

Tangalle Urban Council

Hambantota District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 08 April 2016 and the financial statements for the preceding year had been presented on 07 May 2015. The report of the Auditor General for the year under review had been presented to the Secretary of the Council on 30 September 2016.

1.2 Opinion

In my opinion, except for the effects of the matters disclosed in paragraphs 1.3.2 and 1.3.5 of this report, the financial statements give a true and fair view of the financial position of the Tangalle 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

A statement of changes in net assets had not been presented with the financial statements and the accounting policies adopted in preparation of accounts had not been disclosed in the accounts.

1.3.2 Accounting Deficiencies

The following deficiencies are observed.

- (a) The value of stock in hand had been understated in the accounts by Rs.506,992.
- (b) There were no balances receivable or payable with regard to the construction of side boundary walls at the Indipokunagoda North Redi Gedara First Cross Street. But debtors' and creditors' balances, each amounting to Rs.238,457 had occurred.

1.3.3 Accounts Receivable

Action had not been taken even during the year under review to recover the arrears of Rest House Rent totalling Rs.2,109,217 which remained recoverable for many years.

1.3.4 Accounts Payable

Action had not been taken, even during the year under review to settle the contributions payable to the Local Government Pension Fund totalling Rs.4,125,808 and the Value Added Tax and the Nation Building Tax totalling Rs.269,568 relating to the period 1997 to 2014.

1.3.5 **Lack of Evidence for Audit**

Schedules relating to Sundry Deposits totalling Rs.8,401,782, files relating to debtors' balances of Rs.3,540,530 written off, age analysis and subsidiary registers relating to arrears of revenue of Rs.1,125,010 for which cases had been filed in court houses and certificates of fixed deposits relating to fixed deposits of Rs.906,960 had not been furnished. As such, these could not be satisfactorily examined in audit.

1.3.6 **Non compliance with Laws, Rules, Regulations**

An expenditure of Rs.38,141 had been incurred on the Hambantota District Local Government Sports Festival from the funds of the Council contravening the decision of the Cabinet of Ministers No.15/Misc(051) of 21 May 2015.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over expenditure of the Council for the year ended 31 December 2015 amounted to Rs.1,253,327 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.915,312. Accordingly, an improvement in financial results of the year under review amounting to Rs.302,015 is shown.

2.2 **Analytical Financial Review**

The following matters are observed.

- (a) The total recurrent expenditure of the year under review and the previous year amounted to 98 per cent of the total recurrent revenue. But, the Council had not paid attention to minimize its expenditure by identifying the circumstances.
- (b) While considering the recurrent expenditure of two previous years and the year under review, it was observed that the recurrent expenditure of the Council had rapidly increased.
- (c) It was observed that if not for the financial aid it receives, the Council could not meet its recurrent expenditure, whatsoever, from its revenue.

2.3 **Revenue Administration**

2.3.1 **Rates and Taxes**

Thirty six per cent only of the arrears at the commencement of the year under review had been recovered during the year and the balance of rates and taxes at end of the year amounted to Rs.2,110,799. Action had not been taken to recover the arrears in terms of 170(a) of the Urban Council's Ordinance.

2.3.2 **Lease Rent**

The minimum value of 12 per cent of the arrears of lease rent of Rs.2,675,838 at commencement of the year had been recovered resulting in the arrears of balances of Rs.2,552,917 at end of the year. Action had not been taken in terms of 170(a)(1) of the Urban Councils' Ordinance to recover the arrears of lease rent.

2.3.3 **Lease of Stalls**

The following matters are observed.

(a) **Lease of Stalls at Jaysinghewaththa**

- (i) Agreements had been signed on 25 June 2009 to give 16 out of 27 stalls on lease and agreements had been signed on 06 January 2011 to give the remaining 11 stalls on lease with reference to the stalls constructed at Jaysinghewaththa.
- (ii) Although agreements had been signed, action had not been taken even by 30 June 2016 to open the building and to hand over the stalls to the parties concerned and to recover lease rent.
- (iii) Agreements had been entered into in 2009 to give 15 stalls on lease to 15 persons on the basis of demolishing the stalls in the public market. However, action had not been taken even by 30 June 2016 to demolish the stalls in the public market.

(b) **Stalls at the Tangalle Bus Stand**

The Fisheries Corporation had vested its 24 stalls in the upper floor of the Tangalle Bus Stand with the Tangalle Town Council in 2008. But, action had not been taken, even by 30 June 2016, to assess those stalls and to recover rent accordingly.

3. **Financial Review**

3.1 **Evaluation of Performance**

A total sum of Rs.6,413,000 had been provided in the budget for the Security Guard Project and the Garbage Disposal Programme. But, those programmes had not been implemented.

3.2 **Management Inefficiencies**

The following matters are observed.

- (a) Vehicles of the Council had been assigned to field officers of the Council to whom monthly commuted travelling expenses had been paid along with motor cycles offered by the government, contravening Section 12.3 of Chapter XIV of the Establishments Code of the Republic of Sri Lanka.
- (b) Action had not been taken in terms of paragraph 4.3(a) and (e) of the letter of the Director General of Public Finance No.FD/RFD/2015/08 General (i) of 09 October 2015 to recover arrears of loans totalling Rs.110,490 due from 15 employees who had vacated posts and two employees who had expired.

3.3 **Staff Administration**

There were excess of 18 persons in 5 posts and 48 vacancies in 15 posts belonging to the approved cadre. Action had not been taken even by end of the year under review to regularize the excess posts as well as to fill in the vacancies.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

The savings in 06 items of expenditure included in the budget for the year under review totalled Rs.44,012,434 while the revenue targets of 04 items of revenue had not been achieved by Rs.42,543,035 and 30 per cent of provision had not been made for capital expenditure from the self generated revenue. Due to these reasons, the budget had not been utilized as an effective instrument of management control.

4.2 **Internal Audit**

An officer had been appointed for internal audit activities in terms of the Circular No.දපසා/යහ/01/න.ව.ලේ. of 24 February 2014 of the Southern Commissioner of Local Government. However, adequate internal audit had not been carried out. Action had not been taken in terms of the Financial Regulation 134(2) while preparing the Internal Audit Plan.

4.3 **Audit and Management Committees**

Action had not been taken to establish an Audit and Management Committee in terms of the Management Audit Circular No.DMA/2009(1) of 09 June 2009 even by end of the year under review.

4.4 **Assets Management**

Board of Survey

Shortages of 2,080 units of 157 varieties of goods and shortages of 130 units of 62 varieties of goods were revealed in the Board of Survey report relating to the office the office for the year under review. However, action whatsoever, had not been taken regarding these shortages.

4.5 **Unsettled Liabilities**

The unsettled liabilities as at end of the year under review aggregated Rs.9,225,586. Balances of over 5 years amounting to Rs.3,323,249 and balances of over 3 years amounting to Rs.443,316 had been included in this. But action had not been taken to settle these liabilities.

4.6 **Unresolved Audit Queries**

The Southern Department of Local Government had not taken action even by 21 June 2016 to receive or to set off from the future reimbursement of salaries, the total sum of Rs.9,147,970 reimbursed in excess of the amount due on salaries and allowances paid to employees of the Tangalle Town Council during 2012 and 2013.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management