

Hikkaduwa 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 31 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 matters described in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Hikkaduwa 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 Policies

Accounting policies followed in accounting had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Stamp fees of Rs.2,436,032 receivable for the previous year had not been brought to accounts.
- (b) Court fines and stamp fees totaling Rs.648,333 received in the year under review relating to the previous year had been shown in the financial statements as revenue of the year.
- (c) Provision for a sum of Rs.471,277 payable for the development work of the part of Pinkanda, Wellethota road by laying asphalt had not been made in the accounts.

1.3.3 Unreconciled Control Account

Differences totaling Rs.3,857,093 were observed between the balances of 2 items of accounts totaling Rs.23,386,873 included in the financial statements and the balances appeared in the related subsidiary books and records.

1.3.4 **Accounts Receivable**

Action had not been taken to settle 3 accounts receivable balances totaling Rs.41,460,247 remained as at the end of the year under review.

1.3.5 **Accounts Payable**

Action had not been taken to settle stamp fees of Rs.221,363 shown in the accounts as payable to the Commissioner General of Inland Revenue since 2008 and 13 balance of works creditors account totaling Rs.1,632,593 even in the year under review.

1.3.6 **Lack of Evidence for Audit**

Due to non-availability of evidence such as the updated register of fixed assets prepared in terms of classes of assets in respect of plant and machinery Motor Vehicles and Carts, Furniture and Fittings totaling Rs.119,579,938, updated deposit register and schedules in respect of refundable deposits totaling Rs.10,069,681, cheques dishonored register in respect of dishonored cheques of Rs.82,267, fixed deposit certificates in respect of fixed deposit of Rs.100,000, they could not be satisfactorily examined in audit.

1.3.7 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

Action had not been taken to settle 393 deposit balances totaling Rs.1,598,361 elapsed for more than 2 years in terms of Financial Regulation 570 and 571(1)(2) of the Republic of Sri Lanka.

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.18,224,786 as compared with the revenue over recurrent expenditure for the preceding year amounted to Rs.12,576,437. Accordingly, an improvement of Rs.5,648,349 had indicated in the financial results for the year under review.

2.2 **Analytical Financial Review**

- (a) The recurrent expenditure over recurrent revenue in the year under review had been as high value as 79 per cent.
- (b) A detailed summary of revenue grants self-operation revenue and recurrent expenditure of the year under review and the 2 preceding year is given.

Year	Total recurrent revenue	Revenue grants	Self-operating revenue	Total recurrent expenditure	Recurrent expenditure over self-operating revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	87,930,762	39,803,296	48,127,466	69,705,976	21,578,510
2014	74,982,784	26,980,253	48,002,531	62,406,346	14,403,815
2013	66,231,555	22,914,150	43,317,405	52,889,432	9,572,027

The following observations are made in this connection.

- (i) A considerable improvement in receiving revenue grants and an average improvement of self-operating revenue had indicated ever year.
 - (ii) Although the recurrent expenditure of the Sabha is being continuously increased, the attention of the Council had not been paid to maintain the expenditure at a minimum level being recognized that position.
 - (iii) Recurrent expenditure of the Sabha had continuously increased in considerable values over self-operating revenue, every year.
 - (iv) It was indicated that without getting revenue grants, the recurrent expenditure of the Council could not be covered from the revenue of the Council in any way.
- (c) Although the actual capital revenue in the year under review amounted to Rs.2,063,583, the actual capital expenditure amounted to Rs.6,730,039. Hence, the capital expenditure over capital revenue amounted to Rs.4,666,456. According to the budget for the year under review, capital revenue and capital expenditure had been estimated at Rs.14,608,200 and Rs.23,640,000. However, the manner how the funds would be raised to meet the capital expenditure of Rs.9,031,800 to be incurred over the capital revenue was not explained.

2.3 **Revenue Administration**

2.3.1 **Rates**

Out of the arrears of Rs.18,381,744 as at the beginning of the year under review and the billing of Rs.19,518,550 during the year, only 42 per cent had been recovered. As a result, the opening arrears balance had increased to Rs.212,903,733 by the end of the year. Attention of the council had not been paid to recover the arrears in terms of Section 170(2) of the Urban Councils Ordinance.

2.3.2 **Lease Rent**

Out of the lease rent amounting to Rs.9,874,864 and the License fees of Rs.1,108,399 recoverable relating to the year under review and the previous years 39 per cent and 49 per cent respectively had been recovered. Action had not been taken to recover the arrears in terms of Section 170(a)(1) of the Urban Councils ordinance of 1988.

2.3.3 **Court Fines and Stamp Fees**

Court fines of Rs.11,282,536 and Stamp fees of Rs.1,124,500 were receivable as at 31 December 2015 from the Chief Secretary of the Provincial Council and other authorities.

3. **Operating Review**

3.1 **Management Inefficiencies**

3.1.1 **Personnel Management**

The excess cadre over the approved cadre in the cadre plan amounted to 21 and the number of vacancies stood at 15. Attention of the Council had not been paid to regularize the excess cadre and to fill vacancies.

3.1.2 **Staff Loans**

Action had not been taken to recover a sum of Rs.182,769 due from 4 officers who had gone on transfer, retired and interdicted and a sum of Rs.39,400 due from 13 casual and substitute employees as at the end of the year under review.

3.1.3 **Dishonoured Cheques**

Action had not been taken to settle dishonoured cheques valued at Rs.82,267 brought forward since 2011 even in the year under review.

3.2 **Identified Losses**

The following matters were observed.

- (a) A surcharge of Rs.54,714 had to be paid due to delay in paying contributions of 35 employees to the Employees Provident Fund for the period August 2006 to August 2012. However, action had not been taken against the parties responsible for that surcharge in terms of Financial Regulation 156(1) of the Republic of Sri Lanka.
- (b) Although a surcharge of Rs.39,147 had been imposed in the year 2011 due to the delay in paying contributions to the Employees Trust Fund for the period August 2006 to August 2012, it had not been paid even up to 03 August 2016.

3.3 **Delay in Projects**

Even though a sum of Rs.150,000 had been received for the implementation of a project for paving cobbles in the three-wheeler park of Hikkaduwa town under the Southern Provincial Council Development Plan for the year 2015, that project had not been implemented even by the end of the year under review.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Due to the reasons such as the existence of savings totaling Rs.31,384,245 in 7 expenditure objects included in the budget, expenditure totaling Rs.17,290,510 in another 2 expenditure objects in excess of limits, targeted revenue of Rs.21,949,500 in 4 revenue items which had not been reached, lack of provision of 30 per cent of the self-operating revenue for capital expenditure etc. the budget had not been made use of as an effective instrument of financial management.

4.2 **Internal Audit**

Even though a sufficient internal audit had not been carried out in terms of circular No.දපපා/යන/01/න.ව.ලේ dated 24 February 2014 of the Commissioner of Local Government. (Southern Province) salaries and allowances Rs.423,831 had been to the Internal Audit Officer appointed during the year under review.

4.3 **Audit and Management Committee**

Action had not been taken to establish the audit and management committee even up to the end of the year in terms of Management Audit Circular No.DMA/2009(i) dated 09 June 2009.

4.4 **Assets Management**

The following matters were observed.

(a) **Idle and underutilized assets**

- (i) Action had not been taken to repair and use or dispose of a hand tractor which was being dilapidated in the council premises, a Large tractor and the bacco loader in terms of Treasury Circular No.02/2015 dated 10 July 2015.
- (ii) The vibrating road crusher valued at Rs.7,967,144 received to the Council in the year under review and the jeep had been idle since 03 August 2014, and the break down vehicle costing Rs.34,300,000 received in the year 2008 had also been idle without being used for any useful purpose.
- (iii) Although 3 tractors, a hand tractor and a truck loader belonged to the Council had been handed over to the garage of the Council in the years 2013, 2014 and 2015 respectively the repair works had not been completed even by 31 July 2016.

(b) **Unacquired Assets**

- (i) Action had not been taken to acquire the ownership of 14 motor vehicles used by the Council but owned by some other institutions, to the Council even by the end of the year under review.
- (ii) Although the Urban Council had been established in the premises of the Mahamaya Vidyalaya, 2 roods and 36.15 purchase in extent, belonged to the Ministry of Education and elapsed for more than 8 years, action had not been taken to acquire that land to the Council. However, a sum of Rs.6,146,719 had been spent from the Council's Fund for the modification of the 2 storied school building as the auditorium and to construct the upper floor of the building.

4.5 **Unsettled Liabilities**

As the payment of loan installments had been stopped since the year 2009 relating to the loan obtained from the Local Loans and Development Fund on 31 March 2004, for the construction of drainage system connected with the Urban Development and Low Income Housing Project, the payable loan balance as at the end of the year under review amounted to Rs.15,576,729.

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 Management