

**Hikkaduwa Urban Council**  
**Galle District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 24 April 2014. The Auditor General's Report relating to the year under review was issued to the Secretary to the Sabha on 22 December 2015.

**1.2 Opinion**

In my opinion except for the effect on the matters described in paragraph 1.3 of this report financial statements give a true and fair view of the financial position of the Hikkaduwa Urban Council as at 31 December 2014 and its financial performance for the year then ended and cash flows in accordance with generally accepted accounting principles.

**1.3 Comments on Financial Statements**

**1.3.4 Accounting Deficiencies**

Following observations are made.

- (a) The difference of Rs. 2,229,328 between balance of the Fixed Assets Account and the balance of the Contribution from Revenue to Capital Outlay Account as at 31 December of the preceding year had been written-off to the Accumulated Fund Account without being identified.
- (b) Fixed Assets valued at Rs. 80,450 received as Grants during the preceding year had not been shown as Capital Grants in the financial statements. Due to that Accumulated Fund and Fixed Asses had been understated at the rate of Rs.80,450.

- (c) Ayurvedic Stocks valued at Rs.511,833 had been removed from the accounts without a recommendation of the Board of Survey Report during the preceding year. In accounting, for that removal, the sum of Rs.511,833 had been erroneously debited to the Contribution from Revenue to Capital Outlay Account and that error had not been rectified. Due to that, the Ayurvedic Stocks and the Contribution from Revenue to Capital Outlay Account had been understated at the rate of Rs.511,833.
- (d) Purchase of Library Books amounting to Rs. 312,305 and Donations of Books amounting to Rs. 16,790 totalling Rs. 329,095 had been capitalized as Rs.577,607 through Journal Entry No. 52. Due to that, balances of the Library Books and the Contribution from Revenue to Capital Outlay Account had been overstated at the rate of Rs. 248,512.
- (e) Fixed Assets valued at Rs. 307,845 purchased during the year under review, Fixed Assets valued at Rs. 147,790 received as Donations and 03 Fixed Assets value of which not mentioned had not been capitalized.
- (f) Interest on Fixed Deposits amounting to Rs. 20,606 for the year under review had not been taken to revenue and therefore Interest Income had been understated in a sum of Rs. 20,606 in the financial statements.
- (g) Payment of Stamp Duties amounting to Rs. 23,921 for the year had been recorded as payment of Deposits. Due to that, Stamp Duties Payable Account had been overstated in a sum of Rs. 23,291 while Deposits Payable had been understated in a sum of Rs. 23,291.
- (h) Although the balance of Work Creditors as at 31 December of the year under review was Rs. 13,441,517, it had been shown as Rs. 10,013,579 in the financial statements. Due to that, Creditors had been understated in a sum of Rs. 3,427,938.

- (i) Although the Works Expenditure of the year under review was Rs. 7,007,402, it had been shown as Rs. 5,552,748 in the Capital Expenditure Account. Due to that, Capital Expenditure had been understated in a sum of Rs. 1,454,654.
- (j) Although the Stamp Fees Revenue Receivable during the year under review was Rs.10,000,000, Stamp Fees Receivable Debtors had been Rs. 9,584,921. Due to that, Debtors had been understated in a sum of Rs. 415,079.
- (k) The sum of Rs. 679,962 received during the year under review for Stage 11 of the construction of community hall in Delghaduwa, Katukoliha, Pinkanda Grama Niladhari Division which is a work relating to the preceding year, had been recorded as Stamp Fees Revenue. Due to that, Works Debtors had been overstated in a sum of Rs.679,962 while Stamp Fees Receivable had been understated in a sum of Rs.679,962.
- (l) The sum of Rs.1,000,000 received for completion of two community halls in Hennathota, Gorakagas Bokka and Patuwatha Gammaduwatta which are works relating to the year under review, had been recorded as Stamp Fees Revenue. Due to that, Capital Grants for the year and Stamp Fees Receivable had been understated to the extent of that amount.
- (m) The sum of Rs.1,050,000 received during the year under review for completion of balance work of the Udugalpitiya community hall and repairing the three wheeled vehicles Park had been credited to the Capital Grants Account. Due to that, Capital Grants for the year and Capital Grants Receivable had been understated to the extent of that amount.
- (n) The sum of Rs. 540,000 received for 03 works during the preceding year had been credited to the Capital Grants Receivable Account while provision had not been made during the preceding year. Due to that, Capital Grants Receivable Account and Accumulated Fund had been understated at the rate of Rs. 540,000.

- (o) Although the value of Stationery Stock as at 31 December of the year under review was Rs. 212,212, it had been shown as Rs. 159,240 in the financials statements indicating a difference of Rs. 52,792.

### **1.3.2 Non-reconciled Control Accounts**

A difference of Rs. 9,732,533 was observed between the balances according to the financial statements and balances according to subsidiary registers relevant to 06 items of accounts.

### **1.3.3 Suspense Account**

The balance of Rs.748,227 arisen after debiting a sum of Rs. 205,368 identified through the Journal entries No. 04 and 05, and crediting a sum of Rs. 2,163,250 identified through the Journal entry No.09 to the debit balance in the Suspense Account as at 01 January of the year under review had been adjusted to the Surplus and Deficit account without further identification.

### **1.3.4 Lack of Evidence for Audit**

Evidences such as up dated Fixed Assets Register, Schedules, Board of Survey Reports, the Stocks Register, Age Analysis, Confirmations of Balances and Updated Deposits Register connected with transactions totalling Rs.73,566,409 shown in the financial statements were not furnished to audit.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2014 amounted to Rs.12,576,438 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.13,342,124.

## **2.2 Revenue Administration**

### **2.2.1 Rates**

Action in terms of Section 170 a (2) of the Urban Councils Ordinance had not been taken during the year under review too , to recover Rates amounting to Rs. 18,3381,744 due to be recovered to the Urban Council for the year under review and past years.

### **2.2.2 Lease Rent**

Action in terms of Section 170 a (1) of the Urban Councils Ordinance had not been taken during the year under review too , to recover Lease Rent amounting to Rs. 6,843,114 due to be recovered to the Urban Council for the year under review and past years.

### **2.2.3 License Fees**

Action in terms of Section 170 a (1) of the Urban Councils Ordinance had not been taken during the year under review too , to recover License Fees amounting to Rs. 676,669 due to be recovered to the Urban Council for the year under review and past years.

### **2.2.4 Court Fines and Stamp fees**

Courts Fines amounting to Rs. 822,501 and Stamp Fees amounting to Rs. 9,584,922 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31December 2014.

### **2.2.5 Non-recovery of 1 per cent License Fees from Tourist Hotels**

Although 1 per cent License Fee should be recovered based on the receipts of the preceding year from the Hotels, Restaurants and Lodging Houses registered in the Sri Lanka Tourism Development Authority in terms of Section 164 of the Urban Councils Ordinance, 1 per cent License Fee had not been recovered from 04 Hotels, Restaurants and Lodging Houses registered in the Tourism Authority, functioning in the area of authority of the Council.

### **3. Operational Review**

#### **3.1 Management inefficiencies**

Following observations are made.

- (a) Hikkaduwa Urban Council had been established and published by the Minister of Provincial Councils and Local Government vide Special Gazette Notification No. 1162/12 dated 13 December 2000. The portion of Assets and Liabilities to be transferred to the Urban Council out of the Assets and Liabilities belonged to former Hikkaduwa Pradeshiya Sabha had not been specifically done up to 20 August 2015, date of audit.
  
- (b) Declarations of Assets and Liabilities had not been furnished by the Vice Chairman and 07 Council Members as required in terms of the Declaration of Assets and Liabilities Act No. 01 of 1975 as amended by Act No. 74 of 1988 even up to 20 August 2015, date of audit.

#### **3.2 Operating inefficiencies**

Following observations are made.

(a.) Staff Loans

Loan balance of Rs. 183,769 due from 04 employees who were in service of the Council and left on transfers or retired had not been recovered over a period from 01 to 06 years.

Although a Loan Balance of Rs. 40,900 due from 13 substitute employees were in arrears during a period from 02 to 10 years, action had not been taken to recover that amount from the guarantors.

(b.) Employees Security Deposits

Security Deposits required to be furnished in terms of Financial Regulations 880 and 881 of the Republic of Sri Lanka had not been made by the officers except the Cashier and the two Property Distraining Officers up to 20 August 2015, date of audit.

(c.) Payment of Advances

Advances totalling Rs.204,665 as out of the advances granted to the officers and employees out of the Council Fund during the year 2014 amounting to Rs.57,000 and out of the advances granted prior to the year 2014 amounting to Rs. 147,665 had not been settled even up to 20 August2015, date of audit.

**3.3 Assets Management**

Although maintenance and repair works of 14 vehicles used by the Council are carried out by the Council, the ownership of those vehicles had not been vested in the Council up to 20 August 2015, date of audit.

**3.4 Idle Assets**

Although it had been informed to prepare a scheme by 05 June 2013, for disposal of old vehicles and machinery getting destroyed without being used in Government Institutions vide Circular No. PCMD/PR/2013 dated 05 June 2013 issued by the Secretary to the President, a Bako Loader, a Fire Extinguish Break Down Vehicle, a Gully Bowser and a Tractor had been kept getting corroded without action being taken to repair or for disposal even up to 20 August 2015, date of audit.

**4. Accountability and Good Governance**

**4.1 Budgetary Control**

It was observed that the budget had not been made use of as an effective tool of management as material variations were observed between the estimated and actual revenue and expenditure.

**5. Systems and Controls**

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

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Revenue Administration
- (d.) Assets Management