

**Embilipitiya Urban Council**

**Ratnapura District**

**01. Financial Statements**

**1:1 Presentation of Financial Statements**

The financial statements of the year under review had been presented to audit on 06 March 2012 and the financial statements for the preceding year had been presented on 28 February 2011. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 20 June 2012

**1:2 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Embilipitiya Urban Council had maintained proper accounting records for the year ended 31 December 2011 and except for the effects on the financial statements of the matters referred to in my report issued to the Chairman, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Embilipitiya Urban Council as at 31 December 2011 and the financial results of its operations for the year then ended.

**1.3 Comments on Financial Statements**

**Lack of Evidence for Audit**

**Non – Submission of Information to Audit**

Transactions totalling Rs. 21,391,059 could not be satisfactorily vouched in audit due to the non - submission of required information to audit.

## 2. Financial and Operating Review

### 2:1 Financial Results

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2011 amounted to Rs. 11,192,806 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 6,497,431 for the preceding year.

### 2.2 Financial Control

The following observations are made

The total of the balances according to the control accounts relating to 09 items of accounts amounted to Rs 36,528,865 and the total of the balances of accounts as per subsidiary registers amounted to Rs 26,379,843

### 2:3 Revenue Administration

#### 2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information relating to the estimated revenue, actual revenue and the arrears of revenue in respect of the year under review, as presented by the Chairman is shown below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	4,205	3,153	15,062
(ii) Lease Rent	2,115	2,061	1,276
(iii) Licence Fees	1,007	1,007	-
(iv) Other Revenue	19,720	11,283	8,983

#### 2.3.2 Court Fines and Stamp Fees

Money receivable as at 31 December 2011 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
(i) Court Fines	300,000
(ii) Stamp Fees	3,877,526

### **2.3.3 Hoarding Charges**

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According to the provisions in Section 157 (7) (F) (Chapter 255) of the Urban Councils Ordinance, all the permanent and temporary hoardings displayed in the town limits should be displayed on the approval of the Urban Council by paying a certain fees. But, a sample check carried out on 21 October 2011 revealed that most of the hoardings had been displayed without permission and according to the sample, the Council had been deprived of an income of Rs 71,550

### **2.3.4 Rates and Taxes**

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The following observations are made

- (a) A total of outstanding rates and taxes amounting to Rs. 2,678,205 was due from 139 rates assessment units from which an amount ranging from Rs. 10,000 to Rs. 50,000 was due and a total of outstanding rates and taxes amounting to Rs 545,812 was due from 09 rate assessment units from which an amount ranging from Rs 50,000 to Rs 100,000 was due for the year under review.
- (b) Outstanding rates and taxes amounting to Rs 1,035,857 was due as at end of the year under review from 37 rates assessment units relating to 06 leasees from whom the outstanding rates from 01 unit of assessment was at a higher value.
- (c) Certain property owners had not been identified in computerizing rates and taxes and the computer system had not been updated to match to the present requirements

### **2.3.5 Trade Licence Fees**

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The following observations are made

- (a) The total licence fees due from 159 Business Locations for which licences had not been issued even as at 01 November 2011 was Rs 219,350
- (b) Obtaining applications for trade licences and issue of licences for the year under review had not been properly done.

### **2.3.6 Vehicle Parking Charges**

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The following observations are made

- (a) Vehicle parking charges amounting to Rs 162,000 recoverable for the year under review had not been recovered.
- (b) The Council had not taken action to lay bye laws to recover parking charges from three wheelers and to earn income accordingly.

### **2.3.7 Stall Rent**

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Action had not been taken to recover outstanding lease rent amounting to Rs. 61,000 due for periods ranging from 06 month to 3 ½ years in respect of 02 stalls The income which could have been recovered by leasing out the fish stall No. 01 Pallegama had been recovered less by Rs. 10,704.

### **2.4 Idle and Underutilized Physical Resources**

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It was observed that 04 items of assets including a deep freezer of the livestock sales stall which had been closed down remained unused.

### **2.5 Irregular Transactions**

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The following observations are made.

- (a) Although value added tax should be recovered and remitted to the Commissioner General of Inland Revenue in procurement of goods and services, there was no necessity to obtain the above value added tax with regard to the security deposits relating to agreements regarding properties given on lease. But, value added tax amounting to Rs. 228,368 had been recovered in leasing out the property owned by the Council.
- (b) Allowances amounting to Rs. 26,500 had been paid in contrary to the provisions in the Gazette Extra-ordinary notification No 396/18 dated 08 June 2005 of the Democratic Socialist Republic of Sri Lanka,

- (c) According to paragraph 03 of the Public Finance Circular No PF/437 dated 18 August 2009, the government institutions should obtain all its insurance coverage requirements from the National Insurance Trust Fund or the Sri Lanka Insurance Corporation. Nevertheless, the tractor bearing No LE 7497 and the three wheeler bearing No SGQV 4475 owned by the Council had been insured for Rs. 35,311 for the year 2011 in an insurance company other than the approved insurance institutions.

## **2.6 Operating Inefficiencies**

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The following observations are made.

- (a) A grant of Rs. 41 million had been received from the Asian Development Bank for the Rain Water Drainage System Project the cost of which was Rs. 51.4 million and the balance of Rs. 10.4 million had been obtained as a loan from the Local Loans and Development Fund. As the constructions of this project had not been properly done by the Urban Development Authority, the Council had refused to pay the loan and the interest thereon.
- (b) Instead of removing the unauthorized constructions in the town, a sum of Rs. 3,782,667 had been obtained from the occupants as full payment during the year under review to construct temporary stalls for them, and a sum of Rs. 3,031,979 had been spent on the construction of temporary stalls. These temporary constructions had become an obstacle for the development of the Embilipitya Bus stand carried out by the Ministry of Economic Development and therefore, the money spent for the construction of temporary stalls had become a fruitless expenditure,
- (c) According to the Financial Regulation 177(i) of the Democratic Socialist Republic of Sri Lanka, the Revenue Administration Officers should remit their total collections daily or as early as possible. But, there was a delay in remitting an income of Rs. 437,563 collected under various income categories in 29 instances.

- (d) According to the Financial Regulation 371(2) of the Democratic Socialist Republic of Sri Lanka, advances obtained for a particular activity should be settled immediately after the completion of that activity and there were unsettled advances amounting to Rs. 1,098,774 as at 01 November 2011.
- (e) According to the Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka, action should be taken to settle the deposits exceeding 02 years. Nevertheless, action had not been taken accordingly in respect of 43 deposits amounting to Rs. 772,365 deposited from 1999 to 2008 and tender deposits amounting to Rs. 169,555 deposited in 15 instances from the year 2005.
- (f) The total of the balances of accounts receivable for over one year as at 31 December 2011 amounted to Rs 960,470 and the assets remaining static amounted to Rs. 1,072,947
- (g) The value of assets not supported by Board of survey reports but, computed on book balances as at 31 December 2011 amounted to Rs. 253,739,695
- (h) Corporate plan, action plan and the annual performance report had not been prepared.

### **3. Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Control
- (d) Vehicle Utilization.