

Hatton Dikoya Urban Council

Nuwaraeliya 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 31 March 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 06 July 2015.

1.2 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 Hatton Dikoya Urban Council as at 31 December 2014 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

Accounting Policies based in the preparation of the financial statements submitted had not been disclosed together with the financial statements.

1.3.2 Accounting Deficiencies

The value of the Tractor Vehicle received as donation in connection with the Local Government Week had not been identified and accounted.

1.3.3 Accounts Receivable

While the value of Accounts Receivable balances as at 31 December 2014 amounted to Rs. 10,074,860, the account balances that had elapsed for a period of one year included therein had been Rs5,319,596.

1.3.4 Accounts Payable

While the value Accounts Payable balances as at 31 December 2014 amounted to Rs.42,018,971, the account balances that had elapsed for a period of one year included therein had been Rs. 28,992,296.

1.3.5 Lack of evidence for audit

Five Items of accounts valued at Rs.32,669,345 shown in the financial statements as at 31 December of the year under review could not be satisfactorily examined or accepted in audit due to non-submission Board of Survey Reports.

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

Following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

**Reference to Laws, Rules,
Regulations and Management
Decisions**

Non-compliance

- | ----- | ----- |
|--|---|
| (a) Financial regulation No.371 (2) of the Republic of Sri Lanka | Advances amounting to Rs. 5,507,610 obtained in 94 instances during the years from 1987 to 2014 had not been settled. |
| (b) Clauses 1.6 and 04 in Chapter XXIV of the Establishments Code of the Republic of Sri Lanka | Action had not been to recover Staff Loans amounting to Rs.39,727 remaining from 03 officers who had gone on transfers and retired after serving the Council. |
| (c) Circular No. 46 dated 31 December 1980 of the Commissioner of Local Government | Action had not been taken to assess and revise the lease money after the year 2006 with regard to trade stalls belong to the Council |

2. Financial 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.15,765,173 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 7,604,958.

2.2 Analytical financial Review

When the surplus for the year under review is compared with the surplus for the preceding year, there had been an increase in a sum of Rs. 8,160,215. It was due to increase of revenue in 2014 from 07 revenue items in a range from 05 per cent to 532 per cent and decrease of expenditure in 05 expenditure items in a range from 12 per cent to 78 per cent.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

| Revenue Item | Arrears as at 01.01.2014 | Recovery Out of arrears as at 01.01.2014 | Billings during the year 2013 | Recoveries out of billings during the year | Arrears as at 31 December 2014 | | |
|--------------|-----------------------------|---|--|--|---------------------------------------|---------------------------------------|---------------|
| | | | | | Out of Arrears as at 01.01.2014 | Out of billings during the year | Total Arrears |
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Rates | 3,655,500 | 2,210,401 | 7,248,678 | 6,077,350 | 1,445,419 | 1,171,328 | 2,616,427 |
| Lease Rent | 6,119,579 | 4,477,107 | 11,114,434 | 8,826,091 | 1,642,470 | 2,288,347 | 3,930,817 |
| License Fees | 220,838 | 220,712 | 2,061,239 | 1,968,885 | 126 | 92,353 | 92,479 |

2.3.2 Lease Rent

Following matters are observed.

- (a) Meat Stalls Rent Revenue amounting to Rs. 555,420, relevant to the period from the years 1993 to 2009 had not been recovered even as at 31 December of the year under review.

- (b) A sum of s. 172,350 was outstanding to be recovered from 06 fish stalls in front of the Hatton New Market as at 31 December 2014. Although any payment had not been made in respect of 05 stalls out of those during the year 2014, any course of action had not been taken by the Council to recover that money.
- (c) Although a sum of Rs. 525,272 was outstanding to be recovered as at 31 December of the year under review for leasing out M.A.S. Abusali Hall at Dickoya belongs to the Council, any course of action had not been taken by the Council to recover that money.
- (d) Course of legal action had been taken by the Tendered Person who was subject to discrimination due to leasing out the Beef Stall No. 13 of the Hatton Market contrary to the tender procedure. While a Lawyers Fee of Rs. 100,000 had to be paid for that, a Rent Revenue of Rs. 931,000 had been lost to the Council in 2004 accordingly.
- (e) In spite of the fact that 08 trade stalls in the Hatton Star Square belong to the Council had been assessed as Rs. 7,500 per stall as at the date of 05 February 2014, recoveries were being made at the rate of Rs. 1,500 per month. Accordingly, a financial loss of Rs. 66,000 had occurred to the Council during the year 2014.

2.3.3 Court Fines and Stamp Fees

 Amounts receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014 are shown below.

| | Rs. |
|-------------|-----------|
| Court Fines | 224,750 |
| Stamp Fees | 3,474,251 |

2.3.4 Rates

A large amount of revenue had been lost to the council due to failures in timely assessment of 375 Trade Stalls liable to pay Rates.

2.4 Surcharges

Value of Surcharges due to be recovered as at 31 December 2004 of the year under review in connection with surcharges imposed by me against the persons responsible, in terms of Section 182 (1) of the Urban Councils Ordinance (Chapter 255) was Rs. 29,692.

3. Operating Review

3.1 Performance Evaluation

Progress Reports and Administrative Reports indicating physical and financial performance in compliance with the Annual Action Plan had not been prepared.

3.2 Operational Inefficiencies

Following matters are observed.

- (a) A large sum of revenue had been lost to the Council due to failure in taking action to assess and revise the leased money of the lands belong to the Council at least once in 05 years.
- (b) Any course of action had not been taken to recover the sum of Rs. 736,736 due as Monthly Rest House Management Fees relevant to the Hatton Rest House.

3.3 Environment License Fees

Licenses had not been issued to Business Entities liable to obtain licenses in terms of Extra Ordinary Gazette Notification No 1533/ 16 dated 25 January 2008 issued by the Minister of Environmental and Natural Resources under Section 23 (a) of the National Environmental Act No. 47 of 1980. According to the inspection carried out on 18 September 2014, 34 Business Entities liable for Environmental Licenses had not obtained Environmental Licenses causing a loss of revenue amounting to Rs. 165,600 to the Council.

4. Accountability and Good Governance

4.1 Budgetary Control

According to the Budget prepared for the year under review, when estimated revenue and expenditure are compared with the actual revenue and expenditure, variations from 13 per cent to 278 per cent in 06 Items of revenue and variations from 12 per cent to 95 per cent in 04 items of expenditure were observed. Accordingly, it was observed that the Budget had not been made use of as an effective tool of management.

4.2 Audit Queries not replied and resolved

Replies had not been furnished to 12 audit queries as at 31 December 2014.

4.3 Procurement Plan

An Annual Procurement Plan had not been prepared in terms of Chapter 4.2 of the Government Procurement Guidelines.

4.4 Internal Audit

An Adequate Internal Audit had not been carried out in terms of Financial Regulation 133 of the Republic of Sri Lanka and the Circular No. DMA/2009/01 dated 09 June 2009 of the Department of Management Services.

5. Systems and Controls

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

- (a.) Internal Control
- (b.) Revenue Administration
- (c.) Debtors and Creditors Control
- (d.) Assets Management