

Gampola Urban Council

Kandy District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 19 March 2014 and the financial statements for the preceding year had been presented on 28 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 09 December 2014.

1.2. Opinion

In view of the significant matters pointed out in paragraphs 1.3 of this report, I was unable to obtain appropriate and sufficient audit evidence, to provide a basis for audit opinion. Therefore I do not express an opinion on these financial statements.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The value of 154 lands and 201 buildings owned by the Council had not been brought to account.
- (b) Though a sum of Rs.35,000 paid to the Ceylon Electricity Board, to obtain electricity connections to 02 multipurpose buildings in Singhapitiya and Keerapane, should be brought to account as capital expenditure, the value had been debited to the item of expenditure 34453, as a recurrent expenditure.
- (c) The discount of Rs.26,579 received at the purchase of library books in the year under review, had not been brought to account.
- (d) Though a balance actually did not exist in the current account number 535 at Peoples Bank, an overdraft amounting to Rs.9,500 had been shown in the account.
- (e) The salary reimbursements amounting to Rs.49,882,781 received in the year under review, had been shown under administrative and staff services, without being apportioned to the respective revenue heads.

- (f) The house rent deposits amounting to Rs.21,782 deposited by residents in the year under review, in accordance with the House Rent Act No. 07 of 1972, had not been brought to account as an income.
- (g) The balance in the current account number 2499454 in Bank of Ceylon, was Rs.22,721, and this had been shown in the financial statements as Rs.69,938, overstating the amount by Rs.47,217.

1.3.2. Un-reconciled Control Accounts

The balance according to the employees loans control account as at 31 December of the year under review was Rs.13,055,917, whilst the balance according to the schedule had been Rs.10,457,680. Therefore a difference of Rs.2,598,237 was observed.

1.3.3. Accounts Receivable and Payable

a) Accounts Receivable

The total value of balances of accounts receivable as at 31 December 2013 amounted to Rs.35,282,851 and out of this, total accounts balances exceeding 1 year, was Rs.18,802,406.

b) Accounts Payable

The total balances of accounts payable as at 31 December 2013 amounted to Rs.23,713,003 and out of this, the value of total accounts balances over one year amounted to Rs.13,916,755.

1.3.4. Lack of Evidence for Audit

Transactions totalling to Rs.44,782,262 could not be examined satisfactorily, due to non-submission of required information to audit.

2. Financial 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 2013 amounted to Rs.19,207,536, as compared with the excess of revenue over recurrent expenditure amounting Rs.15,822,895 for the preceding year. Therefore the financial result had been improved by Rs.3,384,644.

2.2. Analytical Financial Review

Though a sum of Rs.49,909,360 had been received as salary reimbursement for the year under review, Rs.64,851,413 had been paid as salaries and allowances. Therefore it is observed that a sum of Rs.14,942,053 spend from the income of the Council, to pay the salaries to the employees. This amount is 23% of the recurrent revenue of the Council, excluding the salary reimbursement.

2.3. Working Capital Management

The ratio between total current assets and current liabilities was 4:1, whilst the ratio in the preceding year was 3.9:1. Further, 87% of the total current assets amounting to Rs.117 million had been the utility services and revenue debtors recoverable, whilst 70.8% of the total current liabilities amounting to Rs.24 million represent expenditure creditors.

2.4. Revenue Administration

a) Rates and Taxes

The balance of arrears at the beginning of the year under review amounted to Rs.29,121,425 and the amount billed for the year was Rs.31,298,641. Since the percentage of collection during the year was 50.8%, the balance of arrears as at 31 December 2013 amounted to Rs.35,703,700, whilst Rs.25,460 was further due as at 31 July 2014.

b) Lease Rent

The balance of arrears as at 31 December 2013 amounted to Rs.1,628,401 and Rs.168,636 was further due as at 31 July 2014.

c) Court Fines

The court fines receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013 was Rs.379,415, and Rs.50,000 was further receivable as at 17 September 2014

3. Operating Review

3.1. Management Inefficiencies

According to the F.R. 316-319 of Financial Regulations of the Republic of Sri Lanka, the custody of counterfoil books and record keeping, with money equal value, should be kept in the custody of an officer of staff grade. But the custody of sub registries had been entrusted to a woman labourer in the Income Department. The number of books held as at the date of audit examination, carried out on 19 December 2013, was 3057.

3.2. Operating Inefficiencies

The advances provided in the year 2011 and year 2012 amounted to Rs.35,000 and Rs.100,000 respectively, and these advances totalling Rs.135,000 had not been settled even as at 31 December in the year under review.

3.3. Solid Waste Management

A Backhoe Loader had been hired incurring an expenditure of Rs.1,399,657 during the year under review to bury daily waste collection and cover them with soil, instead of implementing a solid waste management programme. Accordingly, action had not been taken to purchase a Backhoe Loader, whilst a sum of Rs.1,399,657 had been spent from Council funds during the year 2013 to hire Backhoe Loaders from external organizations, for waste management and other works.

3.4. Environmental Issues

The Gazette Extra Ordinary Notification No. 1533/16 dated 25 January 2008, issued in accordance with the National Environmental Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and 53 of 2000, and the regulations promulgated under the Act, stipulates the necessity of obtaining environmental licences for the listed projects. During the sample check carried out, 14 instances of businesses operating without obtaining environmental licences, contravening the regulations were observed. Therefore the Council had been deprived of Rs.270,000.

4. Accountability and Good Governance

4.1. Corporate Plan

A corporate plan had not been prepared by the Council in the year under review.

4.2. Procurement Plan

Though capital expenditure of Rs.112 million had been incurred by the Council, a procurement plan had not been prepared in the year under review.

4.3. Action Plan

An action plan had not been prepared by the Council in the year under review.

4.4. Audit and Management Committees

Audit and Management Committees had not been established by the Council during the year under review.

4.5. Internal Audit

Adequate internal audit had not been carried by the Council during the year under review.

4.6. Budgetary Control

(a) When the estimated revenue and expenditure in the budget prepared for the year under review were compared with the actual revenue and expenditure, variances in the range of, 03% to 92% in respect of 07 items of revenue, and variances in the range of 27% to 86% in respect of 08 items of expenditure were observed. Therefore it was observed that the budget had not been made use of as an effective tool of control.

(b) The budgeted revenue in 04 revenue heads amounting to Rs.176,343,698 had not been earned.

5. Systems and Controls

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

- a) Budgetary Control
- b) Revenue Administration
- c) Assets Management