

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 27 March 2017 and the financial statements for the preceding year had been furnished on 16 March 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Council on 06 September 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 Embilipitiya Urban Council as at 31 December 2016 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 matters were observed.

- (a) The balance of the creditors and the deposit accounts as at the end of the preceding year had been understated by Rs.4,636,776 in brought forward as the opening balance of the year under review. As such the current liabilities had been understated by similar amount.

- (b) The balance of the Accumulated Fund as at the end of the preceding year had been overstated by Rs.439,360 in brought forward as the opening balance of the year under review. As such the equity had been overstated by similar amount.

- (c) The library books totalling Rs.28,952 received as donations during the year under review had not been capitalized and as such the fixed assets had been understated by similar amount.
- (d) Two cheques totalling Rs.75,437 received during the year under review and subsequently dishonoured had been written off from the accounts without being adjusted in the dishonoured cheques account. As such current assets had been understated by Rs.75,437.
- (e) A sum of Rs.637,480 received under working debtors in the year under review had been debited to the accumulated fund account, thus the accumulated fund had been understated by similar amount.

1.3.2 Unreconciled Control Accounts

The following matters were observed.

- (a) A difference of Rs.18,233,169 was observed between the balances of 03 items of accounts as per financial statements as at the end of the year under review and the subsidiary registers.
- (b) A difference of Rs.1,044,243 was observed between the balances as per total of Category Register and the financial statements relating to 19 items of revenue in the year under review.

1.3.3 Lack of Written Evidence for Audit

The detailed schedules for the balance of machinery and equipment amounting to Rs.5,733,252 and the balances of furniture and fittings amounting to Rs.2,320,011 shown in the financial statements of the year under review had not been furnished to 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) Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka

(a) Financial Regulation 317(2)

Sub-impressts totalling Rs.932,291 paid
in 12 instance during the period from the
year 2007 to 2016 had not been settled
even by January 2017.

(b) Financial Regulation 571

Action had not been taken on deposits
totalling Rs.349,752 relating to the
period from the year 2013 to September
2014.

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.34,044,357 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.25,367,722 thus shown an improvement of Rs.8,676,635 in the financial results as compared with the preceding year.

2.2 Analytical Financial Review

Increase of 04 items of recurrent revenue by Rs.8,054,214 and decrease of 03 items of recurrent expenditure by Rs.2,383,843 had mainly attributed to the improvement of financial results by Rs.8,676,635.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

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

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
<hr/>	<hr/>	<hr/>	<hr/>
	Rs.000	Rs.000	Rs.000
Rates and taxes	18,010	17,750	29,726
Lease rent	11,569	14,438	6,804
Licence fees	2,329	3,382	2,201
Other revenue	45,500	42,297	18,015

2.3.2 Performance in Collection of Revenue

A comparison of the estimated revenue of the year under review with the revenue collected showed a decrease in revenue collected with regard to the revenue items such as warrant charges and fines and contribution made by the Government by 45 per cent and 28 per cent respectively.

2.3.3 Lease Rent

The following matters were observed.

- (a) The arrears of lease rent totalling Rs.505,000 in respect of the period from March 2012 to September 2016 recoverable from 27 trade stalls of public market Pallegama had not been recovered even by December 2016.
- (b) The lease rent totalling Rs.2,909,300 recoverable from 30 temporary trade stalls situated in the bus stand, Pallegama had remained in arrears for a period ranging from 01 month to 56 months as at 31 July 2016 and the agreements had not been entered into with the respective lease holders relating to 22 trade stalls.

2.3.4 Other Revenue

Even though, a revenue amounting to Rs.1,001,000 had been estimated for the year 2016 as parking fees of the Bus stand, no revenue whatsoever had been recovered by the Council from the Bus parking stand even by 17 January.

2.3.5 Court Fines and Stamp Fees

Even though, a sum of Rs.376,964 had been received by the Provincial Council as court fines from Embilipitiya Magistrate Courts in respect of the period from January to 21 August 2016, the said money had not been reimbursed even by January 2017.

3. Operating Review

3.1 Performance

A sum of Rs.133,300,000 had been estimated for works as per the Budget for the year under review, but the works had not been identified separately. Thirty one works had been completed by incurring a sum totalling Rs.19,469,251 as 16 works totalling Rs.9,385,454 under Urban Council provisions, 08 works totalling Rs.6,637,943 under Provincial Council provisions and 07 works valued at 3,445,854 under Central Government provisions at the end of the year.

3.2 Management Inefficiencies

Surcharges amounting to Rs.72,386 had to be paid due to delays of the payments of contributions to the Employees Trust Fund totalling Rs.76,977 relating to 07 officers for the period from August 1991 to February 2011.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) Action had not been taken to clear the demarcations of 18 portions of the land of 3.99 hectares and 13.2 perches belonging to the Sabha and to protect the above all lands by constructing security fence or retaining walls.
- (b) Even though, a commission of 15 per cent from the excess fees could have been paid to the restraining officer appointed for collection of arrears of rates of the properties as per the decision of the Council dated 21 February 2014, the basis of the payment of commission had not been clearly identified as the value of the arrears of rates had not been listed correctly. As such, sums totalling Rs.210,466 had been overpaid from the year 2014 to the year 2016 but a sum of Rs.26,546 out of that only had been recovered by August 2017.

3.4 Contract Administration

The following matters were observed.

- (a) The following matters were observed at the field examination carried out relating to the work of concreting Thelbaduara- Molawatta Road for which incurred a sum of Rs.779,127.
 - (i) The concrete surface within 20 metres at the beginning of the road had remained in a very poor condition and $\frac{3}{4}$ metal had evicted and cement surface had easily getting removed.

- (ii) Two cracks was shown within second 20 metres in the entire width of the road and another crack had evicted middle of the road surface between 60 and 80 metres.
 - (iii) The road was cracked in the entire width at the 80 metres and a portion of the left corner was heavily cracked as separating the road and the finishing of the entire road from last 20 metres had remained unsatisfactory level.
- (b) At the physical examination carried out on the work of concreting the Moderwana Road for which contracted value amounting to Rs.430,475, it was observed that metal was evicted on the surface of the concrete due to poor mixture of the concrete and the mixture of sand, cement and metal had easily getting removed. Further, as per the files, it was not established that the responsibility had been assigned to a technical officer to supervise this work.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters were observed.

- (a) The entire provisions totalling Rs.6,715,000 made for 16 Objects in the year under review had not been utilised.
- (b) A sum of Rs.254,631 had been incurred exceeding the estimated provisions in respect of 04 Objects in the year under review.

4.2 Annual Procurement Plan

A procurement plan for the year under review had not been prepared.

4.3 Audit and Management Committees

The Audit and Management Committees had not been established.

4.4 Internal Audit

An internal audit had not been carried out for the year under review and for the preceding year in respect of the Urban Council.

4.5 Unresolved and Unreplied Audit Queries

Replies to 3 audit queries had not been furnished by 31 December 2016. The value of quantifiable transactions of those queries amounted to Rs.2,811,737.

5. Systems and Controls

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

System	Observation
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(a) Accounting	(i) Omissions in the accounts. (ii) Overstatements. (iii) Unreconciliations in subsidiary registers and financial statements. (iv) Unreconciliations in votes ledger and financial statements.
(b) Revenue Administration	Non-recovery of due revenue.
(c) Contract Administration	Poor quality.
(d) Budgetary Control	(i) Savings on provisions. (ii) Expenditure incurred exceeding the provisions.