

Ampara Urban Council

Ampara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 10 September 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 31 October 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Ampara Urban Council give a true and fair view of the financial position as at 31 December 2017 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 Accounting Policies

The financial policies adopted for preparation of accounts for the year 2017 had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following matters were observed.

- (a) Refundable deposits as at 31 December of the year under review amounted to Rs. 10,900,265 as per ledger. However, this had been shown as Rs.11,050,538 in the financial statements resulting in an overstatement of Rs.150,273.
- (b) Rates and taxes recovered in 2017 on behalf of 2018 had not been shown in the financial statements.
- (c) The interest income on one Savings Account of the Sabha for the year under review amounting to Rs. 91,224 had not been brought to account as income in the Income and Expenditure Account.

- (d) The surplus of Rs. 5,212,957 of the Income and Expenditure Account of the year under review had been added as Rs. 5,071,530 in the Accumulated Fund Deficit Account in the Balance Sheet. As a result, the value of the account had been understated by Rs.141,427.
- (e) The increase in fixed assets during the year under review amounted to Rs.11,966,674. However, the increase had been shown as Rs. 19,408,008 in the Revenue Contributions to Capital Outlay Account and the Contributions to Capital Account through Aid and the balance sheet had been balanced by this overstatement of Rs. 7,441,334.
- (f) The value added tax payable as at 31 December 2017, as per ledger, amounted to Rs. 3,337,181 which had been shown as Rs. 3,106,385 in the financial statements resulting in an understatement of Rs. 230,796.
- (g) The expenditure incurred on construction of a crematorium from the loan of Rs. 3,862,651 obtained from the Local Loans Development Fund had not been brought to account under fixed assets.
- (h) Correct assessment had not been made for 19 buildings of the Sabha and the values brought to account. As a result, the assets relating to buildings of the Sabha had not been depicted in the financial statements.
- (i) Action had not been taken to write off from the books of accounts the cost of 97 items amounting to Rs. 6,350 auctioned during the year under review as per board of survey report of 2016.
- (j) The closing stock of the liquor bar amounting to Rs. 2,043,021 had been shown Rs. 2,474,218 in the balance sheet based on sales value resulting in overstatements of the closing stock and the gross profit by Rs. 431,197.
- (k) The security fund of the Urban Council amounting to Rs. 61,977 in the bank account as at 31 December 2017 had not been brought to account.

1.3.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations etc.,	Value	Non-compliance
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	Rs.	
(a) Urban Councils Ordinance (Chapter 255) Section 177(2)	-	Action had not been taken to publish in the gazette the summary of annual accounts on or before 01 March of each year.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.		

(i) Financial Regulation 396(d)	20,305	Action had not been taken regarding 08 cheques valued at Rs.20,305 unrepresented for payments for over 06 months.
(ii) Financial Regulation 571	4,457,022	Action had not been taken regarding 104 deposits of over 02 years valued at Rs. 4,457,022 as at 31 December of the year under review.
(c) Treasury Circular No. IAI/2022/02 of 28 November 2002		A separate register of fixed assets had not been maintained for computers and computer accessories.
(d) Public Administration Circular No. 30/2016 of 29 December 2016	-	Fuel had not been tested in respect of 23 vehicles of the Council.
(e) National Budget Circular No.142 of 31 December 2008 of the Ministry of Finance.	123,420	Distress loans granted to state officers is limited to Rs.250,000. However, such action had not been taken regarding 03 officers during the year under review.

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 2017 amounted to Rs. 16,744,657 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 9,027,064.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
Rates and Taxes	10,720,000	11,188,507	9,955,907	25,781,795	10,120,000	11,816,199	9,840,913	24,549,195
Rent	7,723,650	6,212,365	7,156,619	2,571	5,700,000	7,218,900	6,308,575	946,825
Licence Fees	866,000	1,939,152	1,939,152	-	1,950,000	1,739,848	1,939,152	-
Other Revenue	28,903,475	26,931,731	26,003,175	1,984,431	15,720,000	38,636,693	26,625,856	1,055,875

2.2.2 Performance in Collection of Revenue

Out of the total revenue of Rs. 72,823,650 recoverable by the Sabha as at 31 December 2017, a sum of Rs. 45,054,853 had been recovered. Accordingly, it was observed that the percentage of recovery was 62 percent.

2.2.3 Rates and Taxes

Rates and taxes amounting to Rs. 25,781,795 recoverable for the period 2012 to 31 December 2017 had not been recovered.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Urban Councils Ordinance such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

(a) Bye - Laws

Bye - Laws were required to be enacted under Section 157 of the Urban Councils Ordinance for fulfilment of main functions. But, bye -laws had not been enacted even by 31 December 2017.

(b) Action Plan

The Council had not prepared an Action Plan for 2017 in terms of the State Accounts Circular No.01/2014 of 17 February 2014.

3.2 Management Inefficiencies

The following matters were observed.

(a) The Value Added Tax of Rs. 3,106,385 collected by the Sabha from 2009 to 2012 had not been remitted to the Department of Inland Revenue even by end of the year under review.

(b) Registration should be made for Value Added Tax as required by the Value Added Tax (Revision) Act No. 20 of 2016. if the income from which tax could be recovered exceeds Rs. 12 million, However, registration for Value Added Tax had not been made although the taxable income of the Council for 2017 amounted to Rs. 14,487,175.

- (c) Stamp fees should be remitted to the Department of Inland Revenue within 15 days of the end of a quarter in terms of Stamp Fees (Special Provisions) Act No. 12 of 2006. However, the Council had not remitted the stamp fees of Rs. 23,400 to the Department of Inland Revenue.
- (d) Action had not been taken regarding the unrealized deposits of Rs. 4,342 and the unidentified deposits of Rs. 90,720 in the bank account of the Council during the period 30 June 2016 to 26 December 2017.

3.3 Human Resources Management

The following matters were observed.

- (a) The post of Accountant had fallen vacant since 2010.
- (b) Twenty three vacancies and 01 excess in 16 posts of the cadre existed as at 31 December 2017.

3.4 Assets Management

3.4.1 Assets not Acquired

The following matters were observed.

- (a) The Council had not taken action to acquire ownership of 47 land used by it although the Divisional Secretary possessed the ownership of those land.
- (b) Action had not been taken by the Council to acquire ownership of 10 vehicles used by it.

3.4.2 Idle and under utilized Assets

The observations on the main building of the Ampara Public Park Building and its other constructions.

- (a) The kitchen of the park had been constructed by spending Rs. 4,432,775 and had been handed over to the Council on 02 July 2014. But, the building remained idle even by 19 October 2018.
- (b) Rubber carpets had been purchased for Rs. 352,000 on 29 August 2014 for spreading at the place where children's sports equipment had been installed in the park. This remained at the kitchen of the public park for over 03 years without being spread.
- (c) Sixty four chairs valued at Rs. 435,200 had been purchased on 02 January 2015 for the main building under the Deyata Kirula Project. These had been haphazardly kept in the upper floor of the building for about 02 years, till the date of audit of 14 December 2017.

3.4.3 Vehicle Utilization

Action had not been taken for over 03 years to obtain revenue licences and insurance certificates for 19 vehicles of the Council that were being used at present.

3.5 Procurement

3.5.1 Procurement Plan

The Council had not prepared a procurement plan for 2017 in terms of the National budget circularNo. 128 of 24 March 2006.

3.5.2 Contract Administration

The United Elders' Welfare Society had constructed a kitchen, a latrine and a bath room in 2014 by spending Rs. 2,878,428 under the Deyata Kirula Programme. These had become unusable even before the lapse of one year and as such these had been demolished. The retention money relating to this had been released to the contractor by now.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

The financial statements of the year under review had been furnished for audit on 10 September 2018.

4.2 Budgetary Control

Variances ranging from 10 to 165 percent were observed between the budgeted and the actual expenditure of the year under review. As such, it was observed that the budget had not been utilized as an efficient instrument of management control.

5. Systems and Controls

Special attention of the Council is needed in respect of the following areas of control.

System	Deficiency
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(a) Revenue Administration	(i) Non-recovery of arrears revenue.
	(ii) Bye-laws not being enacted.
	(iii) Lack of identification of revenue sources.

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| (b) Budgetary Control | Lack of correct preparation of budget and minimization of variances. |
| (c) Stores Administration | Stores not arranged in such a manner as to carry out quick verifications. |
| (d) Assets Utilization | Fixed assets not being properly maintained and remaining idle. |
| (e) Accounting | Assets not being brought to account. |
| (f) Contract Administration | (i) Lack of adequate supervision.
(ii) Lack of correct maintenance of construction files.
(iii) Weaknesses in completion of work as per circular instructions. |