

Katunayake – Seeduwa Urban Council

Gampaha District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 26 June 2013 and the financial statements for the preceding year had been presented on 28 March 2012, The report of the Auditor General for the year under review was issued to the Chairman of the Council on 26 March 2014.

1.2 Opinion

In view of the comments and observations appearing in my report forwarded to the Chairman, I do not express an opinion on the financial statements of the Katunayake-Seeduwa Urban Council for the year ended 31 December 2012 presented to audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Policies

Although it had been stated that, all the income and expenditure have been accounted on accrual basis according to the accounting policies; revenue from interest on fixed deposits had been accounted on cash basis.

1.3.2 Accounting Deficiencies

The Following deficiencies were made.

(a) The capital expenditure account had not been debited in accounting for capital expenditure payable in respect of works-in-progress relating to the year under review, but, the creditors account had been credited.

(b) According to the relevant schedule, capital aid receivable amounted to Rs.7,016,331. However, a sum of Rs.15,475,261 had been debited to the relevant account as capital aid receivable through Journal Entry No.28 and the capital aid account had been credited as Rs.16,475,261.

- (c) According to the financial statements, the capital aid received during the year under review amounted to Rs.17,648,279 but according to the relevant schedule the amount was Rs.10,354,308.
- (d) Interest amounting to Rs.2,080,840 had been paid during the year under review in respect of loans obtained from the Local Loans and Development Fund for various projects. However, it had been debited to interest payable account instead of being debited to the interest account and therefore, there was a debit balance of Rs.1,072,129 in the loan interest payable account.
- (e) A sum of Rs.1,250,075 had been debited to the loans payable account for the Local Loans and Development Fund in respect of Rain Water Drainage Project and there had been no credit entry for the above transaction and the details also had not been mentioned. Loan instalment and interest amounting to Rs.318,098 payable during the year under review had been debited to the loan account and credited to the loan instalments and interest payable account and again a sum of Rs.150,075 had been debited to the Local Loans and Development Loan account.
- (f) According to the summary of the revenue register, the rates received during the year under review amounted to Rs.59,243,990 whereas according to the schedule submitted with the financial statements it was Rs.61,983,135.
- (g) According to the Journal Entry No.07 it had been stated that the discounts paid account is debited by Rs.3,606,893 as discounts paid for rates during the year under review and is credited to the rates in arrears account. However discounts paid had not been entered in the accounts by the said value.
- (h) Although revenue from stamps during the year under review amounted to Rs.7,130,995, it had been shown in the financial statements as Rs.16,846,759.
- (i) Revenue from stamps amounting to Rs.7,130,995 received during the year under review had been credited twice to the stamps revenue account and the stamps revenue receivable amounting to Rs.15,000,000 had been entered twice.
- (j) According to the sundry deposits ledger account deposits received amounted to Rs.13,206,902 and according to the category-wise collection account the receipts amounted to Rs.11,859,797. As such a sum of Rs.1,347,105 had been overstated.

- (k) Cash-in-hand as at end of the year under review amounted to Rs. 423,102 and it had been shown in the account as bank balance.

1.3.3 Lack of Evidence for Audit

(a) **Un-answered Audit Queries**

Replies to 10 audit queries had not been submitted by 30 May 2013; the date of audit examination. The value of quantifiable transactions relating to the audit queries amounted to Rs.6,798,538.

(b) **Non-submission of Information to Audit**

Transactions totaling Rs.271,085,752 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

1.3.4 Unreconciled Control Accounts

The total of the balances relating to 04 items of accounts shown in the financial statements amounted to Rs.98,018,704 and the total of the balances according to the relevant subsidiary registers and records amounted to Rs.85,851,869.

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.15,096,608 as compared with the excess of revenue over recurrent expenditure amounting to Rs.50,626,799 for the preceding year.

2.2 Financial Control

The following deficiencies in financial control were observed.

- (a) A loan of Rs.18,058,218 had been obtained from the Local Loans and Development Fund on 11 August 2009 for the Library Project. Although instalments should be paid with effect from 30 September 2011; none of the instalments had been paid.

- (b) The Council had not implemented a security procedure for bringing money from the bank to pay salaries and overtime.
- (c) According to Circular No.LGD/95/04 dated 09 March 1995 of the Commissioner of Local Government,, the approval of the Commissioner of Local Government should be obtained to encash the fixed deposits. However, an approval had not been obtained while encashing 06 fixed deposits valued at Rs.15,000,000.
- (d) According to Financial Regulation 139(10) of the Republic of Sri Lanka, when making payments by cheques, it should be ensure that the bank balance is adequate to settle all the payments. But, due to non-compliance with the above requirement there was a minus balance of Rs.1,892,056 in the cash book as at 31 December 2012.
- (e) Action had not been taken in terms of Financial Regulation 485(4) of the Republic of Sri Lanka to recover the loan amounting to Rs.96,778 due from 02 officers went on transfers.
- (f) Expenditure amounting to Rs.34,760,135 under 38 recurrent votes and expenditure of Rs.2,784,046 under 03 capital expenditure votes had been incurred in excess of the provisions as at 31 December of the year under review and approvals had not been obtained for the same.

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.

Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.' 000	Rs.' 000	Rs.' 000
(i) Rates and Taxes	55,701	58,595	71,081
(ii) Lease Rent	8,251	10,855	956
(iii) Licence Fees	2,066	2,791	852
(iv) Other Revenue	27,116	33,296	2,833

2.3.2 Court Fines and Stamp Fees

- (a) According to Paragraph 3.6 of the Circular No.L/P/3/2003 dated 15 February 2003 of the Commissioner of Local Government, court fines, stamp fees, aid from Provincial Councils, decentralized aid relating to a year cannot be forecast and therefore, such revenue should be taken in to revenue of the year of receipt. Nevertheless in contrary to this, revenue from stamp fees for the year 2012 had been estimated and accounted as Rs.15,000,000.
- (b) Action had not been taken to recover the stamp fees receivable from the Land Registry, Gampaha since 2007 and from Colombo Office since 2010.

2.3.3 Rates and Taxes

- (a) Action had not been taken in terms of 170 of the Urban Council Ordinance to recover rates in arrears amounting to Rs.71,081,495.
- (b) Rates amounting to Rs.140,337 had been exempted and written-off without the approval as per 160 and 161 of the Urban Council Ordinance.
- (c) It was observed that rates had not been revised in respect of lands for which conformity certificates obtained.

2.3.4 Other Revenue

According to the Circular No.88/20 dated 20 April 1988 of the Commissioner of Local Government on other revenue in arrears receivable; an age analysis statement should be prepared as per the format shown in the Circular at least once in 03 months and submitted to the Council in order to make aware the Council about the existing situation. But, action had not been taken accordingly in respect other revenue in arrears amounting to Rs.4,641,179.

Action had not been taken to recover gully disposal charges amounting to Rs.160,893 entertainment tax amounting to Rs.276,000 and waste tax amounting to Rs.1,937,887 receivable in respect of previous years.

2.3.5 Licence Fees

Action had not been taken to recover licence fees amounting to Rs.852,000 and entertainment tax amounting to Rs.1,937,886 receivable prior to pervious 02 years.

2.3.6 Lease Rent

The lease rent income and the other revenue of the year under review had been estimated less by Rs.03 million and Rs.09 million respectively as compared with the preceding year.

2.3.7 Stall Rent

- (a) The 02 storied Trade Complex consists of 14 stalls constructed in addition to the original plan of the Seeduwa New Trade Complex is not situated facing the main road and due to this it had failed to lease none of the stalls.
- (b) Action had not been taken to recover the fines amounting to Rs.3,889,982 in terms of Section 04 of the lease agreement from the 05 stalls given to the C.W.E.
- (c) The expenditure of Rs.597,196 incurred for the alterations made to the stalls of the LAK SATHOSA outlet on the request made by SATHOSA had been brought to account as a security deposit.

2.3.8 Licence Fees

Recovery of tax from hotels and lodges not registered at the Sri Lanka Tourism Promotion Authority had been published in the Gazette dated 31 January 2012. Although by-laws had been passed to recover revenue from lodges and hotels within this area which is an investment promotion zone as well as a huge urbanized area; action had not been taken to recover revenue.

2.3.9 Solid Waste Disposal Charges

Action had not been taken to recover revenue in terms of Solid Waste Management Rules No.01 of 2008 published in the Gazette No.1560/6 dated 30 July 2008.

- (a) Charges mentioned in Schedule I to cover the door-to-door waste collection expenses in terms of Rule 18(1) in addition to the rates and taxes paid to the Local Authority.
- (b) Charges based on the quantity of waste as mentioned in Schedule 03 in terms of Rule No.09.
- (c) Charges for collection of construction related debris in terms of Rule No.20.
- (d) Location fines in terms of Rule No.21.

2.4 Stock Control

The following observations are made.

- (a) Stocks issued had not been recorded in the stocks register.
- (b) Stocks had been purchased without taking into consideration the requirements and the balance stocks and as such stocks valued at Rs.86,351 and Rs.412,523 respectively had remained non-moving for 02 to 05 years.

2.5 Employees Loans Recoverable

Action had not been taken to recover the sum of Rs.55,314 due from 06 officers vacated the posts and deceased.

2.6 Prevention of Public Health Hazards

Action had not been taken to make provisions to up-grade and protect public health; to prevent sicknesses spread by mosquitos, and other public health issues and for other consequential issues as required by Precept of Prevention of Public Health Hazards No.03 of 2012 published in the Gazette No.1764/14 dated 27 June 2012.

2.7 Corporate Plan

The following criterion which should be followed in preparing a 04 years plan for achievement of the vision and the mission of the Council in terms of Paragraph 05 of the Treasury Circular No.PED/12 dated 02 June 2003 had not been taken into consideration.

- (i) Operating activities of the previous 05 years
- (ii) Activities to be carried out annually.
- (iii) Financial estimates.
- (iv) Targets for coming years in respect of certain sections.
- (v) Variety of annual targets during the 04 years period.

2.8 Internal Audit

An adequate internal audit had not been carried out within the institution.

3. Systems and Controls

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

- (a) Accounting
- (b) Internal Audit
- (c) Budgetary Control
- (b) Revenue Administration
- (c) Assets Management
- (d) Control over Vehicles