

Weligama Urban Council
Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 31 May 2014 and the financial statements for the preceding year had been presented on 06 June 2013 and the Report of the Auditor General for the year under review was furnished to the Chairman of the Council on 23 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Weligama Urban Council as at 31 December 2013 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

- (a) According to Circular No. PED/54 of 19 January 2010 of the Director General of Public Enterprises, the Local Authorities should prepare financial statements in accordance with the Sri Lanka Public Sector Accounting Standards from 01 January 2011. Nevertheless, those Standards had not been followed.
- (b) The cash flow statement had not been presented along with the financial statements of the year under review.

1.3.2 Accounting Deficiencies

The following deficiencies are observed.

- (a) The value of the 4 wheel Taffe tractor bearing No. WPRD 4473 at the value of Rs. 1,463,200 received as donations on 06 June 2013 from the Ministry of Local Government and Provincial Councils had not been brought to account.
- (b) The value of the Fixed Assets Account was Rs. 33,161,493 and as the value of the Contributed Capital Input Income Account amounted to Rs. 33,546,620 thus resulting in a difference of Rs. 385,127.

- (c) (i) The closing stock as at the end of the year under review amounting to Rs.1,539,175 had been shown in the financial statements under the general stores without being classified.
- (ii) The value of the closing stock of drugs amounting to Rs.31,950 at the end of the year under review had not been shown in the financial statements.
- (d) Even though the Library Books Account should be debited and the Contributed Capital Input Income Account should be credited to rectify the error of understating the value of library books by Rs. 26,200 in the preceding year, the Contributed Capital Input Income Account had been debited and the Library Books Account had been credited through Journal Entry No.1. As such, the said error had not been rectified and the difference between those accounts had been double counted by Rs. 52,400.
- (e) Entertainment Tax amounting to Rs. 128,548 for the year 2012 had been received in the year under review and that receipt had been debited to the Excess and Deficit Account and credited to the Entertainment Account through Journal Entry No.94 instead of debiting the cash book and crediting the Income Debtors Account.
- (f) Even though 101 Journal entries were available with the financial statements of the preceding year, there were 109 journal entries in the Main Ledger and the value of transactions not entered in 08 Journal entries was Rs. 1,248,668 and that error had not been rectified in the year under review.
- (g) The value of billings amounting to Rs. 1,493,272 in the Stall Rent Account had been credited to the Tender Lease Rent Account through Journal Entry No.66 instead of crediting to the Stall Rent Income Account and the Tender Lease Rent Account had been credited again through Journal Entry No. 136 in rectifying the error.
- (h) Pension contributions amounting to Rs. 77,261,152 payable as at the end of the year under review had not been shown in the financial statements.
- (i) Provisions for creditors had not been made for audit fees amounting to Rs. 981,295 payable for the years 2011 and 2012.

1.3.3 Unreconciled Control Accounts

The following matters are observed.

- (a) According to the financial statements relating to 08 items of accounts, the balances totalled Rs. 10,899,604 and according to the supporting documents and the information presented, the balances of accounts totalled Rs. 7,997,947 and as such, the difference was Rs. 2,901,657.
- (b) According to the financial statements relating to 07 items of revenue, the balances totalled Rs. 9,301,493 and according to the Schedule relating to those items, the value was Rs. 9,197,215 and as such, the difference was Rs. 104,278.

1.3.4 Accounts Receivable and Payable

The following matters are observed.

- (a) The total of the balances of accounts receivable for over a period of 01 year as at 31 December 2013 amounted to Rs. 5,743,425.
- (b) The total of the balances of accounts payable for over a period of 01 year as at 31 December 2013 amounted to Rs. 81,081,150.

1.3.5 Unsettled Accounts

- (a) According to the financial statements presented by the Sabha as at 31 December 2013, action had not been taken to settle 12 account balances at the value of Rs. 11,591,157.
- (b) The common supply creditors in the year under review amounted to Rs. 1,778,698 and no action had been taken to settle the stores creditors balances amounting to Rs. 456,567 brought forward for over 07 preceding years.
- (c) According to the financial statements of the Sabha in the year under review, Income Debtors receivable amounted to Rs. 71,569,257 and action had not been taken to recover the debtors balances amounting to Rs. 50,868,411 included in this value brought forward for over 07 preceding years.

1.3.6 Lack of Evidence for Audit

Evidence relevant to 09 items of accounts valued at Rs. 148,974,556 had not been made available to audit.

1.3.7 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with following laws, rules and regulations etc. were observed in audit. Details are shown below.

Reference to Laws, Rules and Regulations

Non-compliance

 (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 387

 Even though an overdraft could not be maintained in the bank accounts in terms of referred Financial Regulations, according to the cash book, overdrafts at a value of Rs. 11,223,103 was being maintained in 03 bank accounts and interest on overdrafts amounting to Rs. 393,867 had been paid for the years 2012 and 2013.

(ii) Financial Regulation 507

Even though fixed assets should be physically verified and statement on their existence should be presented to the Auditor General as at the closing date of the year for the value of the stock in hand to be included in the accounts annually, it had not been so done.

(b) Treasury Circular No. IAI 2002/02 f 28 November 2002

A Register on Fixed Assets, accessories and software relevant to computers had not been maintained.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the excess of recurrent expenditure over revenue for the year ended 31 December 2013 amounted to Rs.319,552 as compared with the excess of revenue over the recurrent expenditure amounting to Rs.8,799,151 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information on the estimated revenue and the arrears of revenue relating to the year under review presented by the Chairman is given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
-----	-----	-----	-----
	Rs. 000	Rs. 000	Rs. 000
Rates and Taxes	7,800	7,416	4,845
Rents	12,317	7,417	1,371
Licence Fees	803	904	336
Other Revenue	46,702	36,048	89,212

2.2.2 Performance on Collection of Revenue

Details are given below.

Item of Revenue	Outstanding balance as at 01 January 2013	Amount billed for 2013	Charges for 2013		Balance as at 31 December 2013	
-----	-----	-----	-----	-----	-----	-----
			Receipts on billing in 2013	Charges from outstanding amounts in 2012 and before	outstanding Amount relevant to 2013	2012 and preceding years
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Rates and Taxes	5,103	5,906	3,503	2,659	2,402	2,443
Tender	} 60	2,457	2,347	60	109	-
Lease Rents						
Stall Rents	903	1,553	1,085	-	468	903

2.2.3 Rates

The opening arrears of rates of the year under review amounted to Rs. 5,103 124 and by 31 December of the year 2013, the amount recovered had been Rs. 2,659,619 and as such, the amount recovered from arrears was only 52 per cent.

The billing value of rates relevant to the year 2013 was Rs. 5,906,332 and the charges for the year 2013 amounted to Rs. 3,503,892. As such, only 59 per cent was recovered from billing of rates in the year under review.

2.2.4 Lease Rents

The value of lease rent billing for the year 2013 was Rs. 2,457,377 and the amount recovered relevant to the year was Rs. 109,408 . As such, the percentage of recoveries in the year was only 4 per cent.

2.2.5 Stall Rents

The value of stall rents and billing in the year under review amounted to Rs. 1,553,722 and the recoveries in the year amounted to Rs. 1,085,024. As such, the percentage of recovery was approximately 69 per cent. No amount whatsoever had been recovered in the year 2013 out of the opening arrears of Rs. 903,038 in the year.

2.2.6 Advertising Fees

A sum of Rs. 52,620 had been recovered from 8 advertisements for the year under review and a sum of Rs. 800,175 observed by Query No.එස්එන්/එම්ආර්/බී/වැලි.න.ස./වී./2012/01 (11) of 12 July 2012 had not been recovered.

2.2.7 Court Fines and Stamp Fees

Moneys receivable as at 31 December 2013 from the Chief Secretary of Provincial Council and the other authorities are given below.

Rs.

(i) Court Fines	164,069
(ii) Stamp Fees	7,781,611

3. Operating Review

3.1 Staff Administration

(a) Particulars of the cadre of the Council as at 31 December 2013 are as follows.

<u>Category of Employees</u>	<u>Approved</u>	<u>Actual</u>	<u>Excess</u>
Executive	05	05	
Secondary	32	32	
Primary	91	92	01
Casual/Temporary/Contract basis	10	25	15
	----	----	----
	138	154	16
	====	====	====

- (b) According to the Income and Expenditure Account of the year under review, the expenditure on the salaries of staff and the Members' allowances amounted to Rs. 33,391,216. However, the Commissioner of Local Government had reimbursed only a sum of Rs. 31,393,729. As such, there was a difference of Rs. 1,997,487.
- (c) Even though the recruitment of employees in Local Authorities on casual, substitute and contract basis had been suspended by Management Services Circular Nos. 14 and 28 of the Secretary to the Treasury of 03 January 2002 and 10 April 2006 respectively, 25 employees had been recruited contrary to the said provisions and paid a sum of Rs. 2,017,613 as salaries from the Sabha Fund in the year under review.

3.2 Management Inefficiencies

- (a) Audit fees payable from 1997 to 2010 amounting to Rs. 3,433,089 had not been paid even by 09 April 2014.
- (b) Even though the number of street lamps maintained in the area of authority was 840, a survey had not been carried out on the number of street lamps maintained and the actual number identified. Moreover, agreements had been signed with the Ceylon Electricity Board for the years 2012 and 2013. Nevertheless, a sum of Rs. 136,616 requested in the year 2012 and a sum of Rs. 98,676 relating to the year 2013 had not been reimbursed.

4. Accountability and Good Governance

4.1 Budgetary Control

According to the Budget presented for the year under review, significant variances were observed between the budgeted income and expenditure and as such, it was not observed that the budget of the Sabha had been made use of as an effective instrument of financial control.

4.2 Unresolved Audit Queries

The matters observed in 4 audit queries issued to the Sabha in the year 2013 had not been mediated even up to 05 June 2014.

5. Systems and Controls

Special Attention of the Sabha is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management