

Boralesgamuwa Urban Council
Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 20 June 2016 and the financial statements for the preceding year had been presented on 31 March 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 04 July 2016.

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 Boralesgamuwa Urban Council as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following deficiencies were observed.

- (a) The revenue from stamp fees amounting to Rs.5,000,000 received in addition to the budgeted revenue from stamp fees of the year 2012 had been brought to account as a revenue of the year under review, thus the revenue from stamp fees of the year 2015 had been overstated by the similar amount.
- (b) The value of installments amounting to Rs.2,825,091 paid as at 31 December 2015 in respect of the Cab motor vehicle valued at Rs.3,178,457 which had been given to the Council by the Department of Local Government in the year 2013 had not been capitalized. As such, the balances of Motor Vehicle Account and the Contributed Capital Input Account had been understated by the similar amount.
- (c) Even though a sum of Rs.353,136 being the value of 04 installments due to be paid in respect of that Cab motor vehicle should be credited to the Provincial Council Loan Account and debited to the Recoverable Utility Services Account, it had not been so done.
- (d) Even though installments amounting to Rs.441,420 paid in respect of the Cab motor vehicle for the period from August to December of the year under review should be credited to the Salary Reimbursement Income of the year under review, it had been credited to the Creditors Account. As such, the Salary Reimbursement Income of the year under review had been understated by the similar amount and the Creditors Account had been overstated by the similar amount. In the rectification by revised financial statements, instead of debiting the Creditors Account, it had been debited to the Receivable Salary Reimbursement Account. As such, the creditors balance and the balance of receivable salary reimbursement had been overstated in the revised financial statements.

- (e) The Audit Report of the year 2014 had pointed out that the revenue totalling Rs. 310,205 of the Council out of the interest income of Rs.620,410 accrued from the year 2010 up to 2014 on the Joint Savings Account maintained by the Council in the name of Urban Development Authority, had not been brought to the financial statements. Nevertheless, action had not been taken to rectify it and the interest income of Rs.147,832 relating to the year 2015 had not been brought to the revenue.
- (f) Even though a sum of Rs.344,155 had been allocated as Industrial Creditors to a construction company in the year 2014, only Rs.159,714 out of the said amount had been spent. As such, overprovision of Rs.184,441 had been made in respect of creditors in the preceding year.
- (g) Even though a sum of Rs.374,661 had been allocated as Industrial Creditors in the year 2014 to the Rural Development Society of Raththanapitiya, only Rs.129,528 out of the said amount had been spent. As such, overprovision of Rs.245,133 had been made in respect of creditors in the preceding year.

1.3.2 **Unreconciled Control Accounts**

In the reconciliation of balances of 04 items of accounts shown in the financial statements and the corresponding balances of relevant subsidiary books and records , understatements totaling Rs.1,566,747 and overstatements totaling Rs.93,873 were observed in the financial statements.

1.3.3 **Accounts Receivable**

Balance of licence revenue amounting to Rs.56,700 recoverable from court cases filed had been brought forward unchanged since the year 2011.

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 2015 amounted to Rs.20,627,381 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 23,729,900 for the preceding year.

2.2 **Revenue Administration**

2.2.1 **Performance of Collection of Revenue**

Information on the actual revenue and the arrears of revenue relating to the year under review and preceding year as presented by the Chairman is given below.

Item of Revenue	Actual Recoverable	2015		Arrears for the Year	Accumulated Arrears as at 31 December	2014	
		Actual Recovered	Actual Recovered			Actual Recoverable	Accumulated Arrears as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	25,261	12,425	12,836	22,486	27,982	24,512	
Rent	1,528	1,461	67	375	2,107	308	
Licence Fees	336	336	-	57	513	57	
Other Income	42,106	22,253	19,853	30,279	30,996	57,753	

2.2.2 Rates and Taxes

According to the financial statements, the total recoverable arrears of rates and taxes as at 31 December 2015 amounted to Rs.22,485,632.

2.2.3 Stamp Fees

Even though a revenue of stamp duty amounting to Rs.25,000,000 had been estimated for the year under review and brought to the Income and Expenditure Account under the Item- “ Other Revenue”, no tax revenue whatsoever relating to the year had been recovered. Accordingly, the surplus of Rs.9,896,238 shown in the financial statements as a result of accounting the revenue not earned, was not a surplus actually earned.

3. Operating Review

3.1 Management Inefficiencies

A Board of Survey had not been carried out and presented reports thereon as at 31 December 2015 in terms of Financial Regulation 756 of the Republic of Sri Lanka.

3.2 Operating Inefficiencies

The following matters are observed in this connection.

- (a) Action had not been taken to settle the pre-payment balance of Rs.206,051 brought forward prior to the year 2009 and that balance includes balance of unsettled advance amounting to Rs.34,145, balance of unsettled petty cash amounting to Rs.11,000 and a value of dishonored cheques totalling Rs.905.
- (b) A Crew Cab valued at Rs.3,232,282, a Backhoe Loader valued at Rs.17,649,179 and a Wheel Tractor valued at Rs.2,655,318 given to the Council by the Ministry of Public Administration, Provincial Councils, Local Government and Democratic Governance in the year 2015 had been capitalized. Nevertheless, action had not been taken to transfer these assets to the Council.
- (c) In terms of Financial Regulation 1653 of the Republic of Sri Lanka, the milo meter of motor vehicles should functioned and if it is not functioning, repairs should be carried out immediately. Nevertheless, the milo meters of 13 motor vehicles belonging to the Council were not functioning for a long time.

3.3 Contract Administration

- (a) An agreement in respect of the contract for the construction of a Public Lavatory close to the Council had been entered into with the Samurdhi Society of Boralesgamuwa West “B” on 02 July 2015 and according to the agreement, the relevant work should have been completed by 02 July 2015. Even though the relevant work after the completion had been handed over to the Council only on 14 March 2016, the work completion report had not been recommended and submitted to the Council after examining the work by the relevant Technical Officer even by 21 May 2016, the date of audit. According to the agreement, even though fines amounting to Rs.60,562 i.e. Rs.1,682.28 per one week of delay to hand over the work after completion should be recovered, such fines had not been recovered.
- (b) Out of 55 projects signed under the development projects implemented within the area of authority of the Council during the year under review, 06 projects had been cancelled and the number of uncompleted projects stood at 02.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters are observed.

- (a) Even after the transfer of provisions between the items of income and expenditure during the year under review, 17 instances of variances ranging from 3 per cent to 528 were observed between budgeted and actual income and expenditure. Thus, it was observed that the budget had not been made use of as an effective instrument of financial control.

- (b) The Council had failed to earn any income whatsoever in the year under review from the sums totalling Rs.25,560,000 estimated with regard to 18 items of revenue of the Council for the year 2015.
- (c) No expenditure whatsoever had been incurred during the year under review from the sums totalling Rs.14,877,500 estimated by the Council with regard to 102 items of expenditure.

4.2 Internal Control

The activities of the Internal Audit Unit in terms of the provisions in F.R.133(1)and (2)of the Financial Regulations of the Republic of Sri Lanka, had not been organized.

5. Systems and Control

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- (a) Accounting
 - (b) Budgetary Control
 - (c) Revenue Administration
 - (d) Contract Administration