

Ja-Ela Urban Council
Gampaha District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 30 March 2016 and the financial statements for the preceding year had been presented on 30 March 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 08 July 2016.

1.2. Qualified Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Ja-Ela Urban Council as at 31 December 2015 and the financial result of its operations and cash flows for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following deficiencies are observed.

- (a) The 02 Motor Cars valued at Rs.18,345,000, and library books valued at Rs.55,495 received as donations during the year under review had not been brought to account as fixed assets in the year under review.
- (b) Though the value of fixed assets as at 31 December of the year under review amounted to Rs.37,169,422, the total of the 02 accounts that is, the revenue contribution to the capital outlay account, and the donations account was to Rs.37,052,047.
- (c) Though the value capitalised under the fixed assets as at 31 December of the year under review amounted to Rs.1,306,560, according to the analysis of expenditure accounts during the year, the value capitalised amounted to Rs.1,262,765.
- (d) Provisions had not been made for creditors in respect of 02 works valued at Rs.1,215,642, for which the contracts had been signed during the year 2015.
- (e) According to the audit report of the previous year, a sum of Rs.25,352 received in respect of telephone charges of members of the Council, had been credited to the deposits account, and this amount had been incurred from expenditure heads of the previous year. This amount had not been settled even during the year under review.
- (f) The provisions had not been made for the audit fees payable during the year under review.
- (g) The Value Added Taxes amounting to Rs.316,609 had been shown in the accounts, as payables in respect of the year under review. Since the value added tax registration of the Council had been cancelled, a non-existing liability had been disclosed in the accounts.

- (h) The rent for the month of February 2015 in respect of the pork-stall number 40 in the General Market, had been billed less by Rs.45,875. Therefore the revenue from stall rent receivable and the income expenditure account had been understated, by a similar amount.
- (i) Though the entertainment taxes receivable should be billed as Rs.1,883,222, it had been billed as Rs.1,687,245, Therefore the income and expenditure account, and the entertainment taxes receivable account had been understated by Rs.195,977.
- (j) Though the revenue from trade locations received in respect of the ensuing year had been Rs.1,897, the lease rent received in advance had been disclosed as Rs.134,395. Therefore the revenue from lease rent received in advance account had been overstated, by Rs.132,498.
- (k) Though the capital aid receivable for the year under review in respect of 03 works amounting to Rs.1,709,764 had been received in the year 2016, this amount had not been brought to account as capital aid receivable.
- (l) A sum of Rs.6,204,193 had been shown in the accounts as capital aid receivable since 2014 and as this is unrecoverable, a fictitious asset to the value of a similar amount was observed in the accounts.
- (m) The waste disposal charges amounting to Rs.93,540 receivable during the year under review, had not been brought to account.
- (n) The balance according to the fixed deposits account as at 31 December 2015 was Rs.31,759,726, and the balance according to the bank renewal notice of fixed deposits was Rs.29,670,727. Therefore a difference of Rs.2,088,999 existed.

1.3.2. Lack of Evidence for Audit

Transactions totalling Rs.47,127,372 could not be vouched satisfactorily during the audit, due to non-submission of registers and schedules, to the audit.

1.3.3. Un-reconciled Control Accounts

According to the control accounts of 05 items of accounts, the total balances amounted to Rs.15,310,679, whilst the total balances according to the relevant subsidiary registers amounted to Rs.18,320,028. Therefore a difference of Rs.3,009,349 existed.

1.3.4. Accounts Receivable and Payable

- (a) The balance receivable in the retained fixed deposits account, amounting Rs.46,863 is remaining unchanged for a period of 05 years, and action had not been taken to settle this.

- (b) The creditors balance for contributions for the Local Government Pension Fund amounting Rs.1,826,536 had remained unchanged since a period of 03 years, and action had not been taken to settle this.
- (c) When the payments made during the year under review were deducted from the provision made for expenditure creditors for the preceding year, a balance of Rs.23,470,782 was further payable in respect of the preceding year, and action had not been taken to settle this amount. The schedules for this had not been submitted as well.

1.3.5. Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed during the Audit.

- (a) According to Section 170(1), 170(2) of Urban Council Ordinance (Chapter 255), it was the duty of the Secretary to recover the receivables such as leases and fines and take action to credit them to the Council funds. But action had not been taken to issue warrants to recover the rates and taxes in arrears amounting to Rs.16,872,919.
- (b) Action had not been taken in accordance with the Section 170 (A) (1) of the Urban Council Ordinance (Chapter 255), to recover the revenue in arrears amounting to Rs.18,817,812.
- (c) According to the Financial Regulations 371 (2) (A) (C) of the Republic of Sri Lanka, the issuing of sub-imprest should be limited to officers of staff grade. But the Council had provided a sub-imprest of Rs.95,301 to the suppliers. This amount had not been settled over a period of 9 to 16 years.

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.51,471,375 as compared with the excess of revenue over recurrent expenditure amounting Rs.19,177,998 for the preceding year.

2.2. Revenue Administration

2.2.1. Estimated Revenue, Actual Revenue and Revenue in Arrears

The information submitted by the Secretary with respect to the Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review are indicated below.

Source of Revenue	Estimated Revenue Rs.000,	Actual Rs.000,	Cumulative Arrears as at 31 December Rs.000,
Rates and Taxes and Warrant Charges	20,770	19,769	16,873
Lease Rent	9,905	7,405	(1,553)
Licence Fees	528	879	116
Other Revenue	40,211	56,039	8,002

2.2.2. Progress of Recovering Rates and Taxes

The property retaining officers were not in service as at the end of the year, and the progress in recovering the arrears from January to December 2014 was in a very weak state of 0% to 11%.

3. Operating Review

3.1. Unauthorised Transactions

- (a) The difference in opening balances between the fixed deposits ledger account and the schedules amounting to Rs.4,089,963 had been credited to the accumulated fund account through the Journal Entry No.15, without being identified and approved.
- (b) The difference in opening balances between the employees security deposits investment account and the schedules amounting to Rs.11,615 had been debited to the employees security deposits investment account through the Journal Entry No.17, without being identified.

3.2. Management Inefficiencies

- (a) An average monthly cash balance of Rs.13,659,283 had been maintained during the year under review, in respect of the current account of the Council at Peoples Bank. But action had not been taken by the Council, to invest this surplus money.
- (b) A balance amounting to Rs.580,530 in the current account at Bank of Ceylon is being kept unutilised throughout a period of 04 years. But investing this money in fixed deposits had not been considered.
- (c) The balance of electricity charges in arrears amounting to Rs.1,110,620 is being carried forward continuously, and action had not been taken to recover this. This had been an amount receivable, created due to the vesting of authority for assets and recovering of electricity charges, to a private electricity company. Peliyagoda Urban Council had negotiated a similar transaction and a share certificate had been obtained, and an annual dividends of over Rs.100,000 had been earned from this. But the authorities of the Council had not paid attention for such investment.

3.3. Performance

The private roads within the area under the authority of the Urban Council had not been identified and a register regarding this had not been prepared. Though plans had been prepared in respect of the maintenance and updating of drainage system, preparation or renovation of any drainage system had not been carried out during the year under review.

3.4. Contract Administration

According to the Section 38 of the Urban Council Ordinance (Chapter 255), the expenditure over Rs.10,000 (for a particular work) should be under a written agreement, and according to Section 40, tenders should be called through advertising, when the expenditure involved in supplying of employees and materials to implement a certain work exceeds rupees ten thousand (Rs.10,000). But, this had not been followed during the procurement process involving works amounting to Rs.388,670. Further, Bill of Quantities and estimates for these works had not been prepared and tenders had been called and awarded, based on the Bill of Quantities and estimates submitted by the tenderer. The final measurement reports of many works had not been submitted.

3.5. Operating Inefficiencies

- (a) According to the verification report of library books carried out on 31 December 2014, it had been reported that 228 books valued at Rs.35,405 had been misplaced. But no action had been taken regarding this during the year under review.
- (b) According to Section 15 of the agreement entered into in respect of providing the security services, the Junior Security Officers below 50 years with good personality should be deployed in the service, whilst the Senior Security Officers should be ex-armed services or ex-police personnel, who had left the service legally. But there were no evidence for recruiting of personnel in such manner.

3.6. Solid-Waste Management

The “Solid-Waste Management Rules” No. 01 of 2008, had been published in the Gazette Notifications No.1560/6 dated 30 July 2008 issued by the Chief Minister of Western Province, and the letter No. LGD/05/08/General/Volume of Commissioner of Local Government (Western Province) dated 21 December 2010, stipulates that all local authorities should implement the stated Rules. But no charges had been recovered in accordance with Rules No. 18(1), 19, 22, 54 and 59.

4. Systems and Controls

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

- a) Accounting
- b) Internal Audit
- c) Revenue Administration
- d) Contract Administration