

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 30 March 2017 and the financial statements for the preceding year had been presented on 28 March 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Council on 17 August 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 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 2016 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 were observed.

- (a) According to the staff loan register as at 31 December of the year under review, the staff loans amounting to Rs.6,457,948 had been brought to account as Rs.5,008,370. As such the staff loans had been understated by Rs.1,449,578.

- (b) The library books amounting to Rs.78,310 purchased in the year 2017 had been brought to account as the purchases for the year under review. As such the library books had been overstated by similar amount.

- (c) As per debtors schedule as at 31 December of the year under review the capital receipts receivable amounting to Rs.15,751,210 had been brought to account as Rs.16,364,834. As such capital receipts receivable had been overstated by Rs.613,624.
- (d) Action had not been taken to account the opening stock of the Ayurvedic Centre of the Sabha for the year under review amounting to Rs.305,704 and the closing stock amounting to Rs.697,620.
- (e) The library books removed off amounting to Rs.18,966 as per the recommendations of the Boards of Survey in the year 2015, had not been adjusted in the accounts.
- (f) Even though, the rates and taxes receivable as at 31 December 2016 as per the register of rates and taxes amounted to Rs.3,776,898, it had been brought to account as Rs.3,530,947. As such the rates and taxes receivable had been understated by Rs.248,951.
- (g) The interest payable for the loans obtained from the Local Loans Development Fund to construct the bus stand as at 31 December of the year under review amounted to Rs.82,088,845 as per the balance confirmations of that Fund, but it had been brought to account as Rs.53,263,555. As such the interest payable had been understated by Rs.28,825,290.
- (h) The library books amounting to Rs.99,505 received as donations as at 31 December of the year under review had not been brought to account.

1.3.2 Accounts Receivable and Payable

The following matters were observed.

- (a) Necessary action had not been taken to recover the loans aggregating Rs.1,202,654 recoverable for over 5 years from 108 revenue debtors as at 31 December 2016.

- (b) Trade stall rent amounting to Rs.139,100 recoverable as at 31 December 2016 had not been recovered even by 19 June 2017.
- (c) Contributions to Local Government Pensions of the previous years aggregating Rs.763,360 had not been remitted to the Department of Pensions.
- (d) Necessary action had not been taken to settle the balance of money transfer account amounting to Rs.9,303,601 brought forward since preceding years even by 19 June 2017.

1.3.3 Lack of Evidence for Audit

Register of Fixed Assets and detailed schedules had not been furnished to audit to confirm 05 items of fixed assets shown in the financial statements and detailed schedules and age analysis reports had not been furnished to confirm 02 other items of accounts.

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

The following non – compliances were observed in audit.

**Reference to Laws, Rules, Regulations
and Management Decisions**

Non – compliance

**(a) Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka.**

(i) F.R.137

Even though, the Secretary of the Council should approve payments before payments made for services, works or supplies, 06 vouchers totalling Rs.80,480 had not been approved.

- (ii) F.R. 260 (1) Action should be taken to make payments for proper person. Contrary to that, a sum of Rs.80,000 as festival advances had been paid to other payee on behalf of 08 employees of Health Section without being paid to each employee separately.
- (iii) F.R. 267 (1) In payment of salaries for 74 officers for the months of August, September and October 2016, their signatures had not been obtained for the pay sheets.
- (iv) F.R. 371 (5) The unsettled advances brought forward amounting to Rs.34,110,665 which could not be identified prior to the year 2010 and 03 sub-impressts totalling Rs.177,000 issued in the year under review had not been settled even by June 2017.
- (v) F.R. 1646 The monthly summary of the Running Charts in respect of 26 motor vehicles belonging to the Sabha had not been prepared.
- (vi) F.R. 1647 (c) The Register of Motor Vehicles inclusive of details of the motor vehicles of the Council had not been updated.

**(b) Chapter XIX of the Establishments
Code of the Republic of Sri Lanka**

Section 5.6

The monthly economic rent of 05 official quarters had been assessed as Rs.1,000 to Rs.2,000. But action had been taken to recover a monthly rent amounting to Rs.1,500 according to a decision of the Sabha.

**(c) Paragraph 3.1 of the Public
Administration Circular
No.30/2016 dated 29 December
2016.**

Action had not been taken to perform fuel consumption tests in respect of 15 vehicles of the Sabha.

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 2016 amounted to Rs.1,888,420 as compared with the excess of revenue over recurrent expenditure for the preceding year amounting to Rs.7,875,002. Accordingly, a deterioration amounting to Rs.5,986,582 was shown in the financial results of the year under review as compared with the preceding year. The close down of the rest house of the Council from June 2016 had mainly attributed for this deterioration.

2.2 Revenue Administration

The following matters were observed.

- (a) Necessary action had not been taken even by June 2017 to recover the Stamp fees receivable amounting to Rs.3,216,410 in respect of the period from January to May 2015 and to identify and recover the stamp fees receivable for the period from June 2015 to December 2016 from the Chief Secretary of the Provincial Council.

- (b) Necessary action had not been taken even by June 2017 to recover the Court Fines receivable for the period from July to December 2016 amounting to Rs.206,161 from the Chief Secretary of the Provincial Council.
- (c) Necessary action had not been taken even by June 2017 to recover the arrears of rates and taxes for the preceding years amounting to Rs.2,105,153.

3. Operating Review

3.1 Operating Activities

The following matters were observed.

- (a) **Illegal Selling of Liquor**

A fine of Rs.1,515,000 had been imposed by the Assistant Commissioner of Excise Duty, Ratnapura to the Council on 08 August 2016 due to 163,110 milli litres of foreign liquor had been kept in the Balangoda Rest House belonging to the Sabha on the Vesak Full Moon Poya Day of 21 May 2016 contrary to the conditions of the licence. According to the agreement to pay that fine by 09 installments a sum of Rs.793,571 had been paid in 04 installments by 19 June 2017. The council had filed a case in the District Courts, Balangoda to recover the fine from the officers who connected for the above incident.

- (b) **Trade Stalls given on Sub-lease**

In terms of the Section 2.5 of the agreement relating to the trade stalls of the bus stand given on sub-lease, the lease holder should not sell, transfer or sub-lease the possession of the said trade stalls or part of that trade stall to another person. Contrary to that, 02 trade stalls taken on a monthly lease totalling Rs.10,100 had been given on a sub-lease totalling Rs.35,000. Further, contrary to the Section 34 of the agreement entered in to in respect of the trade stalls taken on lease in the Public Market, the lease holders who entered into agreements had been given the trade stalls on sub-lease but no action whatsoever had been taken thereon even by June 2017.

(c) Widening of Trade Stalls Given on Lease

Six trade stalls given on sub-lease had been widened and the physical appearance of the trade stalls had been changed by the lease holders without a permission of the Council contrary to the lease agreements. Nevertheless, action had not been taken thereon even by June 2017.

(d) Selling of fish in Public Market, Balangoda

Even though, the Council had signed agreements to utilize 03 trade stalls constructed in both sides of the Public Lavatory which was in the middle and adjoining to that, as stores of the Public Market, Balangoda, contrary to the agreement that trade stalls had been utilized for selling fish.

(e) Protection of Conserved Environmental Zones within the Urban Council Limits

According to the Section 8 (f) of the Urban Development Authority (Amended) Act No.04 of 1982 published in the Extra- ordinary Gazette No.1868/8 of the Democratic Socialist Republic of Sri Lanka dated 23 June 2014, 3 water canals and 34 paddy lands within the authoritative area had been published as conserved environmental zones in the year 2014 in terms of Section 4.3.5 of the Development Plan for the Balangoda Urban Development Authoritative Area approved by the Minister of Urban Development. Necessary action had not been taken to make public awareness in respect of the conserved environmental zones even by 07 November 2016 and as such it was observed that, it may be a barrier for the activity of conservation of these conserved zones for future.

3.2 Idle and Underutilized Assets

The following matters were observed.

- (a) The motor grader machine received as a donation for the Urban Council amounting to Rs.24,928,666 had remained idle since the year 2015 without being utilized.

- (b) Even though, a permission was not made available to sell fish within the Public Market Premises according to the Section 4 of the by-law relating to the Public Market of the Sabha, contrary to that, 10 fish stalls had been constructed in the premises of the Public Market. Out of that, 06 trade stalls and 04 trade stalls constructed by incurring Rs.715,910 had remained idle from October 2014 and prior to that period respectively.

3.3 Human Resources Management

The following matters were observed.

- (a) One post of Librarian, 02 posts of Revenue Inspectors, one post of Dispenser and one Post of Labourer including the post of the Secretary of the approved cadre had remained vacant.
- (b) Even though, 20 posts of the cadre for fire Extinguisher Unit of the Balangoda Urban Council had been approved by the letter of the Department of Management Services No.DMS/D/0217 of dated 15 March 2016, necessary action had not been taken to fill those posts. As such the Fire Extinguisher Unit could not be established properly even by June 2017.

3.4 Identified Losses

At the physical audit examination carried out on 14 June 2017, it was observed a shortage of 04 brass flower pots valued at Rs.7,760 which included in the stores ledger.

3.5 Delays of Projects

Even though, it was planned to implement 12 capital projects which estimated value amounting to Rs.33,700,000 through the Budget of the Balangoda Urban Council, during the year, the approval of the Office of the Commissioner of Local Government thereon had not been received. As such those development projects had not been implemented up to 19 June 2017.

3.6 Solid Waste Management

Out of the waste collection annually in the Solid Waste Management Centre of the Urban Council, 504 tones of waste approximately which could not be recycled, had been collected in the Waste Management Centre and a methodology had not been prepared by the Sabha to dispose that stock of waste to the environment favourably even by June 2017.

4. Accountability and Good Governance

4.1 Budgetary Control

According to the Budget for the year under review, the provision for the recurrent expenditure amounted to Rs.123.12 million and the actual expenditure thereon amounted to Rs.109.67 million. Therefore, the provisions of Rs.13.46 million or 11 per cent had been saved. The estimated provisions for the capital expenditure amounted to Rs.31.55 million and the actual expenditure amounted to Rs.13.12 million thus the provisions of Rs.18.43 million or 58 per cent had been saved. Accordingly, it was observed that the budget had not been made use of as an effective instrument of financial control.

4.2 Procurement Plan

Action had not been taken by the Council to prepare a Procurement Plan in terms of the Guideline 4.2.1 (a) of the Chapter 4 of the Government Procurement Guidelines.

5. Systems and Controls

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

System

(a) Accounting

Observation

(i) Not updated the Register of Fixed Assets.

(ii) Understatements and overstatements of revenue, expenditure and assets, liabilities in the accounts.

- (b) Budgetary Control
 - (i) Considerable savings in expenditure provisions.
 - (ii) Non-recovery of estimated revenue.

- (c) Revenue Administration
 - Non-recovery of arrears of revenue.

- (d) Motor vehicle Control
 - (i) Not updated the Register of Motor Vehicles.
 - (ii) Not conducting fuel consumption tests of the Motor Vehicles.

- (e) Human Resources Management
 - Action not taken to fill vacancies.