

Ambalangoda Urban council

Galle District

1 Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year under review and the preceding year had been presented to audit on 30 March 2016 and 31 March 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Council on 16 December 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the effects of the matters described in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Ambalangoda Urban Council as at 31 December 2015 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 Deficiencies

The following accounting deficiencies were observed.

- (a) The estimated stamp fees revenue of Rs.15, 000,000 for the year under review had been brought to accounts as revenue of the year.
- (b) The value of 10 mobile canopies received from the Department of the Local Government to the Council as donations had not been assessed and brought to accounts.
- (c) The value of 3 motor vehicles' costing Rs.30,065,714 received as donations had been capitalized under the revenue contributions to the capital employed account instead of capitalizing under the contributions from grants account.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs.3,483,232 were observed between the balance totaling Rs.25,223,497 relating to 9 items of accounts included in the financial statements and the balances appeared in the related subsidiary books and records.

1.3.3 Accounts receivable

Accounts receivable balances totaling Rs.88, 305,874 remained as at the end of the previous year had improved to the Rs.91,200,000 as at 31 December of the year under review. Although the outstanding rest houses rent of Rs. 8,334,529 and the outstanding entertainment taxes amounting to Rs. 746,087 included therein had remained outstanding for more than 5 years, action had not been taken to recover them even in the year under review.

1.3.4 Accounts Payable

Unsettled liabilities totaling Rs. 66,442,579 were observed as at the end of the year under review and action had not been taken to settle those liabilities.

1.3.5 Lack of Evidence for Audit

Due to non- rendition of evidence such as the registers to ensure the balances of 9 accounts totaling Rs. 13,649,081 and the letters of confirmation thereof, the updated register of fixed assets stating the dates of purchase and donations in respect of fixed assets totaling Rs. 73,764,420 etc. they could not be satisfactorily examined in audit.

1.3.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Action in terms of Financial Regulation 396(d) of the Republic of Sri Lanka in respect of 31 cheques totaling Rs. 198,888, the validity period of which was elapsed, issued but not presented for payments relating to 2 banks accounts had not been taken.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, to audit the revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.14,757,494 as compared with the revenue over recurrent expenditure for the preceding year amounted to Rs. 20,948,592. Accordingly the financial result of the year under review had indicated a deterioration of Rs. 6,191,098.

2.2 Analytical Financial Review

- (a) As compared with the preceding year, the recurrent expenditure over recurrent revenue of the year under review had been 86 percent and as such the expenditure of the council had been at a considerable high level.
- (b) A detailed summary of revenue grants self-operating revenue and the recurrent expenditure is given below.

Year	Total recurrent expenditure	Revenue grant	Self-operating revenue	Total recurrent expenditure	Recurrent expenditure over self-operating revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	106,834,167	63,663,525	43,170,642	92,076,672	48,906,030
2014	98,406,501	46,913,888	51,492,613	77,457,908	25,965,295
2013	93,016,099	43,520,442	49,495,657	76,153,722	26,658,065

The following observations are made in this correction.

- (i) Considerable enhancements in the receipt of revenue grants had indicated every year
- (ii) Although the recurrent expenditure of the Council had continuously increased by considerable values attention of the Council had not been paid to control expenditure.
- (iii) A deterioration of Rs. 8,321,971 or 16 percent had indicated in the self-operating revenue in the year under review as compared with the preceding year
- (iv) Recurrent expenditure over self-operating revenue had existed in the year under review as well as in the preceding 2 years by considerable values. As such it was indicated that without getting revenue grants, the recurrent expenditure could not be covered from the revenue of the Council in any way.

2.3 **Revenue Administration**

2.3.1 **Rates**

The following matters were observed.

- (a) There was an outstanding balance of Rs. 2,902,491 as at the end of the year under review receivable from 31 rate payers who had the outstanding balance over Rs.50,000 in 8 assessment divisions. Action terms of section 170(2) of the Urban Councils Ordinance had not been taken to recover the arrears of rates.
- (b) The arrears of rates of revenue, collected by 3 revenue overseers during the year under review had been only Rs. 320,663 which represented 3 per cent of the opening arrears.

2.3.2 Lease Rent

The outstanding lease rent balance from 10 trade stalls as at the end of the year under review observed at Rs. 1,459,333. It included a sum of Rs. 159,564 outstanding for more than 3 years from 4 trade stalls and a sum of Rs. 876,617 outstanding for the period from 01 to 03 years from 5 trade stalls.

2.3.3 Stamp Fees

Receivable stamp fees revenue included in the arrears of other revenue balance as at the end of the year under review amounted to Rs. 49,859,838, out of which a sum of Rs. 40,239,705 had been the arrears receivable prior to the previous year as well.

3. Operating Review

3.1 Performance Evaluation

The following matters were observed.

- (a) Even though the estimated capital expenditure amounted to Rs. 28,338,000 the actual capital expenditure amounted to Rs. 3,233,976 and as such savings of Rs.25,104,024 were observed representing 89 per cent of the estimated provision. Accordingly it was indicated a backward trend in the utilization of money allocated for the development of the area of authority of the Council for the actually intended objectives. It was observed that it was a detriment to the council as well as for the development of the area of authority.
- (b) A sum of Rs.4,741,579 received for 7 projects in the area of authority of the Urban Council had not been utilized for the implementation of those project and deposited in 3 deposit accounts since 3 years.

3.2 Management Inefficiencies

The following matters were observed.

- (a) There was an excess cadre of 41 posts not approved in the cadre plan and 8 vacant posts existed. Action had not been taken to regularize the excess posts and to fill vacancies even in the year under review.
- (b) compensation money Rs. 3,984,864 given for the acquisition of lands for the by road connected with the new road in front of the Ambalangoda clock tower and the main street, had been included in the creditors balance since 2013. Action had not been taken to pay compensation and to settle it.
- (c) Without charging lump sum in terms of the agreement, the fisheries market complex balancing to the Council had been leased out. Though there was an outstanding balance of Rs. 259,584 by the end of the year under review action had not been taken to recover same.

- (d) Action had not been taken to recover the loan balance of Rs. 141,794 due from 14 employees who had retired, gone on transfer and the loan balance of Rs. 51,245 . from 50 casual and substitute employees from them or their sureties.
- (e) The fuel consumption of 21 motor vehicles used by the Council had not been tested in terms of Circular No 41/90 dated 10 October 1990 and the revenue license had not been obtained for the year under review to 9 motor vehicles.
- (f) A surcharges of Rs. 71,937 had to be paid as a result of non-remittance of contributions to the Employees Provident Fund in respect of 63 casual and substitute employees, as specified and computed on delays. However, action had not been taken in respect of officers responsible for it in terms of Financial Regulation 156 (1) of the Republic of Sri Lanka.

3.3 **Operating Inefficiencies**

A sum of Rs.11,543,247 had to be spent from the Councils Fund for the payment of salaries and advances of employees appointed of the council.

3.4 **Contract Administration**

A sum of Rs. 3,000,000 had been estimated to build a jogging path in one side of the road from Thalgasgoda podi palama to maha palama within the Ambalangoda Town limit under the Criteria Based Development grants of the year 2013. A sum of Rs. 53,760 for the publication of procurement notice and a total sum of Rs. 2,323,859 for the first and the second part payments to a private institution according to the agreement (Subject to the approval of the local government engineer) had been paid. The following observations are made in this connection.

- (a) The project had been temporary suspended due to Ambalangoda Batapola road had sunk.
- (b) Before being commenced the project, a preliminary feasibility study had not been conducted and 80 percent of the estimated amount had been paid without the recommendation of the technical officer.

3.5 **Solid Waste Management**

The following matters were observed.

- (a) The machine received for the commencement of a waste management project had been retained in the stores since 2012 without being used for any useful purpose. Any information whatsoever was not available, with the Council about the date of receipt of the machine from which institution it was received and its value had also not been taken to the financial statements, Similarly, action had not been taken to prepare a formal methodology for the waste management of the area and to implement it.

- (b) Twenty nine garbage containers received from the Department of Local Government in the year 2014 under the National Programme for the collection of garbage being grouped in order to improve the waste management in the Local Authorities had been stored without being used.

4. Good Governance and Accountability

4.1 Budgetary Control

Due to such reasons as savings totaling Rs.16,227,696 in 6 expenditure objects included in the annual Budget, expenditure of Rs.501,367 in another expenditure object in excess of limits, the existence of targeted revenue of Rs. 11,924,914 in 5 revenue items which had not been reached, lack of provision for capital expenditure equivalent to 30 percent from the self-operation revenue etc. the budget had not been made use of as an effective instrument of financial management.

4.2 Internal Audit

Although a sufficient internal audit had not been carried out in terms of Financial Regulations 133 and 134 of the Republic of Sri Lanka and the circular No. දළපා/ශන/01/න.ව.මළ dated 04 February 2014 of the commissioner of Local Government (Southern Province), salaries and allowances of Rs. 461,040 had been paid to the Internal Audit Officer during the year under review

4.3 Audit and Management Committee

Action had not been taken to establish the audit and Management committee in terms of management Audit circular No DMA/2009(1) dated 09 June 2009 even by the end of the year under review.

4.4 Assets Management

(a) Idle and underutilized assets

The following matters were observed.

- (a) (i) Action in terms of Treasury Circular No.02/2015 dated 10 July 2015 had not been taken to repair and use or dispose of a tractor, three wheeler and a hand tractor which were being dilapidated in the council's premises.

(ii) The stock of timber valued at Rs. 181,197 purchased even before the year 2014 included in the stock balance shown in the financial statement of the year under review had remained in the store even by 31 July 2016.

- (b) The modernization of the building in which the Ayurvedic Centre of the council was located had been commenced as a Fitness Centre by incurring an expenditure of Rs. 2,834,458 from the fund of the Council on 01 March 2015. A private institution had donated 07 sets of fitness equipment and another 10 items of equipment had been purchased by incurring a sum of Rs. 468,000 from the Council's Fund. Nevertheless

the Centre had been closed down since 25 October 2015, due to non – availability of an instructor.

4.5 **Unsettled liabilities**

The following matters were observed.

- (a) Even though the arrears of contributions payable to the Local Government Pensions Fund as at the end of the year under review was stated as Rs.10,852,769 in the Financial Statements action had not been taken to remit that balance to the Department of Pensions.
- (b) The payments of instalments of the loan of Rs. 51,792,000 obtained by the Urban Sector Project of the Asian Development Bank for the construction of bus stand and to purchase equipment had been stopped after 30 June 2010. The loan balance payable by 31 December 2015 amounted to Rs. 33,857,797 and the interest thereon payable in addition to that had increased up to Rs. 39,598,905.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Human Resources Control
- (e) Motor Vehicles Control