

Minuwangoda Urban Council

Gampaha District

1. Financial Statements

1:1 Presentation of Financial Statements

Financial statements of the year under review had been presented to audit on 21 March 2011 and the financial statements for the preceding year had been presented for the audit on 25 March 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 Minuwangoda 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 Minuwangoda Urban Council as at 31 December 2010 and the financial results of its operations for the year than ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

(a) A sum of Rs.54,857 received from the auction sale had been brought to account as recurrent revenue instead of being brought to account as the sale of capital assets.

(b) Even though the loan of Rs.1,107,250 obtained from the Local Loans and Development Fund in the preceding year for the purchase of the gulley bowser had been brought to accounts as fixed assets, it had not been credited to the Revenue Contribution to Capital Outlay Account.

- (c) The over – recovery of staff loans amounting to Rs.11,979 had been shown as a deduction from the debtors balance instead of being brought to account as a liability.
- (d) Stamp revenue amounting to Rs.1,828,420, staff loans interest amounting to Rs.19,448 and sales amounting to Rs.500 received in the year under review had been brought to account as revenue grants.
- (e) Salary reimbursements receivable amounting to Rs.1,421,714 had not been brought to account.
- (f) Value Added Tax collections amounting to Rs.436,098 payable in respect of the preceding years and the penalty of Rs.89,078 payable for the default of payment had not been disclosed in the accounts.
- (g) Salary reimbursements amounting to Rs.1,248,033 received for the preceding year and the year under review had been shown under the capital grants.
- (h) Receipts on fish stalls amounting to Rs.89,639 according to the Summary Register of Revenue had been brought to account under revenue for the year under review as Rs.67,630. The adjustment made for the difference of Rs.22,009 could not be observed in audit.
- (i) A reconciliation of the revenue brought to account under Revenue Heads 2, 3 and 4 with the Primary Revenue Registers revealed differences amounting to Rs.1,960, Rs.1,799 and Rs.108,784 respectively.
- (j) A sum of Rs.2,339,603 allocated in the budget under the Expenditure Heads 33518 and 34517 had been brought to account as creditors and debited to capital expenditure without either a development proposal or a commitment.

1:3:2 Unreconciled Control Accounts

- (a) The balances of 06 items of account according to the relevant Control Accounts totalled Rs.9,671,908 whereas the balances of the accounts according to the subsidiary registers / records totalled Rs.3,956,188.
- (b) A difference of Rs.12,058 was observed between the Staff Loans Account and the Schedule of Loans produced while outstanding loans balances amounting to Rs.29,822 relating to 12 employees shown in the Schedule of Loans, had not been included in the Register of Staff Loans.

1:3:3 Lack of Evidence for Audit

Non – submission of Information to Audit

Transactions totalling Rs.18,176,501 could not be satisfactorily vouched in audit due to the non – submission of required information.

1:3:4 Accounts Payable

The balances of accounts payable as at 31 December 2010 totalled Rs.18,058,732. The balances of refundable deposits old between 03 to 05 years totalled Rs.766,541 while the balances older than 05 years amounted to Rs.3,346,691.

1:3:5 Non-compliances

Even though a Board of Survey should be appointed as at 31 December 2010 in terms of Financial Regulations 756 and 757 of the Democratic Socialist Republic of Sri Lanka and conduct a Survey of all assets and motor vehicles of the Council, such survey had not been conducted in respect of the year under review.

2. Financial and Operating Review

2:1 Financial Result

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

amounted to Rs.4,825,192 as against the excess of revenue over recurrent expenditure amounting to Rs.5,196,491 for the preceding year.

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	Estimated	2010		Cumulative Arrears as at 31 December	2009	
		Actual	Cumulative Arrears as at 31 December		Estimate	Actual
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	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	3,500	3,848	3,548	3,300	3,229	4,127
(ii) Lease Rents	--	5,867	2,490	8,316	4,435	3,674
(iii) Licence Fees	4,683	294	15	215	329	15
(iv) Other Revenue		Not furnished.				

The particulars of revenue relating to the preceding year furnished in the preceding year were different from the revenue for the preceding year presented in the year under review.

2:2:2 Write off of Outstanding Rates

Even though the Revenue Inspector had recommended only the write off of Rs.1,479 relating to the third quarter out of the outstanding rates amounting to Rs.2,958 due from the trade stalls Nos. 52 and 52 (A) of the Negombo Road for the year 2009 the outstanding arrears of rates for both quarters amounting to Rs.2,958 had been written off causing a loss of Rs.1,479 to the Council. Even though the lessee of the property No. 191/1 had applied for exemption from rates from the fourth quarter of the year 2009, rates amounting to Rs.14,449 relating to a prior period had been written off. Thus the Council had incurred a total loss of Rs.15,928.

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	24,744	23,103	1,641	23,814	23,337	477
Others	20,838	15,949	4,889	17,056	20,531	(3,475)
Sub-total	45,582	39,052	6,530	40,870	43,868	(2,998)
Capital Expenditure	75,875	3,985	71,890	31,414	6,060	25,354
Grand Total	121,457	43,037	78,420	72,284	49,928	22,356

2:4 Surcharges

According to the surcharges imposed by me against the persons responsible in terms of the provisions of Section 182 (1) of the Urban Councils Ordinance (Cap. 255) the value of surcharges recoverable as at 31 December 2010 amounted to Rs.19,946.

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 had been as below.

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
staff	02	01
Secondary	18	17
Primary	64	59

Others (Casual / Temporary /
Substitute) 11 11

2:6 Assets Management

2:6:1 Accounts Receivable

The balances of Accounts Receivable as at 31 Deember2010 amounting to Rs.17,718,184 included a prepayments balance of Rs.1,131,839 older than 05 years and a dishonoured cheques balance of Rs.30,591 older than 10 years.

2:6:2 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.5,818,946 and the balances remaining without being recovered from 13 employees amounted to Rs.49,866.

2:7 Operating Inefficiencies

Construction of the Weekly Fair at Minuwangoda Town

The work had been estimated for Rs.36,393,775. The quotations for the first stage estimated at Rs.11,610,040 had been called for and the contract had been awarded to the lowest bid of Rs.8,632,709. The contractor had abandoned the work subsequently stating that the work cannot be done for that amount. The work had been done by awarding the contract to the next lower bidder.

The following observations are made in this connection.

- (i) The Bank loan obtained on the basis of settlement on the receipt of the loan installment as agreed with the Local Loans and Development Fund had not been settled even after the receipt of the loan installment from the Local Loans and Development Fund.
- (ii) It was revealed that the cases No. 2960/04 to No. 2969/04 filed in the Court of Appeal by the original owners of the land are being heard. The construction costing over Rs.35 million done on a land without a clear

title, the responsibility to the action would be open to question if a problematic or uncertain situation arises in the future. There was no evidence that such possibility had been brought to the notice of the Court of Appeal.

The Chairman informed me on 22 July 2011 that the land acquired for possession for the development of the Minuwangoda Town by the Divisional Secretary Minuwangoda is utilized for this development work. The matter relating to the case being heard in the Court of Appeal is whether in land is being utilized for the intended purpose and as such the construction work has to be done.

- (iii) It was not clear to audit as whether the Council had a surplus cash in excess of the money required to maintain the basic needs of the town to spend a sum of Rs.36,393,775 for construction of a large building with steel and concrete for a fair held once a week and whether the revenue would be adequate to cover the expenditure.

The Chairman informed me on 22 July 2011 that the work had been stopped after the completion of the first stage of the weekly fair and that the Provincial Road Development Authority has constructed the temporary weekly fair.

2:8 Internal Audit

An adequate in 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) Revenue Administration
- (c) Contract Administration
- (d) Staff Loans Control