

Vavuniya Urban Council
Vavuniya 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 presented on 18 May 2015 and the report of the Auditor General for the year under review was issued to the Secretary to the Council on 18 October 2016.

1.2 Qualified Opinion

In my opinion except for the effect of the matters referred to in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Vavuniya Urban Council as at 31 December 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Policies.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The balance with the interest totaled to Rs.482,615 as at 31 December of the year under review of the sinking fund commenced in 1992, even though the objectives and the basis of commencing of this fund had not been revealed in the financial reports.

- (b) Fixed assets value had been overstated due to working progress total of Rs. 21,311,807 had been included in the fixed assets as at 31 December of the year under review.
- (c) Even though 05 buses, 03 tractors with trailers, 13 other machineries had been received from various institutions, value of those assets had not been assessed and brought to the accounts.
- (d) Interest income had been overstated by Rs. 21,751 due to the fixed deposit interest income of Rs. 3,956,379 stated as Rs. 3,978,130 in the financial statements.
- (e) Even though a sum of Rs. 1,358,331 received from notice boards for the year under review shown in the accounts, the time period of that income had not been disclosed in the accounts and a sum of Rs. 533,950 receivable from 54 notice boards for the year under review had not been taken to income. Further, those income receivable had not been shown in the balance sheet.
- (f) While preparing the financial statements for the year under review, shop rent income and fixed deposit income had been calculated on cash basis.
- (g) A different of Rs. 73,520 existed in the opening balances of the shop deposit account between the financial statements and the schedule stated as Rs. 3,107,924 and 3,181,444 respectively.
- (h) Lease income of Rs. 200,000 which was receivable from an external party for the Kudiiruppu children's park from the year 2012 up to the year under review had not been brought to the accounts.
- (i) Interest income for the fixed deposit of Rs. 20,000,000 which had been deposited during the year under review had not been brought to the accounts.
- (j) Stamp revenue totaled to Rs. 45,706,668 receivable from the year 2011 to August 2015 had not been disclosed in the financial statements.

1.3.2 Unreconciled Accounts

A different of Rs. 73,520 existed in the opening balances of the shop deposit account between the financial statements and the schedule stated as Rs. 3,107,924 and 3,181,444 respectively.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, the excess of revenue over recurrent expenditure for the year under review had amounted to Rs. 48,873,451 as compared to this, the excess of revenue over recurrent expenditure for the previous year amounted to Rs. 31,484,368.

2.2 Non-compliance with Laws, Rules and Regulations

Following non-compliance with Laws, Rules and regulations and management decisions had been observed.

| Reference to laws, rules, regulations | Non-compliance |
|--|---|
| Financial Regulations | |
| Financial Regulation 133 and 134 | Internal audit plan and internal audit reports for the year under review had not been presented to audit. |
| Financial Regulation 342 (1) | Receiving, issuing and returning of Receipts books and temporary receipt books which is using for collecting taxes and rates of the Urban Council had been done without responsibility. |

Financial Regulation 343

Even though used and unused receipts books of previous years had been lost, disciplinary action had not been taken on that.

Financial regulation 395 (h)

Preparing the Cash Book, writing cheques, and preparing the Bank reconciliation of the Urban Council had been done by one officer contrary to the Financial Regulations.

Financial Regulation 571 (2) and (3)

Action had not been taken to settle or credit to revenue in terms of the provisions in the Financial Regulations relating to 3 lapsed deposits amounting to Rs. 1,614,484 remaining for over two years

Public Administration circulars

Public Administration Circular No. 41/90 dated 10 October 1990

Even though fuel consumption test should be done once a 6 month for the vehicles belonging to the institute, such a test had not been done for the vehicles belonging to the Urban Council

2.3 Revenue Administration

2.3.1 Lease Rent

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- (a) A sum of Rs. 140,500 continuously in arrear from 2013 due to non- collection of lease rents daily from mobile stall owners of the Urban Council.
 - (b) Lease rent of Rs. 300,375 had been arrear for a long period from the new market stalls belonging to the Urban Council.

(c) Stall rent of Rs. 305,325 had been arrears over a number of years from the stalls in the Bus Stand belonging to the Urban Council.

(d) A rent fee of Rs. 798,000 had been paid annually to the Vauniya Co-operative Society by 6 stall owners for stalls which were situated in the Urban Council area and the ownership has not verified, and action had not been taken to verify ownership of those properties and collect those income to the Urban Council or take legal action for remove those stalls if those were constructed without permission.

2.3.2 Trade License

(a) Opportunity to increase income had been lost due to failure for amend the trade license fees from the year 2009.

(b) Trade businesses had not been classified on their nature and a methodology for calculate arrears license fees had not been introduced on their nature.

2.4 Surcharges

Stall rent receivable total Rs. 580,325 for the year 2004 and before from the stalls belonging to the Urban Council could not be able to recover due to inefficiency of the officers.

2.5 Assets Management

2.5.1 Idle and Under Utilized Assets

Six big tractors, one planation machine,02 hand tractors had been idled for a long period without being utilize.

2.5.2 Conducting Annual Board of Survey

According to the paragraph 3.5 of the Public Finance Circular No. 02/2014 dated 17 October 2014 issued by the Department of Public Finance, though it should be destroy the destroyable inventory items, maintain the maintainable items and auction the actionable items before 26 February of each year, action had not been taken as per the decisions of Board of Survey team of 2015 for sell 123 items, for destroy 22 items and for maintain 01 item for maintain even up to 13 July 2016 in terms of the above Financial Regulation.

2.6 Uneconomic Transactions

The Project of the compost fertilizer by using waste vegetables from the Vauniya vegetable market, value of production totaled to Rs. 7,980 for the year 2015 and an expenditure of Rs. 1,303,560 had been incurred as labour charges, security and telephone to get the above production. Accordingly, even though the above project is an environmental friendly and nonprofit oriented project, it was observed that this project seems to be inefficiency due to incurring an over expenses of Rs. 1,295,580 than income.

2.7 Contract Administration

- (a) The road from Pandarikulama to Ulukkulama had been repaired narrowly with stones and tar than existed earlier.
- (b) A loss of Rs. 279,000 incurred due to constructing a 45 meters of first lane, Pandarikulama without any standard.
- (c) A sum of Rs. 10,057 had been over paid for construction of the shoulders of Paththiniyar Mahilamkulama road due to payment made on the estimation, while the construction made narrowly.

2.8 Operating Inefficiency

- (a) Proper action had not been taken to clear 04 debtors' balances total Rs. 1,373,664 and 02 creditors' balances total Rs. 8,823,050 which were existing for many years.
- (b) Even though a sum of Rs. 827,508 had been shown in accounts as payable to 13 lessors from the year 2000 to 2013 relating to the taxes for the unauthorized constructions on the lands of the lessors in the Urban Council area, action had not been taken for those constructions.
- (c) Advances for purchase amounted to Rs. 74,083 given before the year 2009 had not been settled even up to the date of audit. Further, the secretary to the Urban Council stated that they are waiting for the advices from Assistant Local Authority Commissioner.
- (d) Even though computer software had been purchased for an annually committed amount of Rs. 180,000 from a private company for preparation and reporting the tax details, after stopping the earlier documentation system of the Vauniya Urban Council without any authority, the objective of purchasing the software had not been achieved due to failure to obtain analysis of tax arrears income and recovery balance analysis through that computer software.
- (e) The rest house belonging to the Urban Council was controlled by the Urban Development Authority had been transferred to the Urban Council from 30 April 2009 in terms of the Gazette No. 1589/20 dated 19 February 2009,. Following observations are made in this connection.
 - i. Action had not been taken by the Urban Council to transfer the Rest House in terms of the circular.
 - ii. Contract of the above valuable property (Rest House) which is belonging to the Urban Council had been awarded to a person without a proper tender procedure through Lanka Rest House Ltd from the year 1980 up to date. Only 70 per cent of the monthly rental which charged by the lessee, had been paid to the Urban

Council by Lanka Rest House Ltd and it was amounted to Rs. 38,500 from 09 June 2009. It was observed whether the property transferred to direct control of the Urban council and if it was awarded to a suitable buyer through a proper procurement procedure, it would be able to earn more income and a management fee was not necessary to paid.

- iii. Even though several buildings had been constructed in that land, approval had not been obtained from Urban Council.
 - iv. Action had not been taken to charge tax and rates on the Rest House even it was given to a lessee.
 - v. A shop had been constructed in that land by breaking the boundary wall from one side which was surrounded the Rest House and evidence had not been presented that Urban Council had granted permission for the above activity. Further, it was observed that construction will be damage the beauty of the town and the Rest House.
 - vi. It was failed to recover a sum of Rs. 393,333 receivable for the Rest House belonging to the Urban Council from 2012, which was leased to the Urban Development Authority.
- (f) Even though external institutions/ associations had been earned incomes from 2 sports grounds and a children park which is belonging to Urban Council, action had not been taken to calculate and receive those incomes to Urban Council.
- (g) Action had not been taken to recover advances as per the accounts totaled Rs. 38,695 obtained by 2 officers, which was existing for several years.
- (h) Ninety-nine unauthorized constructions in 14 places had been identified by the audit officers and action had not been taken to remove those constructions in terms of Urban Development (amended) Act No. 4 of 1982 of Urban Development Authority.

- (i) It had not been recovered agreement value by considering the number of Telephone Towers and its heights which were fixed by 5 institutions in the Urban Council area.
- (j) Urban Council lost rent income due to remove the old toilets of Kandasami Road of Vavuniya Urban Council without any authority and 3 shops had been constructed on that land and those shops were rented for a lowest rental (Rs. 700 monthly) by deviating the proper procurement procedure and it was lower than current rates.
- (k) It was planned for pay a sum of Rs. 851,510 as per the agreement with a construction institute for constructing a 1.2 meters of height and 56 meters of long concrete drainage without approval of the Authority in a land belonging to Road Development Authority which is joining to A-9 main road from sports ground of Vavuniya Urban Council. An over estimate of Rs. 89,994 had been prepared for shuttering the drainage system which had been done out of construction procedure, without a basement and without any plan, and the long and height of constructed drainage had been totally changed without any prior approval. Construction had been completed before obtain the approval of the secretary for the changes. Accordingly, it was observed that the total amount payable regarding the construction should be paid by recover from the related parties.

2.9 Performance

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- a) According to the details of approved cadre, a sum of Rs. 3,774,078 had been paid for 9 officers/ employees exceeding the approved cadre as at 31 December 2015 and the performance had been in a lower level in 11 posts due to vacancies of 13 officers.
 - b) An officer of Management Assistant services of Urban Council had been transferred to the Department of Buildings since 03 November 2015. Accordingly, it was observed that the transfer of an employee of a local government office to a Department was not the proper manner and the payments done by the Urban Council to that employee for the duties done in the Department, also wrong.

- c) Even though tax and rates receivable balance as at 31 December of the year under review from the tax payers of the area totaled Rs. 38,197,727 as per the schedules presented to the audit, while comparing the progress of recovery of tax and rates arrears balance had been increased due to progress of collecting income was in a lower level.
- d) The arrears of tax and rates, rent and entertainment tax income amounted to Rs.51,298,711 as at 31 December and out of the debtors balance which was more than 5 years as at 31 December for the year under review totaled Rs.1,832,419.

2.10 Accountability and Good Governance

2.10.1 Internal Audit

Internal audit for the year under review had not been done in terms of Financial Regulation 133 and the reports had not been presented to the audit as per the Financial Regulation 134(3)

3. System and Control

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Secretary to the Urban Council from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accountancy
- (b) Assets Management
- (c) Income Control
- (d) Vehicle Administration
- (e) Internal Control