

Hikkaduwa Urban Council
Galle District

01. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been presented for audit on 10 June 2011 and the Financial Statements for the preceding year had been presented for audit on 03 May 2010.

1.2 Opinion

In view of my comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Hikkaduwa Urban Council for the year ended 31 December 2010 presented for audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Policies

- (a) Accounting policies that have been followed by the Sabha had not been revealed in the financial statements.
- (b) A cash flow statement had not been forwarded along with the financial statements.

1.3.2 Accounting Deficiencies

- (a) Hikkaduwa Urban Council had been declared on 15th april 2001 and its functions commenced on 15th April 2002 as directive by the Minister of Provincial Councils and Local Government through the Extraordinary Gazette Notification No.1162/12 dated 13 December 2000 of the Government of the Democratic Socialist Republic of Sri Lanka. However, no division had been done specifically even up to the date of audit on 12 July 2011 with regard to the portion to be vested to the Urban Council out of the assets and liabilities owned by the Hikkaduwa Pradeshiya Sabha prior to that.

- (b) The transactions of the year had been entered into the two control accounts of revenue and expenditure whilst no separate ledger accounts had been prepared in respect of revenue and expenditure items.
- (c) No separate ledger accounts had been maintained in respect of stamp fees and court fines.
- (d) There was a overdraft balance in the Current Account No.2757118 amounting to Rs.257,562 as at 31 December in the preceding year. That overdraft balance stated as Rs.258,897 as at 01 January of the year under review and a sum of Rs.1,335 had been overstated in the financial statements.
- (e) Although the cash balance amounted to Rs.1,769,934 as at 31 December of the year under review, it had been stated in the financial statements as Rs.1,883,424. Therefore, a sum of Rs.113,490 had been overstated.
- (f) Fixed assets valued at Rs.92,526 purchased and library book valued at Rs.64,477 received as donations during the year under review had not been capitalized.
- (g) A sum of Rs.17,049,500 had been received from the Department of Local Government for the reimbursement of salaries, it had been shown under one programme without being apportioned among the all programmes.
- (h) The court fines amounting to Rs.135,675 relevant to the month of January in forthcoming year had been accounted as revenue of the year under review by Journal entry No.18 and as a result of this revenue and debtors of the year under review had been overstated by the similar amount.
- (i) Warrants cost revenue amount to Rs.411,705 relating to the year under review had not been accounted under warrants charges and fines and stated erroneously as rates and taxes revenue by jornal entry No.26.
- (j) Works' debtors amounting to Rs.2,994,329 had been omitted from the financial statements.
- (k) Receivable amount of Rs.261,559 from the Commissioner of Local Government in respect of reimbursement of interest on property loans had been omitted from the financial statements.

1.3.3 Unreconciled Control Accounts

- (a) According to the control accounts relating to 04 items of accounts balances aggregating Rs.28,940,236 whilst according to the corresponding balance in the subsidiary records aggregating Rs.28,310,612.
- (b) According to the control accounts the balances of miscellaneous creditors and refundable deposits amounted Rs.6,327,285 and Rs.7,957,341 respectively whilst the difference could not be assessed due to non-reconciliation in balances of relevant schedules.

1.3.4 Lack of Evidence for Audit

- (a) Fixed assets, balances of liabilities totalling Rs.60,048,685 could not be satisfactorily vouched in audit due to the non- rendition of required information to audit.

- (b) **Unreplied Audit Queries**

Replies to 19 audit queries had not been furnished up to 31 December 2010 whilst the quantifiable value of transaction referred to in those audit queries amounted to Rs.52,708,617.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

Instances of Non-compliance observed in audit are given below.

**Reference to Laws, Rules,
Regulations etc.**

Non-compliance

- (a) **Financial Regulations of the Democratic
Socialist Republic of Sri Lanka (F.R)**

- (i) F.R.102 - 110 Reports on losses and damages had not been furnished to the audit and also a register of losses had not been maintained.

- (ii) F.R.261(3) and 387 The Bank Account No.275118 was overdrawn during the year under review due to taking actions contrary to the regulations and sum of Rs.13,055 had been paid as interest on overdrafts.
- (iii) F.R.395(a) and (b) Bank reconciliations had not been prepared monthly in respect of current accounts Nos.2757119 and 2757140.
- (iv) F.R.396(d) The necessary action had not been taken in connection with 14 cheques amounted to Rs.35,858 over 06 months remained unrepresented for payments, issued in relating to the Bank Account No.2757118.
- (v) F.R.571 The balances of refundable deposits amounted to Rs.7,957,341 as at 31 December of the year under review action had not been taken to settle or credit to the revenue of refundable deposits and lapsed deposits.
- (vi) F.R.756 An annual survey of stores had not been conducted as at last date of the year under review.
- (c) Treasury Circulars**

- (i) Circular No. IAI/2002/02 of 28 November 2002 of the Secretary to the Treasury A fixed assets register had not been maintained in respect of computers, accessories and softwares.
- (ii) Section 4.3 of the Public Financial Circular No.1/2004 dated 24 February 2004 Performance reports relating to the year under review had not been furnished to the Auditor General.

02. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, the excess of revenue over recurrent expenditure of the Pradeshiya Sabha for the year ended 31 December 2010 amounted to Rs.2,057,962 as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.464,513.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Even though the Chairman was requested to present the information relating to the estimated revenue, actual revenue and arrears of revenue for the year under review and preceding year, the said information were not presented for audit.

2.2.2 Arrears of Rates and Taxes

Action had not been taken to recover rates and taxes amounted to Rs.8,833,059 and rent amounted to Rs.673,804 recoverable to the Urban Council for the year under review and preceding years as per Section 170 of the Urban Council Ordinance.

2.2.3 Court Fines

Court Fines amounting to Rs.645,880 collected and remitted to the Provincial Commissioner of Revenue up to 31 December 2010 by 02 Magistrates' Courts under the various Ordinances were receivable by the Council.

2.2.4 Stamp Fees

A sum of Rs.5,171,000 was receivable as at 31 December 2010 from the Registrar General as stamp fees.

2.3 Expenditure Structure

The budgeted and actual expenditure and the variances of the Sabha for the year under review and preceding year 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
Recurrent Expenditure						
Personal Emoluments	27,132		26,710	422		24,370
26,281	(1,911)					
Others	18,347		12,366	5,981		
16,038	22,427		(6,389)			
Sub Total	45,479	39,076		6,403		40,408
48,708	(8,300)					
Capital Expenditure	9,485		3,752	5,733		16,335
12,363	3,972					
Grand Total	54,964		42,828			12,136
56,743	61,071		(4,328)			

2.4 Human Resources Management

Particulars of the approved and actual cadre of the Sabha as at 31 December 2010 are shown below.

Grade of Employee	Approved	Actual
Staff	05	02
Secondary	22	16
Primary	50	44
Others (Casual, Temporary)	-	55

According to the Management Services Circular No.28 dated 10 April 2006, if recruitment is done on the basis of permanent / temporary / casual / substitute / contract or any other basis, the prior approval of the Management Services Department should be obtained. Without such approval 55 employees had been

recruited by the Council on casual and temporary basis and were engaged in the service.

2.5 Assets Management

Staff Loans Recoverable

Staff loans balances recoverable as at 31 December 2010 amounted to Rs.4,346,223 whilst the balances of accounts outstanding for the period over one year aggregating Rs.57,750.

2.6 Surcharges

A value of surcharge imposed by me under statutory provisions recoverable as at the end of the year under review amounted to Rs.881.

2.7 Identified Losses

The Back-hoe Loader machine valued at Rs.4,300,000 owned by the Council had met with an accident on 24 March 2008 and it had been sent for repairs on 08 April 2008. An estimate for Rs.2,698,150 had been given by the agency to the council. The following observations are made in this connection.

- (i) Although request had been made to receive insurance benefits in connection with the accident, the Insurance company had refused the payment of benefits.
- (ii) Inquiry report in respect of the damage had not been furnished to the Auditor General as per Financial Regulation 102-110.
- (iii) Site inspection conducted on 07 July 2011 and observed that, only the engine of the Back-hoe Loader machine was lying at Urban Council Garage.
- (iv) It was observed in audit that three years had been elapsed for the repairs of the machine and repairs had not been attended. Hence, it was observed in audit that uncertainty in damage is being prevailed to the asset.

2.8 Idle Assets

An ambulance with medical equipment and a fire extinguish vehicle with disaster equipment valued at Rs.40,810,041 had been given to the Council in September 2008 by the Ministry of Local Government and Provincial Councils. The ownership of the vehicles had not been vested to the Council, although 02 year and 10 months had been elapsed even as at the date of audit on 07 July 2011 and those vehicles were lying idle within that period. Similarly, it was observed that batteries and accessories of the vehicles had been removed from the vehicle.

2.9 Irregular Payments

According to the Section 159(i)(f) of the Urban Council Ordinance (255 chapter) expenditure totalling in connection with festivals and activities on public importance should not be incurred over Rs.5,000 in any year. When exceeding that amount the prior approval of the Minister should be in obtained in writing. Without such an approval a sum of Rs.382,394 had been incurred during the year 2010 as festivals expenditure.

2.10 Operating Inefficiencies

(a) Dormant Bank Accounts

Action had not been taken by the Council to close down dormant Distress Management Current bank Account and the balance was Rs.2,248 as at 31 December of the year under review.

(b) Preparation and Issues of Premix

Ten barrels of collas in 200 litres capacity had been purchased for the amount of Rs.166,613 on 10 March 2010 for the preparation of premix and entered into the stock book. The following observations are made in this connection.

- (i) Receipts and issues of other required materials for the production of premix such as sand and chip metal had not been entered into the stock book.
- (ii) Similarly, produced premix quantities and premix issues for works had not been entered into the stock book. Accordingly, it was observed that, the stock control had been at a very weak level.

03. Systems and Controls

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

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