

**Horana Urban Council**

**Kalutara District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 28 March 2013 and the financial statements for the preceding year had been presented on 10 April 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 13 November 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 Horana 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 Horana Urban Council as at 31 December 2012 and financial results of its operations for the year then ended.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

- (a) Rates and taxes amounting to Rs.226,990 received during the preceding year in respect of the year under review had been credited to the accumulated fund account, instead of accounting as revenue from rates for the year under review.
- (b) A sum of Rs.633,432 in respect of machines which had been planned to purchase during the year under review; but had treated not been purchased even by 01 July 2013 had been treated as expenses payable and also the assets had been capitalized.

- (c) Pension contributions amounting to Rs.3,690,744 relating to the preceding years which had been deducted from the salary reimbursements of the year under review had been debited to the expenditure creditors account of the current year; instead of being debited to the accumulated fund account. There was no provision of creditors for this in the preceding years and as such, the creditors balance as at end of the year under review had been understated by a similar amount.
- (d) A provision of Rs.990,132 only had been made for works debtors for the preceding year and a sum of Rs.12,140,936 had been received for the above during the year under review. This had been accounted under works debtors account (other revenue in arrears account) and therefore, the balance of the other revenue in arrears account as at end of the year under review had been understated by Rs.11,150,804.

### **1.3.2 Lack of Evidence for Audit**

Transactions totaling Rs.51,612,310 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 recurrent expenditure of the Council for the year ended 31 December 2012 amounted to Rs.11,730,375 as compared with the excess of revenue over recurrent expenditure amounting to Rs.24,109,922 for the preceding year.

### **2.2 Bank Accounts**

- (a) The Bank current account opened in the name of the Urban Development Authority and the Peoples Bank current account had been inoperative since year 2006 and since then a sum of Rs.99,885 and Rs.941,985 respectively available in that bank accounts had remained unutilized.

- (b) A savings account had been opened at the Colombo City Branch of the National Savings Bank on 31 December 1973 and it was not clarified to audit the purpose of opening this account and there was a balance of Rs.734,331 in the account as at 31 December 2012.

## **2.3 Revenue Administration**

### **2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue**

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

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.' 000	Rs.' 000	Rs.' 000
(i) Rates and Taxes	10,650	9,901	5,612
(ii) Lease Rent	10,492	9,389	2,534
(iii) Licence Fees	2,788	2,248	-
(iv) Other Revenue	13,439	13,435	59,867

### **2.3.2 Rates and Taxes**

The balance of rates and taxes in arrears as at 31 December 2012 amounted to Rs.4,146,119 and of this, only a sum of Rs.911,942 had been recovered as at 24 June 2013; the date of audit examination. There was a further balance of arrears amounting to Rs.3,234,176.

### **2.3.3 Business Tax and Industry Tax**

Action had not been taken even by the date of audit examination, to recover business tax amounting to Rs.28,200 relating to year 2011 and Rs.80,520 relating to year 2012 totaling Rs.111,720 due from 58 business locations and the balance of industry tax in arrears amounting to Rs.6,000 relating to the year 2011.

**2.3.4 Stall Rent**

Action had not been taken even by 30 May 2013 to recover the balance of stall rent amounting to Rs.426,930 due from 69 lessees since 1989 and stall rent in arrears amounting to Rs.763,287 relating to the period 2006 to 2012.

**2.3.5 Shop Rent**

Although the validity period of agreements relating to 04 shops had been expired prior to number of years, action had not been taken to renew those agreements even by 30 June 2013; the date of audit examination. The respective persons had continued the businesses of these shops.

**2.3.6 Rest House Charges**

Action had not been taken even by 30 June 2013 to recover revenue in arrears amounting to Rs.940,800 relating to the year 2012.

**2.3.7 Hording Charges**

The Council had identified hoardings by a survey carried out in year 2012 and the hoarding charges amounting to Rs.125,500 due from 23 institutions relating to the above had not been recovered even by 30 June 2013; the date of audit examination.

**2.3.8 Court Fines**

The Council had carried out 07 raids on 19 December 2012 and a sum of Rs.69,000 had been recovered in respect of the cases filed against the traders for selling food items within the limits of the Urban Council in a manner not agreeing with the provisions of the Food and Drugs Provisions Act No.26 of 1980. However, of this; the amount receivable to the Council had not been obtained even by 30 June 2013; the date of audit examination.

**2.4 Operating Inefficiencies**

A corporate plan for a period not less than 03 years had not been prepared to achieve the vision and the mission of the institution. Although the activities expected to be carried out during the year had been mentioned in the annual budget estimates, the financial value and the time periods of each activity had not been included. An annual procurement plan had not been prepared.

**2.5 Budgetary Control**

Favourable variances ranging 12 percent to 39 percent were observed in respect of 03 items of revenue and 01 item of expenditure and adverse variances within a range of 10 percent to 64 percent were observed in respect of 02 items of revenue and 04 items of expenditure. Accordingly, the budget had not been made use of as an effective instrument of management control.

**2.6 Internal Audit**

Action had not been taken to carry out an internal audit as instructed by Financial Regulations 128,132 and 134 and Circular No. WP/LGD/10/2008 dated 19 August 2008 of the Commissioner of Local Government.

**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) Budgeting