 2015.
- (b) It was observed that 26 stall holders had not signed agreements and 11 out of 26 stall holders had paid monthly rent for 2015 and no previous stall holders had come forward to obtain stalls bearing numbers 12 and 13. It was not revealed in audit whether stalls had been conducted without signing agreements and without paying rent. Tenders had not been called for, for the stalls for non-payment of rent and stalls not occupied by the previous stall holders.

2.3.6 Court Fines and Stamp Fees

The following observations are made.

- (a) Schedule of court fines had been obtained for the court fines of Rs.1,550,271 of the Embilipitiya Magistrate Courts from 01 May 2014 to 31 December 2015. There was delay in recovering money.
- (b) The stamp fees receivable for 01 April 2014 to 31 March 2015 as per schedule was Rs.1,695,437. There was delay in obtaining the money from the Provincial Councils, although the schedule of stamp fees had been received.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

- (a) Recommendations of the board of survey for the year under review and the previous years had not been implemented.
- (b) Action had not been taken from 2012 to 27 November 2015, the date of audit ,to find out whether there were bindings against 04 officers who had vacated posts and 04 officers who had gone on transfers, and if so, to settle the bindings and release their employee's security deposits amounting to Rs.42,292.

- (c) The monthly lease rent for April 2015 had been considered as Rs.584,012 with regard to the lease of the Weekend Fair New Town and it had been set off on 10 September 2015 and the balance of Rs.1,000,000 had been refunded. But, the Sabha had been exempted from Value Added Tax. But, action had not been taken to set off the value added tax of Rs.55,001 during the period specified and it was observed in audit that the value added tax of Rs.55,001 paid had become a loss to the government.
- (d) The responsibility of each vehicle had not been properly entrusted to the drivers with its inventories and registers and inventories containing adequate details of additional accessories and equipment fitted in the vehicles or expected to be fitted later had not been maintained. Further, it was observed in audit that registered certificates etc., of 05 vehicles which had not been properly acquired by the Sabha too were in possession of the Sabha.
- (e) Payments relating to the loan of Rs.10,435,506 obtained from the Local Loans and Development Fund in 2012 on behalf of the drainage systems of the town had not been made. Accordingly, the restructured interest of Rs.5,147,339 as at end of the year under review on behalf of the neglected repayments of loan had been treated as loans obtained and the amount concerned had been credited to the Local Loans and Development Fund and debited to the Accumulated Fund by a Journal Entry bearing No.23. Accordingly, provision had not been made each year for creditors and adjustments made in the expenditure. As such, the value of Accumulated Fund had shown a sudden understatement.

3.2 Transactions of Contentious Nature

The following observations are made.

- (a) An agreement had been entered into with the lessees for the milk bar and goods of the Urban Council on form No.35 of 2015 according to the tender conditions. It was observed that the trade stall should give priority to the sale of milk produces. But, this had been restricted to the name board alone which showed selling of items relating to milk allied products. In fact, the trade stall had been used for other trade activities.
- (b) The Urban Council had entered into an agreement with the Sabragamuwa Provincial Animal Production and Health Department for sale of milk produces and the items given had been taken back, as the trade stall has not functioned. The lessee had to pay Rs.60,310 per month after deducting Rs.2,000 for goods given back.

3.3 Idle/ Under Utilized Assets

The motor grader No/WPZA-5296 and the becko machine No.WPZA-5222 received from the Ministry of Public Administration and Provincial Councils remained idle at the Sabha premises due to lack of an operator.

3.4 Contract Administration

The following observations are made.

- (a) A sum of Rs.438,500 had been paid to the State Trading (General) Corporation to air condition the Sabha's hall and the Chairman's room. Recommendations had not been obtained from the Technical Evaluation Committee or from the technical officer or from a person with special knowledge of the subject with regard to the quality and standards of the goods supplied.
- (b) The air condition system should be fixed on the walls in such a manner so that it would not allow the cool air to go out. An air condition system with 04 machines had been established in the premises of the Sabha. It was observed that during the process of installation, holes had been made on the grills of windows and the windows for inserting the air condition tubes and a self closing door had not been made. Accordingly, it was observed that the cool air could not be retained in the rooms and the expected efficiency had not been obtained resulting in wastage of electricity.

4. Accountability and Good Governance

4.1 Budgetary Control

Revenue of Rs.312,500 and expenditure of Rs.327,600 had been estimated under Programme 04 during the year under review. But, nothing had been done under this Programme during the year under review.

4.2 Annual Procurement Plan

An annual procurement plan had not been prepared and implemented accordingly.

4.3 Internal Audit

An internal audit unit had not been established and facilities afforded for its operation.

4.4 Audit and Management Committees

Action had not been taken to establish Audit and Management Committees and to implement them.

4.5 Unresolved and unreplied Audit Queries

Replies for an audit query with a quantifiable value of Rs.150,000 had not been furnished as at end of the year under review.

5. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Contract Administration