

Tangalla Urban Council
Hambanthota District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review and the preceding year had been submitted to Audit on 14 July 2014 while the Auditor General's Report relating to the year under review was sent to the Chairman of the Council on 23 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Tangalla Urban Council as at 31 December 2013 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Although the accounts should be prepared by the Local Authorities with effect from 01 January 2011, according to the Sri Lanka Public Sector Accounting Standards, in terms of the Circular No. PED/54 dated 19 January 2010 of the Director General of Public Enterprises, those standards had not been followed.

1.3.2 Accounting Deficiencies

The following observations are made.

- (a.) Although a sum of Rs.4,378,602 had been provided under creditors for contributions towards Local Government Pension Contributions, as at 31 December 2013, according to the Provincial Public Service Pensions Contribution Bills, it had been Rs.4,432,486. Accordingly, provisions had been made for lessor amount of Rs.53,884.
- (b.) A sum of Rs. 85,135 had been paid on 10 September of the year under review in respect of the audit Fees payable for the year 2011. While it had been settled, creditors had been provided again and settled, previous creditors allocation of Rs.50,000 had been brought forward continuously.
- (c.) In calculating Fixed Deposits Interest relevant to the year under review, Interest Revenue had been accounted in a lessor sum of Rs.30,186 due to disregarding the accounting period in accounting.
- (d.) A difference of Rs. 167,232 was observed due to crediting a sum of Rs. 49,967,353 having debited a sum of Rs.50,134,585 to the Revenue and Expenditure Account relating to 4 Items of Accounts through Journal entry number 54.

- (e.) Stamp Fees Revenue relevant to the year under review was Rs. 3,250,580. However, cash received during the year under review relating to the years 2011, 2012 and period up to April 2013 and the amount provided as debtors for the year 2013 totalling Rs. 4,752,330 had been credited to Revenue and Expenditure Account resulting an overstatement of that revenue in a sum of Rs. 1,501,701.
- (f.) Although a sum of Rs.2,192,066 as the total of Stamp Fees receivable for the years 2006, 2007, 2008, 2009 and 2011 had been included in the Sundry Debtors of the Balance Sheet; it was observed that there was no such amount to be received according to records.
- (g.) A sum of Rs. 3,700,475 had been shown under Sundry Debtors in the Balance Sheet for the year 2012 as an amount receivable from the Southern Provincial Council. However, all amounts receivable relevant to the year 2012 had been received during the year 2013. Although, a sum of Rs. 1,780,300 was receivable from the Southern Provincial Council as Stamp Fees for the year 2013, only a sum of Rs. 363,000 had been shown under Sundry Debtors in the Balance Sheet resulting understatement of Sundry Debtors in a sum of Rs. 1,417,300.
- (h.) Although a sum of Rs. 45,636 was to be reimbursed by the Ceylon Electricity Board for maintenance of street lamps as at 31 December 2013, it had not been shown as Debtors in the Balance Sheet. Although a sum of Rs. 34,227 had been shown as Debtors in the balance Sheet for maintenance of street lamps for the year 2012, that amount had been received on 26 February 2013 vide receipt No. 13078.
- (i.) Although a sum of Rs. 500,113 had been shown as Debtors in the Balance Sheet as the total amount receivable for of street lamps during the years from 2005 to 2009 it was observed that there was no such amount to be received according to register or files.
- (j.) Although a sum of Rs. 197,357 had been provided as Value Added Tax for the year 2012, a sum of Rs. 146,403 only had been remitted during the year 2013 as Value Added Tax relevant to the year 2012. Adjustments had not been made with regard to the sum of Rs.50,954 over provided.

1.3.3 Non-reconciled Control Accounts

Disparities amounting to Rs. 1,512,501 between the balances relating to two items of accounts shown in the financial statements prepared for the year under review and the balances shown in the subsidiary schedules/records were observed.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2013 amounted to Rs.812,559 as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.2,334,044.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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

Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	2,600	2,779	2,274
(ii.) Lease Rent	8,674	5,796	7,225
(iii.) Licence Fees	542	347	24
(iv.) Other Revenue	83,798	41,503	10,694

2.2.2 Rates

While outstanding arrears of Rates as at 31 December 2013 were Rs.2,190,732, action in terms of Section 170(a) of the Urban Councils Ordinance had not been taken to recover those arrears. It had been informed me by the Chairman in his reply letter dated 05 December 2014 that a sum of Rs. 494,083 was recovered out of the balances in arrears.

2.2.3 Stalls Rent

- (i.) Although the stall rent for all the stalls should be decided on the basis of assessments obtained from a Valuer in terms of Paragraph 02 of the Circular No SLG/2010/01 dated 27 December 2010 of the Southern Commissioner of Local Government, basis of deceiving the rent of 54 stalls belong to the Council was not furnished to audit. There were variations between the monthly lease rent referred to in the agreements and the lease rent recovered at present as well.
- (ii.) Although every agreement should be updated once in every 03 years in terms of the paragraph 05 the circular mentioned above, such action had not been taken with regard to the stalls belong to the Council.
- (iii.) Although the transfer of ownership of the lease should not be made by the lessee to another party without approval of the Council, according to paragraph 11 of the circular mentioned above it was observed according to the files that business activities of number of stalls are done by other parties.

- (iv.) Although the transfer of ownership could be made to the relevant individuals at the request of the lessee or upon his death in terms of paragraph 09 of the circular mentioned above, the ownership of the lease had not been transferred having signed the agreements.
- (v.) Although 24 stalls located in the Market Complex close by the Tangalla Bus Stand had been transferred to the Council during the year 2008 by the Ceylon Fisheries Corporation, action had not been taken to assess and recover the rent. An old arrears sum of Rs. 179,336 was outstanding to be recovered as at September 2011.

2.2.4 Lease Rent of Rest House

While the Rest House belongs to the Council had been taken on lease by the Urban Development Authority, the total sum outstanding to be recovered as at 31 December 2013 amounted to Rs. 3,131,012. The Council had not entered into an agreement with the lessee. Although the annual lease rent to be recovered to the Urban Council had increased annually, action had not been taken to recover those dues in terms of Section 170 a (1) of the Urban Councils Ordinance. The Chairman by his letter of reply dated 05 December 2014 had informed that a sum of Rs.471,500 out the amount in arrears was due to overbilling consequent to reduction of tax percentage on unilateral basis by the Urban Development Authority.

2.2.5 Land Tax

While the block of land close to the Urban Council had been leased out to a certain individual for sum of Rs.300 having entered into an agreement on 18 August 1983, according to the file maintained by the Council it was confirmed that the land had been occupied having put up a permanent structure. It was observed that the properties of the Council are subjected to improper use and it had not been possible take legal action, due to failure in leasing out land properly after updating the agreement.

2.2.6 Licence Fees

There was an arrears amount of License Fees totalling Rs. 23,000 as at 31 December 2013 due to non-recovery License Fees having imposed the fees in terms of Section 162(1) of the Urban Councils Ordinance. The Chairman by his letter of reply dated 05 December 2014 informed me that a sum of Rs. 14,000 was recovered out of that amount.

2.2.7 Other Revenue

Charges at the rate of Rs. 100 per kilo meter and a sum of Rs. 10,000 as service charges had been recovered by the Council for the service of the Fire brigade. An audit examination carried out in this connection it was revealed that an arrears sum of Rs.179,100 outstanding to be recovered for providing the service of the Fire brigade had not been recovered even as at 20 February 2014. Amounts in arrears in respect of the years 2011 and 2012 too were included in that balance of arrears.

2.2.8 Cases Filed for Recovery of Revenue

A sum of Rs.3,797,932 had been shown in the Balance sheet as at the end of the year under review as an amount outstanding to be recovered in respect of cases filed by the Council for recovery of revenue.

2.2.9 Revenue relating to Cleaning Service for Tangalla Base Hospital

A sum of Rs. 3,463,120 was receivable for providing cleaning service as at 31December 2013.

2.2.10 Stamp Fees

The amount of Stamp Fees due from the Chief Secretary to the Provincial Council and other authorities was Rs.6,674,101 as at 31 December 2013.

3. Operating Review

3.1 Management Inefficiencies

(a.) Staff Loans

Staff Loans outstanding to be recovered as at 31 December 2013 was Rs. 183,626. Although the loan balances of employees who had vacated posts and deceased employees could be recovered from their guarantors had not been taken to do so, while action had not been taken to recover the sum totalling to Rs. 85,363 due from the two employees in service at present and the officer who left on transfer to teaching service even up to 20 February 2014.

(b.) Non-issue of Certificates of Conformity

Although action should be taken in terms of Urban Development authority (Plans and Buildings) Order No. 07 of 1986, published in the Extra Ordinary Gazette Notification No. 392/9 dated 10 March 1986 to issue Certificates of Conformity in respect of the buildings plans approved by the Council having supervised the work after completion of the construction works or to extend the time, such action had not been taken with regard to 37 plans approved during the year 2011, 36 plans approved during the year 2012 and 13 plans approved during the year 2013.

(c.) Non-payment of Salaries according to the Slay Scales

A sum of Rs. 53,069 had been under or over paid as salaries and allowances due to non-payment of daily pay salaries relating to nine employees in the posts of drivers, watchers and library assistants, according to the Public Administration Circular No. 6/2006 dated 25 April 2006.

3.2 Operational Inefficiencies

3.2.1 Advances

Action had not been taken to settle advances amounting to Rs. 653,838 granted during the years from 2011 to 2013 even up to 08 August 2014.

3.2.2 Improper Transactions

Although it had been stated that all expenditure to be incurred for providing facilities of official telephones to residences of the Council Members and maintenance could be met from the Council Fund in terms of Section 159(f) of the Urban Councils Ordinance, it was observed that a sum of Rs. 15,653 being the cost of providing PEO TV connection to the residence of the Chairman had been incurred out of the Council Fund, as per Council's decision No.5.3 dated 30 May 2011 contrary to the provisions in the Ordinance.

3.2.3 Payments for Foreign Tours

According to the letter dated 28 May 2013 of the National Coordinator of the Society of the Local Authorities of Sri Lanka, the 8th General Conference of Mayors for the Peace had been held in Japan from 03 to 06 August 2013, and the Chairman had participated in that. Although the amount that could be paid as combined, subsistence and incidental expenses was Rs. 352,566 for participation in that, according to the Circular No. M.F.P.1/2010/1 dated 01 October 2010; a sum of Rs. 48,736 had been overpaid due to payment of Rs.401,302.

3.3 Assets Management

Idle Assets

Backo Loader Machine No.SPRS 1405 of type JCB 3CX SITEMASTER had been kept idle without being used since the year 2009.

3.4 Contract Administration

A sum of Rs.17.8 million had been spent for the construction of a Rest Building for fishermen under the Post Tsunami Coastal Rehabilitation and Resource management Programme and Post Tsunami Living Assistance Programme (IFAD Project).

- (i.) Although these construction works had been completed, it had not been commissioned for public benefit even up to 20 February 2014.
- (ii.) Although the Chairman had informed me in his letter of reply dated 28 November 2013, that the Rest Building will be commissioned for public benefit during December 2013, action had not been accordingly.

3.5 Environmental Problems

The Crematorium-keeper had informed the Council by his letter dated 07 February 2013; that the crematorium cannot be used as there is leakage of smoke causing difficulties to the residents in the neighborhood. The Technical Officer of the Council and the Public Health Inspector as well had informed that carrying out cremation in this crematorium is unsuitable. In spite of the fact that it had been intimated the risk, 15 cremations had been carried out in the crematorium during February to October.

4. Accountability and Good Governance

4.1 Budgetary Control

A high variation between the budgetary provisions for the year 2013 and actual expenditure was observed indicating that the Budget had not been made use of as an effective tool of management.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Vehicles Control
- (d.) Staff Management