

Embilipitiya Urban Council

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 March 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 Sabha on 24 November 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Embilipitiya Urban Council as at 31 December 2013, its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

A summary of important Accounting Policies followed in the preparation of accounts had not been submitted together with the Financial Statements, in accordance with paragraph 21 in Standards No.01 of the Public Sector Accounting Standards of Sri Lanka.

1.3.2 Accounting Deficiencies

Following lapses are observed.

- (a.) Instead of copying the capital value of Rs.6,919,643 of the motor vehicle purchased on lease hold basis to the relevant Asset Account, creditors Account, and Contribution from Revenue to Capital Outlay Account, loan value of Rs.7,750,000 including the suspense interest had been copied to those accounts due to erroneous accounting. Ledger Accounts for the Suspense Interest, relevant to this too had not been adjusted.
- (b.) All the accounts relevant to Revenue and Expenditure had not been maintained in the Ledger.
- (c.) Necessary adjustments had not been made through the yearend Financial Statements for Creditors amounting to Rs. 288,333, relevant to the year under review.

- (d.) Any adjustment had not been made in the Financial Statements for the loan installment of Rs. 1,047,441 payable relevant to the year under review, relating to the loan obtained from the Local Loans and Development Fund for the construction of Rain Water Drainage System.

1.3.3 Non-reconciled Control accounts

According to Control Account as at 31 December 2013, the total of balances relating to 06 Items of Accounts amounted to Rs.25,060,658. According to the subsidiary registers total of relevant balances had been Rs.27,915,796, indicating a difference of Rs.3,080,698. Action had not been taken to ascertain reasons for the difference and to make necessary adjustments in the Ledger Accounts.

1.3.4 Non-compliance with Laws, Rules, Regulations etc.

Following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Urban Councils Ordinance Chapter 255- Clause 127 (e)	Although the authority for removal of dangerous trees in the own area of authority is vested in the Council, Urban Council had failed to fulfill a number of requests referred to the Council, by the General Public, due to failure in engagement of labourers for this work.
(b) Financial Regulation of the Republic of Sri Lanka – 1992	

(i.) Financial regulation 371(2)	Advances totalling Rs. 1,151,914 paid over a number of years had not been settled.
(ii.) Financial regulation 571	Action in terms of the regulation referred to in had not been taken with regard to Deposits totalling Rs. 4,450,990 for the period relating to the years from 1999 to 2013.

(c) Establishments Code Paragraph 5.8 of Chapter XIX

Any payment had not been made for electricity and water consumed relating a period of 02 years and 08 months by the lady officer who was in occupation of official quarters belong to the Urban Council up to 22 May 2014, date of audit.

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. 12,744,440 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 4,165,585.

2.2 Analytical Financial Review

When compared with the preceding year, surplus for the year had been increased by 206 percent, due to higher pace of increase in revenue than the pace of increase in the expenditure.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs. '000	Rs. '000	Rs. '000
(i)	Rates and Taxes	14,732	5,220	23,465
(ii)	Lease Rent	950	1,240	-
(iii)	Licence Fees	350	402	-
(iv)	Other Revenue	14,900	19,535	2,792

2.3.2 Performance in Revenue Collection

When estimated revenue for the year under review is compared with the revenue collected, a decrease of 39, 105 and 59 percent is indicated in Rates and Taxes, License Fees and Warrant Charges and Fines respectively.

2.3.3 Rates

While a sum of Rs. 23,465,000 was due to be recovered as at 31 December 2013 as arrears of rates, there was a large percentage of dormant arrears over a long period, Although assistance of a retired officer had been obtained to recover those arrears, recovery of rates relating to the current year was not in a satisfactory level and arrears of 39 percent was observed relating to the amount to be recovered for the year under review.

2.3.4 Lease Rent

Following observations are made.

- (a.) An agreement or other written consent had not been made with regard to the leasing out or renting out the 60 stalls in the Pallegama Public Market belong to the Council. Revenue receivable to the Council as lease rent from these stalls of high value, situated in the center of the city had been lost to the Council over number of years.
- (b.) Action had not been taken to recover a sum of Rs. 839,316 in arrears relating to 30 temporary stalls situated in the Pallegama Bus Stand up to the date of audit. An unfavorable situation could be arisen in taking legal action against stall holders who have defaulted the payments of rent, due to lack of proper agreements for leasing out these stalls.

2.3.5 Other Revenue

Following observations are made.

- (a.) The Urban Council had resolved on 25 August 2010, to implement the Local Government (Standard By-laws) Act with in the area of authority of the Embilipitiya Urban council with effect from 31 December 2010. Although charges should be recovered accordingly in respect of publicity advertisements and banners displayed in the area of authority of the Urban Council, it was observed in the field examination carried out with the Revenue Office of the Urban Council on 27 May 2014, that a number of advertisement boards had been displayed without making payments to the Council. The loss of revenue to the Council relevant to those was Rs. 222,275 approximately.
- (b.) Although Three Wheeler Parks were seen to a large extent within the area of authority of the Council, the Council had not introduce a scheme to derive a monthly or annual income by imposing by-laws after providing facilities.

2.3.6 Court Fines and Stamp Fees

Following observations are made.

- (a.) Court Fines amounting to Rs. 1,433,597 receivable through the Embilipitiya District Court and the Magistrate Court from April 2013 on wards was in arrears up to the date of audit.

(b.) While Stamp Fees amounting to Rs. 92,800 receivable for the period from November 2012 to March 2013 remained in arrears even up to the date of audit, action had not been taken at least to identify the amount of Stamp Fees receivable after 31 March 2013 onwards.

2.3.7 Although standard charges according to the schedule V in the Extra Ordinary Gazette dated 17 April 2009 of the Republic of Sri Lanka should be recovered for the Telecommunication Towers; any such recovery had not been made by the Urban Council.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

(a.) According to the section 165 (c) (1) of the Urban Councils Ordinances, a tax equal to 1 percent of the sale proceeds should be paid to the Council by the auctioneer, in auctioning a land situated within the area of authority of the Council, 1 percent of the estimated sales price expected had been paid to the Council, instead of paying 1 percent of the sales proceeds received in the sale of land in the area of authority of the Council.

(b.) Rural Roads located in the area had not been identified and vested through a Gazette Notification. An Inventory of Roads too had not been maintained.

3.2 Transactions of Contemptuous Nature

Following matters were observed.

While a sum of Rs. 210,000 at the rate of Rs. 35,000 per head had been paid as an advance to a private institution for participation in a workshop to be held in Thailand from 14 to 18 July 2013, relevant foreign tour had not been taken place. Action too had not been taken to get back the sum of Rs. 210,000.

3.3 Contract Administration

Following observations are made.

(a.) An agreement for a sum of Rs. 469,932 had been entered into with an Agrarian Society in 26 July 2013 for the construction of culverts in the main road from Right Bank Canal, Newtown up to the Bridge in the Newtown based on an estimate of Rs. 469,931, under the provisions of the Urban Council. An advance of Rs. 90,000 had been paid to the contractor on 29 July 2013. Although a period of 07 months had elapsed as at 22 May 2014, date of audit, after entering into the agreement, this work had not been completed. At the physical inspection carried out, it was revealed that the Hume Pipes of the culvert No. 01 and 02 had been placed at a level lower than the water flow and at times when the

water level of the canal is rising up, water flow into the private land causing damages to the existence of the road constructions.

- (b.) An agreement had been entered into with an Agrarian Society for development of the road Stage II by spreading gravel from Right Bank Canal, Newtown up to the Bridge in the Newtown based on an estimate of Rs. 981,418 and an advance of Rs. 190,000 had been paid on 29 July 2013, under the provisions of the Urban Council. Although a period of 07 months had elapsed as at 22 May 2014, date of audit, construction works were in the initial stage. Although it had been estimated to develop this road by spreading gravel to the extent of 510 meters, parts to be brought to a higher level by earth filling had not been estimated.
- (c.) An agreement had been entered into with the Hingura Arrayaya Agrarian Society on 22 January 2013 for development of the Darsanagama Wewa Road by spreading gravel, based on an estimate of Rs. 966,894. A sum of 773,641 had been paid to the contractor on 10 March 2014 on bills submitted after deduction of retention money and agreement security money based on the recommendations by the Technical Officers, that this work has been satisfactorily completed in terms of the agreement referred to above. According to the matters revealed at the audit inspection carried out on 27 May 2014, the length of the road was 1300 meters, although payment had been made Rs 966,642 for development of 1400 meters of the road. Accordingly a sum of Rs.69,046 had been paid for work not performed in 100 meters of the road. The Road had not been developed having cut the drains properly and to an adequate width, from 500 meters boundary away from the commencement of the road to 700 meters boundary (Tank boundary) to the extent of 200 meters and from 800 meters boundary to 1000 meters boundary (near the cause way) to the extent of another 200 meters, totalling 400 meters. Due to that, the entire gravel laid had been washed away and the road had been damaged. Accordingly, payment of Rs. 276,183 for development of 400 meters of the road was not agreeable to the audit. In spite of this situation, retention money had been released on the basis of recommendations made by the Provincial Engineer and the Technical Officer without carrying out any inspection.

4. Accountability and Good Governance

4.1 Budgetary Control

Following observations are made.

- (a.) Provisions amounting to Rs. 20,881,448 made available under 53 Items of Expenditure had not been utilized for any work and the entire provision had been saved.
- (b.) The entire provision of Rs. 541,000 relating to 07 Items of Expenditure had been transferred to other items of expenditure.

- (c.) Out of the provisions relevant to 17 Items of Expenditure, provisions in a range from 48 percent to 96 percent had been transferred to other Items of Expenditure.

5. Systems and Controls

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

- (i.) Accounting
- (ii.) Budgetary control
- (iii.) Revenue Administration
- (iv.) Contract Control