

Maharagama Urban Council
Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 09 July 2012 and the financial statements for the preceding year had been presented on 06 July 2011. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 11 December 2012.

1.2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Maharagama Urban Council for the year ended 31 December 2011 presented for audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) Fixed assets valued at Rs.435,388 purchased during the year under review had not been capitalized.
- (b.) The Nissan Garbage Truck valued at Rs.2,400,000 (assessed value) received as donation from the Kawasathi Rotary Club of Japan in 2011 had not been capitalized and the initial expenditure of Rs.337,583 incurred on this behalf too had not been capitalized.
- (c.) The balance shown as Revenue Contribution to Outlay Account had exceeded the balance of fixed assets by Rs.5,534,481.
- (d.) The interest receivable on fixed deposits was Rs.2,729,217 as per letters of confirmation received from the bank. However, a sum of Rs.19,128,594 had been accounted for, as interest.
- (e.) The sum of Rs.79,050,816 receivable as stamp fees prior to 2011 had not been shown in the accounts.

1.3.2 Unreconciled Control Accounts

The balances of 19 items of accounts aggregated Rs.346,567,164 as per control accounts and the balances aggregated Rs.270,470,578 as per subsidiary registers.

1.3.3 Lack of Evidence for Audit

Transactions of 3 accounts aggregating Rs.95,637,088 could not be satisfactorily vouched in audit due to non-rendition of necessary information to audit.

1.3.4 Unsettled Accounts

Action had not been taken to settle the balances of Rs.7,057,279 relating to 05 items of accounts.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2011 was Rs.58,591,545 as compared with the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs.37,003,872.

2.2 Financial Control

2.2.1 Bank Accounts

(a.) The bank overdrafts amounted to Rs.76,614,080 as at 01 January 2011 as per cash book. A cash book had not been maintained for 2011 and as such the balances could not be traced. However, the accountant had furnished details showing the existence of overdraft balances of Rs.53,482,956 as at 31 December 2011 while the overdraft balances amounted to Rs.45,355,501 as per financial statements presented.

(b.) The bank reconciliation statements of a current account for the period January 2010 to December 2011 had not been prepared even as at 24 August 2012 in terms of the Financial Regulation 395(c) of the Republic of Sri Lanka.

- (c.) Action had not been taken in terms of Financial Regulation 396 of the Republic of Sri Lanka with regard to 20 cheques valued at Rs.100,029 remaining unrepresented to the bank within 06 months from the date of issue.
- (d.) Two cheques valued at Rs.16,162 and Rs.92,472 respectively deposited on 03 March and 01 November 2011 together with 07 money orders valued at Rs.18,425 had not been realized. However, follow up action had not been taken in this regard.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

- (a.) Information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review, as presented by the Chairman, is shown below.

<u>Item of Revenue</u>	<u>Estimated</u>	<u>Actual</u>	<u>Accumulated arrears as at 31 December</u>
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	Rs.'000	Rs.'000	Rs.'000
i. Rates and Taxes	81,700	79,262	90,277
ii. Lease Rent	6,410	8,925	3,699
iii. Licence Fees	1,099	979	1,587
iv. Other Revenue	117,352	123,923	134,499

- (b.) Rates and taxes for 2011 had been estimated less by Rs.1,600,000 compared with the year 2010.
- (c.) The actual revenue had not been taken into consideration while estimating the revenue from lease rent.

2.3.2 Notice Board Fees

A sum of Rs.939,122 had not been recovered on behalf of notice boards by 31 December 2011 in terms of provisions in Section 162(1)b of (Chapter 255) of the Urban Councils Ordinance.

2.3.3 Lease of Beef Stalls

Action had not been taken to recover the lease amount of Rs.1,842,023 recoverable from the meat stalls given on lease during the period 2002 to 2011.

2.4 Assets Management

2.4.1 Employees' Loans Recoverable

The balances of Employees' Loans Advances recoverable as at 31 December 2011 aggregated Rs.31,136,042. The balances of employees' loans recoverable for a long period aggregated Rs.372,721. Summarized information appears below.

<u>Details</u>	<u>No. of employees</u>	<u>Amount Receivable</u>
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		Rs.
Vacation of posts	56	146,377
Deaths	22	100,166
Retirements	03	99,187
Transfers	02	26,991
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	83	372,721
	=====	=====

2.4.2 Accounts Receivable

(a.) The balances of accounts receivable as at 31 December 2011 aggregated Rs.230,226,215 and an age analysis had not been prepared.

(b.) No dividend had been obtained from 2006 for the sum of Rs.5,505,190 invested in the share capital of Lanka Electricity Board (Private) Company.

2.5 Operating inefficiencies

The following observations are made.

(a.) No pay recoveries should be recovered during the month concerned or during the ensuing month as per provisions in the Treasury Circular No.810 dated 26 July

1971. However, the sum of Rs.708,095 receivable for the year 2011 had not been recovered even as at 24 August 2012.

- (b.) The sum of Rs.3,746,387 payable to the Urban Development Authority for the years 2010 and 2011 out of the revenue earned by the Sabha on behalf of approving plans and by removing unauthorized structures remained in the current account of the Council even as at 24 August 2012.

2.6 Internal Audit

- (a.) The activities of the internal audit had not been organized as per provisions in 133(1) and (2) of the Financial Regulations of the Republic of Sri Lanka.
- (b.) Copies of internal audit reports had not been furnished to the Auditor General.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Internal Audit
- (d.) Financial Control
- (e.) Stock Control
- (f.) Revenue Administration
- (g.) Assets Management
- (h.) Debtors' and Creditors' Control
- (i.) Human Resources Management