

Balangoda 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 28 March 2016 and the financial statements for the preceding year had been presented on 30 March 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Council 27 June 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Balangoda Urban Council as at 31 December 2015 and its financial performance and cash flows the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Accounts

1.3.1 Accounting Deficiencies

The following matters are observed.

- (a) The closing stock as at 31 December 2015, as per register of stocks amounted to Rs. 1,824,729. This had been accounted as Rs. 3,255,748. As a result, the closing stock had been overstated in the accounts by Rs. 1,431,019.
- (b) The Value Added Tax of Rs. 484,636 payable as at 31 December 2015 had been accounted as Rs. 2,702,585 resulting in the Value Added Tax payable being overstated in the accounts by Rs. 2,217,949.
- (c) The balance of loan payable to the Local Loans and Development Fund as at 31 December 2015 amounted to Rs. 93,114,545. This had been accounted as Rs. 92,902,663 resulting in an understatement of loans payable in the accounts by Rs. 211,882.
- (d) The rates and taxes receivable as at 31 December 2015, as per register of rates and taxes amounted to Rs. 4,628,151. This had been accounted as Rs. 4,611,698 resulting in the rates and taxes being understated in the accounts by Rs. 16,453.

- (e) The balance of Rs. 1,684,785 as at 31 December 2015, as per register of advances had been shown as Rs. 34,608,887 in the financial status statement resulting in an overstatement of advance receivable in the accounts by Rs. 32,924,102.
- (f) Two cases had been filed in the High Court against the Sabha for non payment of loans amounting to Rs. 100,025,414 to the Local Loan and Development Fund. This had not been disclosed in the financial statements.

1.3.2 Unreconciled Control Accounts

The interest payable to the Local Loans and Development Fund as at 31 December 2015 on behalf of the loan obtained for construction of the bus stand had been accounted as Rs. 51,113,141. However, the interest payable had been shown as Rs. 72,967,863 in the certificate confirming the balance furnished by the Local Loans and Development Fund. The difference between that accounts amounted to Rs. 21,854,722.

1.3.4 Accounts Receivable and Payable

The following matters are observed.

- (a) Necessary action had not been taken to recover the loans aggregating Rs. 1,055,770 due for over 4 years from 99 revenue debtors as at 31 December 2015.
- (b) Necessary action had been taken with regard to the Nation Building Tax of Rs. 1,231,849 collected from the second quarter of 2013.
- (c) Contributions to Local Government Pensions of the previous years aggregating Rs. 730,201 had not been remitted to the Department of Pensions.
- (d) Necessary action had not been taken to pay the loan instalments and interest aggregating Rs. 116,270,592 payable since 2008 in respect of the loan obtained from the Local Loans and Development Fund for constructing the trade complex along with the bus stand.

1.3.4 Lack of Evidence for Audit

Transactions amounting of Rs. 386,323,617 could not be satisfactorily vouched in audit due to non-rendition of necessary information.

1.3.5 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following non – compliances are observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non – compliance
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(a) Chapter XIX of the Establishments Code of the Republic of Sri Lanka	
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Section 5.6

The monthly economic rent of official quarters with water and electricity had been assessed by the valuer as per rules. However, action had been taken to recover Rs. 1,500 as monthly rent as per decision of the Sabha.

(b) Financial Rules Code of the Sabaragamuwa Provincial Council	
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Rule 261.2.7

Necessary action had not been taken even up to 04 April 2016, the date of audit, to settle the ad – hoc imprest aggregating Rs. 171,000 obtained during the year under review.

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. 7,875,002 as against the excess of recurrent expenditure over revenue for the preceding year amounting to Rs. 7,159,897. Accordingly, an improvement amounting to Rs. 15,034,899 is shown the financial results of the year under review.

2.2 Revenue Administration

The following matters are observed.

- (a) Necessary action had not been taken even up to 04 April 2016, the date of audit, to recover the stamp fees of Rs. 1568,768 receivable since 2013.

- (b) Necessary action had not been taken to identify the stamp fees receivable for 2015 and to obtain it from the Chief Secretary of the Sabaragamuwa Provincial Council.
- (c) Necessary action had not been taken to identify the court fees receivable for the period October to December 2015 and to obtain it from the Chief Secretary of the Sabaragamuwa Provincial Council.
- (d) The balance of arrears of rates and taxes for the year prior to the year under review amounted to Rs. 4,611,698. Necessary action had not been taken to recover 68 per cent of this amounting to Rs. 3,120,187.
- (e) Necessary action had not been taken up to the date of audit of 04 April 2016 to recover the combined revenue tax of Rs. 1,173,473, stall rent of Rs. 175,196, machinery hire charges of Rs. 87,308 and the galie bowser hire charges of Rs. 71,450 as at 31 December 2015.

3. Operation Revenue

3.1 Management Inefficiencies

The following matters are observed.

- (a) Necessary action had not been taken up to the date of audit of 04 April 2016 with regard to 2 cheques valued at Rs. 6,858 deposited in 2014 and remaining unrealized.
- (b) A total sum of Rs. 73,608 was receivable as hire charges of Becko Loader for over 2 years. This had been written off during the year under review.

3.2 Circuit Bungalow of the Urban Council

The following matters are observed with regard to the Circuit Bungalow maintained by the Urban Council.

- (a) An excess of 25 bottles of foreign liquor valued at Rs. 22,504 was observed at a physical verification carried out on 29 June 2015 at the Circuit Bungalow maintained by the Urban Council. It was observed in audit that the sale of foreign liquor had not been properly handled and could be treated in audit as a transaction of contentious nature.
- (b) A gross loss aggregating Rs. 355,544 had been reported at the foreign liquor stall in the months of January, March and December of 2014 as a result of selling foreign liquor below cost or by selling it without being invoiced.

(c) Variances in Gross Profit Ratio ranging from 88 to 110 per cent were observed at the foreign liquor stall during the period January 2015 to May 2015.

(d) Necessary action had not been taken since 2011 to review the prices according to the cost estimates with regard to the food supplied during festive seasons.

3.3 Human Resources Management

Two posts of Development officers, a post of Revenue Inspector and a post of Dispenser including the post of Secretary of the approved cadre remained vacant.

3.4 Idle Assets

It was observed that the motor grader donated to the Council in 2014 remained idle.

4. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Stores Control
- (d) Human Resources Management
- (e) Assets Management