

Eravur Urban Council

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 19 June 2015 while Financial Statements relating to the preceding year had been submitted on 21 April 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Council on 19 August 2015.

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 Eravur Urban Council as at 31 December 2014 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Public Sector Accounting Standards of Sri Lanka

Although the Cash Flow Statements had been submitted with the Financial Statements, those had not been prepared in accordance with the Public Sector Accounting Standard No. 2.

1.3.2 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a) Provision for Audit Fees Payable for the year under review amounting to Rs. 36,000 had not been made in the accounts.

- (b) A stock of 1400 Books in the Public Library belong to the Sabha had been completely destroyed due to floods during the year 2010. Value of assets had been overstated in the financial statements as action had not been taken to remove those from the books of accounts.

1.3.3 Accounts Receivable and Payable

Following observations are made.

- (a) Although loan balances totaling Rs. 181,871 due to be recovered from two deceased officers had been in arrears since the year 2010, action had not been taken to recover those from the death gratuities or from the guarantors.
- (b) While Advances amounting to Rs. 3,008,425 granted for various needs had not been settled during a period of 15 years, it had been continuously shown in the financial statements without action being taken to recover or to write-off from the books.

1.3.4 Lack of Evidence for Audit

Evidence indicated against each of following items of accounts were not furnished to audit.

Item	Value	Evidence not furnished
	Rs.	
Lands and buildings	85,687,786	Deeds of Lands
Machinery and Equipment	4,107,929	Board of Survey Reports
Furniture and Fittings	2,999,175	
Computers	525,800	

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

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

Reference to Laws, Rules and Regulations	Non-compliance
Urban Council Ordinance (Chapter 255)	
I Section 177(2)	Action had not been taken by the Sabha to publish a summary of financial statements for the year 2013 in the Government Gazette up to 31 December 2014.
II Section 180(I)	The Chairman should prepare a detailed management report at the end of the each financial year relevant to that financial year. However, such a report had not been prepared during the year under review.

2. Financial Review

2.1 Financial Results

While according to the Financial Statements presented, financial result for the year under review had been an excess of revenue over recurrent expenditure amounting to Rs.402,649, as compared with the excess of revenue over recurrent expenditure for the preceding year had been Rs. 2,881,587 indicating a decline in a sum of Rs. 3,284,236 in the financial results.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

According to Information furnished by the Council, material variances were observed between the estimated revenue and the actual revenue as show below.

Item of Revenue	Estimated	Recovered	Difference	Percentage
	Rs.	Rs.	Rs.	
	000	000	000	
Rates and Taxes	2,243	1,899	344	15
Lease Rent	1,500	1,295	104	13
Taxes	500	230	270	53

2.2.2 Rates and Taxes

Rates recoverable in terms of Section 160 of the Urban Councils Ordinance (Chapter250) totaling Rs. 9,550,217 relevant to lands, and buildings constructed in the area of authority of the Council for the period from the year 2010 to the end of the year 2014 had not been recovered.

2.2.3 Public Fare taxes

Action had not been taken up to the end of the year under review to recover the sum of Rs.3,781,815 in arrears due from lessees in 40 stalls located in the Public Fare since the year 2008.

2.2.4 Annual License Fees and Lease Rent of Meat Stalls

Licenses had been issued to three individuals continuously for 5 years who had failed to pay the entire License Fees for Meat Stalls during the year itself and settle. Accordingly, the amount outstanding for the years from 2010 to 2014 had been Rs. Rs. 540,315.

2.2.5 Cinema Hall Taxes

Action had not been taken to recover Entertainment Tax amounting to Rs. 860,961 due from a Cinema Hall since the year 2010.

3. Operating Review

3.1 Management Weaknesses

Following observations are made.

- (a) Although the reimbursement limit of the bungalow telephone charges of the Vice Chairman is Rs. 3,000 the sum of Rs. 12,466 overpaid during the year 2012 and the sum of Rs. 8,307 overpaid during the year under review too had not been recovered.
- (b) Although Pension Contributions of the employees amounting to Rs. 2,777,757 for the period from the year 1995 to up to the end of the year under review was payable by the Council, action had not been taken to settle that amount.
- (c) Electricity supply had been made to General Public on behalf of the Ceylon Electricity Board during the year 1987 by the Urban Council functioned before establishment of the Pradeshiya Sabha. However, action had not been taken since the year 1988 up to the date of this report to recover Electricity Charges amounting to Rs. 786,122 due from the consumers for the supply of electricity.
- (d) Although a loss amounting to Rs. 29,300 had occurred to the Council due to the accident took place to the tractor belongs to the Council, action in terms of F.R. 102 and 104 had not been taken in that connection.
- (e) Contributions amounting to Rs. 384,449 recovered in terms of Employees Provident Fund as amended by Act No. 08 of 1971 and Employees Trust Fund Act No.46 of 1980, from 32 employees recruited on temporary and contract basis had not been remitted to the relevant institutions up to the date of this report.

- (f) Acton had not been taken up to the end of the year under review to recover the sum of Rs. 150,510 being arrears of Lease Rent of the Women's Fair for the period from the year 2007 to 2013.

3.2 Transactions of Contentious Nature

A sum of Rs. 22,000 had been spent out of the Council Fund for publication of a message of greetings in the newspaper on the occasion of the 69th Birth Day of the Ex-Chairman.

3.3 Human Resources Management

The Council had recruited 40 office employees on daily pay basis during the year under review. Following matters were observed.

- (i) These appointments had been made without following the clause 8.4 of the scheme of recruitment.
- (ii) Although the appointing authority according to paragraph 03 in the scheme of recruitment is the Secretary to the Ministry of Local Government (Eastern Province), these appointments had been made by the Secretary to the Sabha, while a sum of Rs.7.833 million had been paid as salaries up to 31 December 2014.
- (iii) While there had been only 08 vacancies of office employees as at 31 December 2014, 40 persons had been recruited for those posts.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the Budget had not been made use of as an effective tool of management as variations in a range from 58% to 95% were observed between expenditure and revenue.

5 Systems and Controls

Special attention is needed in the following areas of controls.

- (a) Accounting
- (b) Contracts Control
- (c) Fixed Assets Control
- (d) Revenue Administration
- (e) Budgetary Control.