

Beruwala Urban Council

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 24 April 2014 while Financial Statements relating to the preceding year had been submitted on 28 March 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Council on 01 December 2014.

1.2 Opinion

Due to the importance matters appearing in paragraph 1.3 of this report, my opinion is that the financial statements have not been prepared in accordance with the Generally Accepted Accounting Principles so as to reflect a true and fair view of the financial position of the Beruwala Urban Council as at 31 December 2013 and its financial performance for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Although a Cash Flow Statement should be submitted with the financial statements in terms of Sri Lanka Public Sector Accounting Standard No.2, Cash Flow Statement had not been submitted for the year under review.

1.3.2 Accounting Policies

Accounting Policies followed by the Council in the preparation of financial statements had not been disclosed in financial statements.

1.3.3 Accounting Deficiencies

Following observations are made.

- (a.) Although four debit balances totalling Rs. 6,165,140 and two credit balances totalling Rs. 4,261,973 as at 31 December 2013 according to the ledger accounts had been taken to the trial balance, those balances had not been recorded in the Balance Sheet.
- (b.) The Balance Sheet submitted as at the end of the year under review had not been balanced in a sum of Rs.3,633,975.

- (c.) Although the difference of the totals of the current assets and the current liabilities was Rs. 26,593,379, it had been shown as Rs.25,471,756 in the Balance Sheet.
- (d.) Although the total of the Billed Revenue relating to 3 Items of Revenue according to ledger accounts was Rs.10,153,095, that value had been recorded as Rs. 10,078,522 in the Revenue and Expenditure Account. Due to that, revenue for the year had been understated in a sum of Rs. 74,573.
- (e.) Although a sum of Rs. 31,460,755 had been recorded in the Revenue and Expenditure Account without making adjustments to opening and closing balances in the ledger accounts of 5 Items of Revenue, the correct revenue had been Rs. 38,184,597 after making those adjustments , and therefore the revenue for the year under review had been understated in a sum of Rs. 6,723,842.
- (f.) Although a sum of Rs.3,940,125 had been recorded as Creditors for expenses payable at the end of the year under review, those balances had not been accounted in the relevant Expenditure Heads.
- (g.) A steel cabinet valued at Rs. 13,900 and a writing table valued at Rs. 8,000 purchased during the year under review had not been capitalized.
- (h.) Twenty one Items of Inventory Goods valued at Rs.204,695 purchased during the year under review had not been capitalized.
- (i.) Value of cab vehicle amounting to Rs.3,178,456 provided to the Council by the Commissioner of Local Government on 28 January 2013 had not been accounted.
- (j.) A sum of Rs.706,273 deducted in granting the salary reimbursements as loan installment of the cab vehicle had not been accounted as per instructions in the letter dated 20.08.2014 of the Western Province Commissioner of Local Government.
- (k.) A sum of Rs. 685,300 received as interest on fixed deposits during the year under review had not been accounted as Interest Income.
- (l.) Warrant Charges and Fines relevant to Rates amounting to Rs.226,501 for the year under review had not been recorded in the Revenue Account.
- (m.) Write-off of Rates amounting to Rs. 209,167 of the year under review had not been entered in the Expenditure Account.
- (n.) Although the Deposit of Rs. 350,910 kept in respect of the meat stalls had been accounted in the Revenue Account as meat Stalls Rent at the end of the year, relevant adjustment entry had not been included in the Deposits account.

- (o.) In accounting the loan of Rs. 8,540,000 obtained from the Local Loans and Development Fund for the purchase of a Road Roller during the year under review, it had been recorded twice as Loans and capital Grants.
- (p.) While the value of Rs. 10,675,000 of a Road Roller had already been capitalized, Council contribution of Rs.135,000 had been accounted again in the Contribution from Revenue to Capital Outlay Account.
- (q.) A sum of Rs. 5,254,074 received for 06 Project under Criteria Based Provincial Development Grants during the year under review had not been accounted as Capital Grants and the expenditure of those Projects amounting to Rs. 4,796,980 as Capital Expenditure.
- (r.) The sum of Rs. totalling Rs. 311,197 withheld from contractors in respect of 3 Criteria Based Provincial Projects had not been accounted as an amount payable in the financial statements for the year under review.
- (s.) Rent of official quarters amounting to Rs. 25,685 recovered from the salary, a sum of Rs. 449,060 recovered on account of no pay leave and over payments recovered amounting to Rs.18,000 had been shown as Salaries Creditors, instead adjusting to the Salaries Account
- (t.) The credit balance of Rs. that 9,740 in the Suspense Account shown in the final accounts for the preceding year had been written-off to the Accumulated Fund without being identified. According to the trial balance submitted at the end of the year under review, while the Suspense Account balance had been a debit balance of Rs. 80,351, it had been shown as a credit balance of Rs.35,588 in the balance Sheet.

1.3.4 Lack of Evidence for Audit

Transactions totalling Rs. 5,961,076 could not be satisfactorily vouched in audit due to non-submission of required Information.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs. 3,365,495 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 1,057,067.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
		Rs. '000	Rs. '000	Rs. '000
(i)	Rates and Taxes	4,076	1,883	8,902
(ii)	Lease Rent	10,153	11,458	1,432
(iii)	Licence Fees	258	259	-
(iv)	Other Revenue	-	10,953	-

2.2.2 Rates

While the balance of Rates in arrears relevant to the year 2013 and prior years as at 30 September 2014 was Rs.7,337,531, a balance of Rs. 1,692,857 in arrears outstanding to be recovered in respect of properties which had arrears more than Rs.10,000 were included therein.

2.2.3 Stalls Rent

While revenue in arrears relating to 11 fish stalls behind the Urban Market had been written off on 03 September 2013, those stalls had not been given on tenders again from September 2013 up to July 2014.

2.3 Improper Transactions

Although the prior approval of the Minister should be obtained according to Clause 159(f) of the Urban Councils Ordinance in the event of exceeding the expenditure to be incurred exceeds Rs. 5,000 in connection with any religious, charitable, cultural work per annum, a sum of Rs. 14,100 had been spent out of the Council Fund for the function, 'Sivedigin Harasara' held for the Common Wealth Governments Conference without obtaining such approval.

2.4 Operational and Management Inefficiencies

(a.) While advances amounting to Rs.213,790 granted during the period from the year 2008 to the year 2013 had not been settled up to 31 December 2013, there was an unsettled balance of advance amounting to Rs.104,244 brought forward from a period prior to the year 2008.

- (b.) Action had not been taken to recover loan balances totalling Rs. 148,009 outstanding from 92 offices who had vacated post or deceased or retired, even as at 31 October 2014.
- (c.) Action had not been taken to settle electrical stores balance of Rs.228,300 which is being brought forward over a period prior to the year 2006.

2.5 Purchase of a Land for Garbage Disposal

A land in the extent 100 perches situated in Beruwala, Halawala had been purchased having paid a sum of Rs.2,500,000 out of Council Fund for disposal of garbage and construction of a Garbage Recycling Centre. Following matters are observed in this connection.

- (a.) While a valuation report had been requested from the Valuation Department for the value of the land on 21 May 2013, a valuation report had been sent for Rs.500,000 at the rate of Rs.5,000 per perch on 05 August 2013.
- (b.) Valuation Department had been again informed on 22 August 2013 by the Secretary to the Council that the owners are willing to sell the land at the rate of Rs. 25,000 per perch and that the Council too unanimously resolved to buy the land as requested by the owners and therefore to take action to increase the valuation report having considered those matters.
- (c.) While approval of the Commissioner of Local Government (W.P.) had been requested by the Chairman on 20 September 2013 to buy the land, the Commissioner of Local Government, Western Province had informed that he cannot agree to buy the land for higher amount except for the amount of price decided through the Government valuation, while there is possibility to acquire the land under provisions available for acquisition of land for development activities of the Local Government Authorities.
- (d.) As per letter dated 18 September 2013 sent by the Chief Valuer, it had been informed that it is not necessary to amend the valuation.
- (e.) In spite of the facts that an amended valuation report had not been given by the Valuating Department and that the approval to buy the land for a price exceeding the assessed value had been refused by the Commissioner of Local Government, the relevant land had been bought by the Council for a sum of Rs.2,500,000.
- (f.) The Provincial Commissioner of Revenue had been informed on 16 January 2014 to provide a report on the market value of this land by the Chairman of the Council. A retired consulting engineer of the Council had been sent to discuss in this connection by the Chairman of the Council on 25 February 2014. The Consultant of the Council had made a note that he was informed at the discussion by the Provincial Commissioner of Revenue that the market value was Rs. 2,850,000, and therefore a further sum of Rs. 14,000 has to be paid as stamp fees in addition to value of stamp fees already paid and that amount had been paid to the Provincial Revenue Department accordingly.

- (g.) Accordingly, it was observed in audit, that a sum of Rs.2,014,000 had been over paid due to purchase of the land for Rs.2,500,000 disregarding the sum of Rs.500,000 stated as assessed value and additional payment of Rs.14,000 had been made as stamp fees.

2.6 Management of Solid Waste Material

While a systematic procedure had not been followed for disposal of garbage collected in the area of authority of the Council, garbage collected had been carried to a land and leveled by putting earth from time to time. Although a private entity had been selected on 23 January 2013 to obtain a chain loader on hiring basis on the basis of paying Rs. 2,000 per hour for leveling garbage having called for quotations, without obtaining the machine from that entity a sum of Rs. 264,000 had been spent for 4 turns of journeys having obtained the service from another individual. In addition to this, a sum of Rs.78,550 for making access road to the land for disposal of garbage by putting earth and a sum of Rs.69,300 for transport expenses other expenses Rs.54,725 had been spent as expenditure for leveling garbage. Accordingly, a sum of Rs.466,575 had been paid for levelling garbage during the year 2013.

2.7 Performance

Although provisions amounting to Rs. 10,778,645 had been approved for 22 Projects under Maga Neguma Project for the year 2013, at least one of those Projects had not been fulfilled.

3. Systems and Controls

Special attention of the Sabha is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Revenue Administration
- (iii.) Assets Management
- (iv.) Contracts administration
- (v.) Budgetary Control