

Ja-Ela Urban Council
Gampaha District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements for the year under review had been presented to audit on 31 March 2011 and the financial statements for the preceding year had been presented for the audit on 14 May 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Ja-Ela Urban Council had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:3 of this report the financial statements have been prepared in accordance with 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 2010 and the financial results of its operations for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

(a) According to the accounts as at the end of the year under review, the arrears relating to the Contribution to the Local Government Services Pension Fund amounted to Rs.1,926,536 whereas according to the bill for the contribution to the Local Government Services Pension Fund that amounted to Rs.1,254,027. Even though a sum of Rs.235,787 had been brought to account as the contribution for the year, it was observed in audit that the contribution should be Rs.238,415.

(b) Even though the balance of the staff security investment, together with the interest for the year amounted to Rs.72,803, that had been brought to account as Rs.65,103.

(c) Even though a sum of Rs.163,018 had been brought to account as the Value Added Tax payable for the last quarter of the year 2010, it was

observed in audit that there was no such balance. Even though a balance amounting to Rs.172,597 inclusive of the overprovision of Rs.9,579 for the preceding years should have been disclosed as payable, a sum of Rs.287,189 had been disclosed as receivable.

- (d) The penalty of Rs.179,135 paid for the delay in the payment of the Value Added Tax had been debited to the Value Added Tax Account instead of being brought to account as expenditure.

1:3:2 Unreconciled Control Accounts

The balances of 04 items of account according to the Control Accounts totalled Rs.43,948,114 whereas the balances of those accounts according to the subsidiary registers totalled Rs.35,240,259.

1:3:3 Lack of Evidence for Audit

- (i) Unanswered Audit Queries

Replies to 15 audit queries inclusive of 14 audit queries relating to the period from the year 2003 to 2005 had not been furnished even by 31 March 2011.

- (ii) Non-submission of Information for Audit

Transactions totalling Rs.147,727,107 could not be satisfactorily vouched in audit due to the non-submission of required information.

1:3:4 Bank Accounts

- (i) Instead of showing the balances of the Bank Accounts separately in the balance sheet those had been shown together as Rs. 6,813,995. As such, it was not possible to be satisfied with regard to the accuracy of the balances of the summary cash book.

- (ii) According to the Bank Reconciliation Statement of the account with the People's Bank, the debit balance of the summary cash book amounted to Rs.2,693,792 whereas according to the summary cash book, that amounted to Rs.2,545,116. The cash in hand as at the end of the year amounting to Rs.80,003 had been adjusted in the Bank Reconciliation, instead of being shown separately under cash.

1:3:5 Non-compliances

Non-compliances with the provisions of the following laws, rules and regulations and the management decisions were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
-----	-----
(a) Urban Councils Ordinance (Cap. 255)	

Section 159(1)(f)	Action had not been taken to obtain the written approval of the Minister for the prepayment of Rs.100,000 made for religious activities.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	

(i) Financial Regulation 371	Action had not been taken even up to the end of the year under review for the settlement of prepayments amounting to Rs.156,096 made in 11 instances and brought forward over a period exceeding 04 years.
(iii) Financial Regulations 396(d)	Action in terms of the Financial Regulation referred to had not been taken on 14 cheques valued at Rs..118,294 relating People's Bank remaining without being presented for payment for more than 06 months.

2. Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2010

amounted to Rs.2,614,044 as against the excess of recurrent expenditure over the revenue for the preceding year amounting to Rs.10,888,861.

2:2 Revenue Administration

2:2:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Chairman is given below.

Item of Revenue	2010			2009		
	Estimated	Actual	Cumulative Arrears as at 31 December	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	11,457	7,508	13,184	13,450	12,840	(610)
Lease Rents	4,605	5,046	2,729	6,428	5,495	(933)
Licence Fees	229	215	105	1,344	234	(1,110)
Other Revenue	4,359	2,883	1,625	15,111	21,401	6,290

2:2:2 Rates

Warrants had not been prepared and issued in terms of the provisions of Section 170(1) of the Urban Councils Ordinance (Cap. 255) for the recovery of the arrears of rates in respect of the year 2010.

2:3 Expenditure Structure

The budgeted and the actual expenditure of the Council for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	2010			2009		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	30,978	24,500	6,478	29,429	24,151	5,278

P.S.No. 2013/251 Sixth Instalment – Part XXIV Local Authorities Gampaha District - Report of the Auditor General 2010

Others	30,885	54,105	(23,220)	28,017	49,438	(21,421)
	-----	-----	-----	-----	-----	-----
Sub-total	61,863	78,605	(16,742)	57,446	73,589	(16,143)
Capital Expenditure	16,899	37,164	(20,265)	9,218	191	9,027
	-----	-----	-----	-----	-----	-----
Grand Total	78,762	115,769	(37,007)	66,664	73,780	(7,116)
	=====	=====	=====	=====	=====	=====

2:4 Surcharges

According to the surcharges imposed by me in terms of the provisions of Section 182(1) of the Urban Councils Ordinance (Cap. 255) against those responsible, the surcharges recoverable as at 31 December 2010 amounted to Rs.55,804.

2:5 Human Resources Management

Approved and Actual Cadre

Information on the approved and the actual cadre of the Council as at 31 December 2010 is given below.

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff	02	01
Secondary	26	19
Primary	90	64
Others (Casual, Temporary / Substitute/ Contract)	--	19

2:6 Assets Management

Accounts Receivable

Action had not been taken for the recovery of the loan balance of Rs.210,537 recoverable from 26 employees brought forward over a period of 02 years and the arrears of electricity charges amounting to Rs.1,110,620 brought forward over a period exceeding 05 years.

2:7 Identified Losses and Damages

(a) Water Bill Charges

Penalty/ surcharge amounting to Rs.8,093 and Rs.1,275 had been paid for the delay in the payment of the water bills and the contributions to the Employees' Trust Fund for the year 2010 respectively.

(b) Output Tax

An overpayment of the Value Added Tax amounting to Rs.536,107 had been made for the third quarter of the year 2010 as the output tax for the third quarter had been computed by considering the output tax for September as Rs.609,212 instead of Rs.73,105.

2:8 Contract Administration

The following observations are made.

(a) Contribution of the Side Wall of Christuraja Mawatha

According to the final Measurement Reports dated 26 December 2008, 28 February 2009 and 13 May 2009, the length of the side wall had been 522 feet. Nevertheless, according to the site inspection carried out on 11 December 2009 the length of the side wall constructed was observed 361 feet. As such an overpayments of Rs.323,336 for 161 feet and Rs.11,245 for a length of 130 feet not plastered had been made.

(b) Construction of a Culvert and a Part of the Drains for the St. Joseph Road

The following matters were observed at the site inspection carried out on 31 December 2009 with the Superintendent of Works of the Council.

(i) The bed of the drain had been concreted to a thickness of 03 inches under Item No. 03 while it had been concreted to a thickness of 06 inches as well under Item No. 04. The reasons for concreting the bed of the drain for a thickness of 09 inches were not explained to audit.

(ii) The need for installing 3/8 inch reinforcements both length-wise and width-wise of the bed of the drain was not explained to audit.

2:9 Irregular Transactions

The following observations are made.

- (i) An officer had been re-employed contract basis to a post in Class I of the Sri Lanka Technical Services for a period of one year with effect from 02 December 2009. In determining the payment of allowances to the officer in addition to the payment of the salary of Rs.13,790 entitled to him in terms of provisions of the Public Administration Circular No. 9/2007 dated 11 May 2007, the Council had, by the Council Decision No. 03(iii) of the monthly meeting of the Council held on 26 February 2010 decided to pay an additional allowance of Rs.5,000 contrary to the provisions of the above circular and the letter No. 02/23/04/01/(Volume – II) dated 06 May 2008 of the Commissioner of Local Government based on the letter No. 1/16/1/9(Volume xi) dated 07 April 2008 of the Chief Secretary of the Western Provincial Council. As such a sum of Rs.35,000 had been overpaid from the Council Fund from May 2010 to November 2010 contrary to the above provisions.

- (ii) According to sub-section (j) of Section 2.8.4 of the Procurement Guidelines 2006 and Procurement Manual, the number of members of the Technical Evaluation Committee should be between 03 and 05. Nevertheless the Council had appointed 07 members and a sum of Rs.13,500 had been overpaid as the allowance during the year under review.

2:10 Operating Inefficiencies

The following observations are made.

(a) Issue of Environmental Permits

According to Section 09(i) of the Procedure for the Issue of Environmental Permits included in Schedule 02 of the Instructions on Transfer and Implementation of Powers to the Local Authorities published in the Gazette No. 1533/16 dated 25 January 2008 by the Central Environmental Authority the revenue received for site inspections and the issue of Environmental Protection Permits should be brought to account separately. Nevertheless, it had not been so done.

(b) Assistance for Street Lights

Lanka Electricity Company (Private) Ltd. had sent a sum of Rs.307,417 on 13 June 2009 after deducting a sum of Rs.77,347 for consumer bills, as the maintenance assistance for the maintenance of street Lights and that

deduction had not been brought to account. It was observed in audit that the 19 meters numbers and the numbers in the Register of Street lights did not agree with the numbers appearing in the list of street light furnished by the Lanka Electricity Company (Private) Ltd. The assistance for maintenance of street lights in respect of the years 2009 and 2010 had not been received.

(iii) Recruitment of Employees

The approval of Commissioner of Local Government (Western Province) for the recruitment of 31 employees comprising 26 project employees and 05 employees for the compost project was not furnished to audit. Projects Reports and the Progress Reports of the 02 Projects had not been furnished to audit.

2:11 Internal Audit

An adequate internal audit of the institution had not been carried out.

3. Systems and Controls

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

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