

Hikkaduwa Urban Council

Galle District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 15 May 2013 and the financial statements for the preceding year had been presented on 09 July 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 17 October 2013.

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 Hikkaduwa Urban Council had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my 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 Hikkaduwa Urban Council as at 31 December 2012 and the financial results of its operations for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) The Minister of Provincial Councils and Local Government had declared the Hikkaduwa Urban Council with effect from 15 April 2001 by the Gazette Extra Ordinary No.1162/12 of the Democratic Socialist Republic of Sri Lanka published on 13 December 2000. Out of the assets and liabilities owned by the then Hikkaduwa Pradeshiya Sabha, the portion to be vested with the Urban Council with effect from 15 April 2002 had not been specifically decided even as at 07 July 2013; the date of audit examination.
- (b.) Revenue from trade licence fees amounting to Rs.60,313 had been written-off through Journal Entry No.12 without specially identifying the revenue and without obtaining the approval of the Minister in-charge of the Subject.

(c.) The total of the balances relating to 02 items of accounts amounted to Rs.14,256,574 as per relevant control accounts and the total of the balances as per subsidiary registers amounted to Rs.14,103,898 thus indicating a difference of Rs.152,676.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.86,435,164 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

2. Financial and Operating 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 2012 amounted to Rs.9,711,141 as compared with the excess of revenue over recurrent expenditure amounting to Rs.2,566,095 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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

Item of Revenue -----	Estimated -----	Actual -----	Cumulative Arrears as at 31 December -----
	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	10,400	5,587	9,243
(ii.) Lease Rent	13,460	1,340	632
(iii.) Licence Fees	1,350	812	260
(iv.) Other Revenue	39,204	47,207	12,099

2.2.2 Rates and Taxes, Lese Rent and Licence Fees

Rates and Taxes amounting to Rs.9,242,879; lease rent amounting to Rs.632,356 and licence fees amounting to Rs.259,725 recoverable by the Council for the year under review and previous' years had not been recovered in terms of Section 170 of the Urban Council Ordinance.

2.2.3 Trade Licence Fees

A spot check carried out on 06 June 2013 on recovery of trade licence fees revealed that trade licence fees amounting to Rs.18,000 had not been recovered for the year 2012 in respect of 06 telephone transmission towers constructed within the area of authority of the Council.

2.2.4 Court Fines and Stamp Fees

Money receivable as at 31 December 2012 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
(i.) Court Fines	500,762
(ii.) Stamp Fees	9,010,800

2.2.5 Stall Rent

76 stalls of the Ground Floor of the New Two Storied General Market, Hikkaduwa including 64 stalls and 12 fish stalls had been leased out during 2012 to 63 stall owners of the old market and 13 stalls had been leased out through tenders.

According to Condition No.30 of the agreement entered into by the Council with the stall owners, key-money of stalls amounting to Rs.10,765,121 should be completely paid at 06 equal installments within 06 months. However, key-money amounting to Rs.4,653,191 was outstanding as at 06 June 2013; the date of audit examination.

18 loan installments amounting to Rs.3,578,895 were payable as at 31 December of the year under review in respect of loans obtained from the Local loans and Development Fund.

2.3 Irregular Transactions

A sum of Rs.42,000 had been paid to 05 Peoples' Representatives and 05 Officers' during the year under review for the participation in committee meetings; in addition to the allowances fixed by the Gazette Extra-Ordinary No.1413/15dated 05 October 2005 of the Republic of Sri Lanka.

2.4 Damages to the Bacho Machine

The Bacho Machine purchased at Rs.4,300,000 by the Council during the 2004 had been damaged on 24 March 2008.

- (a.) Even though 05 years had passed, reports on losses and damages in terms of Financial Regulation 104(3) and (4) of the Republic of Sri Lanka had not been submitted in respect of the damages to the Bacho even by 11 June 2013; the date of examination.
- (b.) An estimate for Rs.1,253,385 had obtained from a private company on 27 November 2011for repairing the Bacho; but the repairs had not been done up to 11June 2013.
- (c.) According to Section 1.2 of the Public Finance Circular No.353(5) dated 31 August 2004 of the Deputy Secretary to the Treasury, a Board of Valuation should be appointed including an Engineer/ Technical Officer named by the Chief Accounting Officer and an officer of the Department of Valuation for valuation and fixing the lowest bid for auction. Nevertheless, the Mechanical Engineer of the Department of Local Government, Southern Province had fixed a lowest bid of Rs.1,200,000 for the auction of the machine.

2.5 Operating Inefficiencies

An action plan had not been prepared for the year under review in terms of the letter No.PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance. An annual procurement plan had not been prepared in terms of National Budget Circular No.128 dated 24 March 2006.

2.6 Internal Audit

The Internal Audit programme and the reports on the internal audit examinations relating to the year under review had not been submitted to audit,

3. Systems and Controls

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

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