

Embilipitiya Urban Council

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented to audit on 28 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 13 June 2018.

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 2017 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) Even though, the payable expenses for development programmes implemented during the year under review amounted to Rs.12,488,419, that had been brought to account as Rs.13,810,213. As such the creditors had been overstated by Rs.1,321,794.
- (b) Even though, the balance of the Local Loans Development Fund as at 31 December 2017 amounted to Rs.16,677,054, that had been brought to account as Rs.16,446,902. As such that had been overstated by Rs.230,152.
- (c) The receivables for the development projects implemented on the provisions of the Ministry of Provincial Councils and Local Government and on the provisions of the Provincial Council totalling Rs.8,659,468 had been adjusted only between debtors and creditors accounts. As such the capital expenditure and the capital receipts in the year under review had been understated by similar amounts.

1.3.2 Unreconciled Accounts

A difference of Rs.1,621,936 was shown between the balances as per financial statements as at the end of the year under review and the subsidiary registers relating to 02 items of accounts.

1.3.3 Lack of written Evidence for Audit

Two items of accounts totalling Rs.2,320,011 could not be satisfactorily vouched in audit due to non-submission of required information for audit.

1.3.4 Non-compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
Financial Regulations of the Democratic Socialist Republic of Sri Lanka		

(a) Financial Regulation 371(2)	937,291	Advances granted in 13 instances during the period from the year 2007 to 2017 had not been settled.
(b) Financial Regulation 570 and 571	1,507,131	Action had not been taken in respect of miscellaneous deposits, tenders security deposits, 10 per cent retention money, agreements securities and refundable works agreements securities relating to the period from the year 2004 to 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 2017 amounted to Rs.36,526,973 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.34,044,356.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue

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

Source of Revenue	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	18,206,000	18,329,258	16,053,437	37,300,469	18,010,200	17,750,100	19,796,209	28,726,104
Lease Rent	14,199,900	14,467,062	12,977,626	10,749,251	11,568,900	14,438,308	11,481,415	9,004,935
Licence Fees	1,717,800	2,303,439	2,052,639	-	2,328,800	3,381,968	2,437,101	-
Other Revenue	6,388,200	19,160,471	14,510,896	14,064,980	8,146,950	15,126,156	7,036,628	15,556,166

2.2.2 Performance in Collection of Revenue

A comparison of the estimated revenue of the year under review with the revenue collected showed an increase in revenue collected with regard to the revenue items such as licence fees and other income by 15 per cent and 239 per cent respectively and the revenue collected from rates and taxes, lease rent, service charges and warrant charges and fines and contribution made by the Government had decreased by 12 per cent, 09 per cent, 06 per cent, 08 per cent and 27 per cent respectively.

2.2.3 Rates

The rates recoverable balance as at 31 December 2017 amounted to Rs.37,300,469 while the action of the Sabha in respect of recovery of arrears of rates had remained at a weak level.

2.2.4 Lease Rent

The following matters were observed.

- The arrears of lease rent totalling Rs.415,900 in respect of the period from March 2012 to December 2017 recoverable from 27 trade stalls situated in the public market Pallegama had not been recovered even by May 2018.
- The agreements had not been entered into for 15 temporary trade stalls out of 40 temporary trade stalls situated in the Pallegama Bus stand and arrears of rent totalling Rs.3,582,741 for 32 trade stalls had to be recovered as at 31 December 2017.
- It was failed to recover the lease rent totalling Rs.10,579,416 which were in arrear for a long period even during the year under review.

2.2.5 Licence Fees

The following matters were observed.

- (a) The Council had not followed a proper methodology to identify the industries which had not obtained the Environmental Protection Licences in terms of the National Environmental Act No 47 of 1980 as amended by the Acts No 56 of 1988 and No 53 of 2000 and the regulations imposed thereto.
- (b) An income of Rs.48,400 had been deprived by the Council due to not renewed the licences by 11 business places which should be renewed the Environment Protection Licences during the year under review. As a timely evaluation had not been conducted on the environment effect possible in maintaining of those businesses, the responsibility of the Council on the environment protection in the authoritative area of the Council had not been executed adequately.

2.2.6 Other Revenue

The following matters were observed.

- (a) The Council had identified 29 three wheeler stands by January 2018, But a revenue of Rs.67,500 had been deprived by the Council as 135 identified three wheelers which parked in those places had not been registered for the year 2017.
- (b) The Council had not paid attention in respect of recovering charges from the buses entered in to the bus stand.
- (c) The Council had failed to recover charges amounting to Rs.68,578 recoverable from 15 permanent advertisement hoardings identified during the year under review.

2.2.7 Court Fines and Stamp Fees

The following matters were observed.

- (a) The Council had failed to recover court fines totalling Rs.1,761,690 recoverable relating to the period from July 2016 to December 2017.
- (b) The stamp fees totalling Rs.12,303,290 relating to the year under review had remained recoverable.

3. Operating Review

3.1 Sustainable Development Goals

As the Council had not known the 2030 Agenda relating to the Sustainable Development Goals, the long term plans to upgrade the livelihood and the health of the people of the authoritative area

of the Council had not been prepared through global indicators for that objectives even by May 2018.

3.2 Human Resources Management

Staff Loans

The outstanding loan balance amounting to Rs.127,206 recoverable from an officer who interdicted on 03 October 2014 had not been settled even during the year under review.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) Even though, a commission of 15 per cent of the excess charges could have been paid to the Restraining Officer, appointed to collect arrears of rates as per the Decision of the Council dated 21 February 2014, the value of arrears of rates had not been accurately listed. As the payment basis of commission had not been identified correctly, a sum totalling Rs.237,012 had been over paid from the year 2014 to 2016 while a sum of Rs.41,546 only had been recovered by December 2017.
- (b) The grants for industries received during the period from the year 2008 to 2011 totalling Rs.1,005,930 had remained idle in the General Deposit Account even by the end of the year under review.

3.4 Assets Management

Failure to carry out Maintenance and Repairs

The following matters were observed.

- (a) The main lapses such as the maintenance of Anagarika Dharmapala Children's Park belonging to the Council was not updated properly and water and toilet facilities not available in the park had been pointed out in the Boards of Survey Reports in the years 2016 and 2017. But action had not been taken to provide respective facilities and to improve the park.
- (b) Even though, it was pointed out by the recommendations of the Boards of Survey Report 2016 that the ceiling of the public library had remained decaying position and the accommodation of the library was not adequate, those recommendations had not been implemented even by January 2018.

3.5 Procurements

3.5.1 Procurement Plan

A Procurement Plan for the year under review had not been prepared.

3.5.2 Contract Administration

The following matters were observed.

(a) Development of the road to house of the Mr.Kumara, in Dharshanagama with laying Bitumen

- (i) Under work item No. 02 of the original estimate of the above work which estimated expenditure amounting to Rs.1,953,901 and the extent to be executed had been 17,823.5 square meters. Nevertheless, the actual extent had been 1,965 square meters thus a sum of Rs.515,401 had been over estimated for 15,858.5 square meters. As such the estimate prepared had been unrealistic.

- (ii) The estimates had been prepared and approved for laying bitumen and develop to the extent of 414.5 metres of that road. But after revealing the over estimation under work item No.02, the respective road had been developed by laying bitumen for 519 metres utilizing above money. Nevertheless, a revised estimate had not been prepared and approved thereon.

(b) Development of the Road near the Rural Leaders Training Centre by laying Bitumen

The work of development of the road near the Rural Leaders Training Centre by laying bitumen which estimated cost amounting to Rs.531,472 had been completed on 15 May 2017. The Technical Officer had inspected the road on 21 December 2017 and certified that the road had completed in good position and could be released the retention money and securities of agreements. But, it was observed at the physical examination carried out on 11 January 2018, that the surface of the road had entirely defective and some places had cracked. The reason for that condition was the second coating of bitumen for the road had not been properly laid and that will be directly effected to the existence of the road. As such the expenditure of Rs.512,376 made for development of this road had become fruitless.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters were observed.

- (a) The entire provisions totalling Rs.53,189,500 made for 19 Objects had been saved.
- (b) Even though, the provisions made for overtime and holiday pay for the year under review amounted to Rs.1,000, the expenditure had been Rs.101,908, thus a sum of Rs.100,908 had been incurred exceeding the provisions.

4.2 Internal Audit

An internal audit had not been carried out for the year under review and for the preceding year.

4.3 Audit and Management Committees

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

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of controls..

System	Deficiency
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(a) Accounting	(i) Failure to identify the expenditure. (ii) Understatement of Revenue. (iii) Unreconciliation of ledger accounts and subsidiary registers. (iv) Unreconciliation of votes ledger and financial statements.
(b) Revenue Administration	Non-recovery of due revenue.
(c) Assets Management	Failure to update the maintenance.
(d) Contract Administration	Payments made for work not executed.
(e) Budgetary Control	(i) Savings on provisions. (ii) Expenditure incurred exceeding the provisions.