

**Katunayaka -Seeduwa Urban Council**  
**Gampaha District**

**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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Financial Statements for the year ended 31 December 2010 and the for the Previous year had been presented to the audit on 29 March 2011 and 16 March 2010 respectively.

**1.2 Opinion**

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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 Katunayaka Seeduwa Urban Council had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:3 of this report, 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 Katunayaka Seeduwa Urban Council as at 31 December 2010 and the financial results of its operation for the year then ended.

**1.3 Comments on Financial Statements**

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**1.3.1 Accounting Deficiencies**

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- (a) Discount allowed on rates received for the year amounted to Rs. 99,089 had not been accounted.
- (b) Even though the employment securities amounting to Rs. 2,851 had been settled during the year under review, those employee securities had not been adjusted in investment accounts.
- (c) Even though the fixed deposit had been accounted as Rs. 5,225,000, the total interest amounted to Rs. 275,972 as at 31 December 2010 as per the bank confirmation letter of the People's Bank in respects of the fixed deposit No. 1000015794 should be debited to the investment account instead of being debited to the other income receivable account by understating the investment account by that amount.
- (d) Even though the opening balance of the Value Added Tax Account for the year 2008 and prior to that year had been shown as credit balance of Rs. 680,705 that balance

had become a debit balance due to rectification of under calculation of the output tax and payment of Rs.685,112 that tax during the year under review. Further Rs. 70,878 had been paid during the years period to 2011 for the year 2008 and that amount had not been shown as creditors for the year under review.

- (e) The allowable input tax from the output tax for the year 2011 was Rs. 1,321,139 whereas that had been accounted as Rs. 1,319,378 by the Journal entry No. 39.
- (f) According to the preparation of output tax reports for the year under review ,the output tax was calculated as Rs. 1,851,921 and it was reflected in the accounts as Rs.1,855,579 making an under remittance of Rs. 3,658 to the Commissioner General of Inland Revenue.

### **1.3.2 Un-reconciled Control Accounts**

Balance as per the control account in relation to an account item was Rs. 8,752,049 and that balance was Rs. 8,863,542 as per the subsidiary register.

### **1.3.3 Lack of Evidence for Audit**

#### **(a) Unreplied Audit Quarries**

Replies had not been provided for 16 audit quarries by 30 June 2011 and the value of countable transactions of these audit quarries was Rs. 63,342,223.

#### **(b) Non -rendition of Information to Audit**

Due to non-rendition of information related to the 10 account item's the transactions valued at Rs. 265,019,817 could not be satisfactorily audit.

### **1.3.4 Non-compliance**

Following non-compliances to the Laws, Rules, Regulations and Management decisions were observed.

	<b>Reference to the Law, Rule, Regulation and Management decision</b>	<b>Non-compliance</b>
(a)	Circular No. 88/20 dated 20 April 1988 of the Commissioner of Local Authorities	Report on other income in arrears had not been prepared.
(b)	Section 09(i) of Schedule 02 of the Guidelines	Income received on

of the issuance of environment license of the environmental protection instruction guidelines related to the delegation fee and inspection activities and execution of authority in Local Government had not been accounted Institutions of No. 1533/16 dated 25 January under separate revenue 2008 issued by the Central Environment head. Authority.

### **1.3.5 Unsettled Accounts**

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Actions had not been taken to settle or account the fixed deposit interest and cheques dishonored amounted to Rs. 12,900 and Rs. 2,500 respectively that have been bringing forward in the bank reconciliation statements for more than 05 years and cheques dishonored amounted to Rs. 61,870 that is being bringing forward since year 2007.

## **2. Financial and Operating review**

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### **2.1 Financial Results**

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According to the Financial Statements presented for the year ended 31 December 2010, the income over recurrent expenditure was Rs. 32, 188,247 and as compared to that of the previous year income over recurrent expenditure was Rs. 48,341,830.

### **2.2 Income Administration**

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#### **2.2.1 Estimated Income, Actual Income and Arrears of Income**

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Even though I have requested and remind the Chairman on 08 March 2011 to provide information related to the estimated, actual and arrears of income, relevant information had not been provided by 31 December 2011.

#### **2.2.2 Leasing out the Trade Stalls at Seeduwa new Trading Complex**

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- (i) Only 30 trade stalls out of 59 installs at the Trade Complex had been given on lease by 31 December 2010. 29 trade stalls could not be leased out due to non-availability of lessees.
- (ii) As the two storied trading complex including 14 installs put up in addition to the main plan without facing to the main road, not single trade stall even had been tendered up to date. No feasibility study had been carried out before building the complex and no attention had been paid to tender and sell these stalls prior to the construction.

- (iii) Only Rs.79, 737 had been received as monthly rental including Rs. 34,387 received form 05 trade stalls rented out to C.W.C (Sathosa) compared to the total construction cost of this complex amounted to Rs. 42.5 million.

## 2.3 Expenditure Structure

The Budgeted expenditure, Actual expenditure and Variances of the Council for the year under review and for the previous year are shown below.

Expenditure Item	2010			2011		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
<b>Recurrent Expenditure</b>						
Personal	43,985	40,886	3,099	37,988	37,620	368
Emoluments						
Other	55,954	47,455	8,499	44,591	53,092	(8,501)
<b>Sub total</b>	<b>99,939</b>	<b>88,341</b>	<b>11,598</b>	<b>82,579</b>	<b>90,712</b>	<b>(8,133)</b>
<b>Capital Expenditure</b>						
	85,460	102,957	(17,497)	141,666	109,334	32,332
<b>Grand Total</b>	<b>185,399</b>	<b>191,298</b>	<b>(5,899)</b>	<b>224,245</b>	<b>200,046</b>	<b>24,199</b>

## 2.4 Human Resource Management

### 2.4.1 Approved and Actual Cadre

Even though I have requested and reminded on 08 March 2011 to provide information related to the approved and actual cadre as at 31 December 2010, those information had not been provided by 31 December 2011.

### 2.4.2 Recruitment of Project Staff

- (i) Eight vacancies of road and health labourers had not been filled. 107 labourers for other projects of had been recruited on 31 May 2010 with the approval of the Council and approval of the Commissioner of Local Government had not been obtained.
- (ii) Even though the wages amounting to Rs. 1,369,750 had been paid to the labourers recruited without approval as mentioned above by June 2010,

program for each project, objectives, file related to the expected activities, project report, post examination reports, progress report and procedures applicable to recruitment of employees had not been furnished to audit.

## **2.5 Operational Inefficiencies.**

### **(a) Stores Control**

- (i) As per the inventory register, Inventories had been issued in 12 instances without actual inventory balances in stores and stock shortages were noticed related to 03 items at the physical verification carried out on 02 February 2011.
- (ii) Both maintaining of the inventory register (Bin cards) and the inventory ledger had been done by the same Stoke Keeper without segregation of duties. Accordingly it was noticed that an adequate internal control methodology over store control had not been performed.
- (iii) According to the inventory register maintained, no any issues had been entered after 30 August 2010 and entering of Goods Received Note numbers, updating the records after the receipts and issues and making the movements by an authorized signature had not been done.
- (iv) Due to not using the inventory register as an inventory control tool in placing orders, an excess bulb stock of 140 was observed as at 02 February 2011.

### **(b) Laying of Water Pump Work**

- (i) The Procurement Committee had been comprised only with the members of the Urban Council and accepting and opening of bids had been done with the presence of themselves only.
- (ii) The Council was unable to provide any written evidence to prove the material received from the Ministry of Economic Development and also it was impossible to ascertain at the audit that whether those amounts had been included in the required estimate.

### **(c) Repairing of Tractor bearing the No 49-7632**

The above tractor which had been handed over to a garage for repairs without the approval of the Superintendent of Works had been returned to the council on 19 April 2011 without repairing after a period of more than 03 years and parked without any repair even by 24 November 2011.

**2.6 Internal Audit**

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Adequate internal audit had not been carried out by the Council.

**3. Systems and Controls**

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Special attention of the Council is paid for the following Systems and Controls.

- (a) Accounting
- (b) Income Administration
- (c) Internal Audit
- (d) Vehicle Control
- (e) Human Resources Management