

Chilaw Urban Council

Puttalam District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 20 March 2013 and the financial statements for the preceding year had been presented on 30 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 28 August 2013.

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 Chilaw Urban Council had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my 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 Chilaw Urban Council as at 31 December 2012 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

- (a.) The value of the land and buildings owned by the Council had not been disclosed in the balance sheet.
- (b.) The sum of Rs.310,000 being the value of Ayurvedic drugs donated by the Ayurveda Department during the year under review had not been brought to accounts.

- (c.) According to the financial statements, stamp fees in arrears amounted to Rs.12,806,598 whereas according to the Register of Stamp fees it was Rs.35500,000 as at 31 December 2012. Therefore, stamp fees in arrears had been understated in the financial statements by Rs.22,693,402.
- (d.) Capital expenditure had been understated by Rs.26,188,574 being the payment made during the year under review for works completed in respect of the construction of Library and Health Centre Building

1.3.2 Unreconciled Control Accounts

The balance relating to 03 items of accounts as at end of the year under review as per financial statements amounted to Rs.10,925,746 and according to the subsidiary records the balance was Rs.3,766,795. As such an unreconciled difference of Rs.7,158,951 was revealed.

1.3.3 Lack of Evidence for Audit

Transactions totaling Rs.175,733,267 could not be satisfactorily vouched in audit due to non-submission of the required information to audit.

2. Financial and Operating 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 2012 amounted to Rs.20,060,148 as compared with the excess of revenue over recurrent expenditure amounting to Rs.15,930,863 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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

| Item of Revenue | Estimated | Actual | Cumulative Arrears as at 31 December |
|----------------------|-----------|---------|---|
| ----- | ----- | ----- | ----- |
| | Rs.'000 | Rs.'000 | Rs.'000 |
| (i.) Rates and Taxes | 11,610 | 8,470 | 17,591 |
| (ii.) Lease Rent | 19,440 | 29,093 | 3,527 |
| (iii.) Licence Fees | 1,410 | 1,261 | - |
| (iv.) Other Revenue | 8,303 | 1,594 | 12,830 |

2.2.2 **Rates and Taxes**

Rates and taxes in arrears for over 01 year amounted to Rs.12,634,832.

2.2.3 **Stamp Fees**

Stamp fees receivable as at 31 December 2012 from the Provincial Chief Secretary amounted to Rs.34,233,854.

2.2.4 **Other Revenue**

According to Section 164 of the Urban Council Ordinance, licence fees chargeable from a hotel, eating house or a lodge which is registered at the Ceylon Tourist Board is 1% of the turnover of the said hotel, eating house or the lodge for the preceding year. However, licence fees had not been charged as above during the year under review from 02 hotels within the area.

2.3 **Irregular Transactions**

The following observations are made.

- (a.) According to Section 7 of the Value Added Tax Act No.14 of 2002 and the letter dated 30 August 2002 of the Commissioner General of Inland Revenue, Value Added Tax should not be charged on receipt of loans from the Local Loans and Development Fund. However, a sum of Rs.5,037,498 had been computed and

paid to the Commissioner General of Inland Revenue as Value Added Tax on loans amounting to Rs.47,016,653 received from the Local Loans and Development Fund during the year 2009.

- (b.) According to the circular instructions; when granting pension and widows and orphans rights to an employee the Councils contribution to the Provident Fund in respect of that employee should be paid to the Department of Pensions in order to consider the period of service under the Provident Fund as a period of service eligible for pension rights. But without taking action accordingly, the Councils contribution to the Provident Fund amounting to Rs.755,110 had been credited to the Urban Council Fund during the year under review while granting pension rights to 03 employees of the Council served as casual and substitute employees.
- (c.) Although, widows and orphans contribution should be recovered from the employees contribution to the Provident Fund and paid to the Widows and Orphans Fund, it had not been done so and the full amount had been paid to the employees.

2.4 Contract Administration

An overpayment of Rs.2,140,652 had been made to the contractor on 10 July 2012 while making final payment for stage ii and iii of the Library and Health Centre constructed under the Local Government Infrastructure Development Project of the Chilaw Urban Council. Deposits refundable to the contractor had been retained more by Rs.1,172,102 in the deposits account.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Control over Contracts
- (d.) Assets Management
- (e.) Stores Control