

Weligama Urban Council

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been presented to the Audit on 15 March 2016 and the financial statements for the preceding year had been presented to the Audit on 11 November 2015 and the Report of the Auditor General for the year under review was sent to the Secretary to the Council on 27 September 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Weligama Urban Council as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Policies

The Accounting Policies adopted for the preparation of financial Statements had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) In view of the creation of creditors provisions of Rs.979,793 by adjusting the Accumulated Fund and the Excesses and Shortages Account, the expenditure of the year under review had been understated by a similar amount.
- (b) The Stamp Duty Revenue for 10 months of the year under review had not been brought to account.
- (c) The value of Livestock owned as at 31 December 2015 by the Solid Waste Management Project comprising 21 head of cattle, 05 head of goats and 648 head of chicken had not been brought to account as biological stocks.
- (d) The value of 13 motor vehicles belonging to the Council costing Rs.47,317,344 had not been shown under Motor Vehicles and Carts in the balance sheet.

1.3.3 Unreconciled Control Accounts

Difference totalling Rs.2,401,840 between the balances of 07 items of account shown in the financial statements and the balances of the Subsidiary Registers relating thereto was observed.

1.3.4 Accounts Receivable and Payable

The following matters were observed.

- (a) Even though the debtors balances older than 03 years as at the end of the year under review totalling Rs.5,618,179 existed, steps had not been taken for the recovery of those balances.
- (b) Even though there were creditors balances older than 03 years as at the end of the year under review totalling Rs.75,977,802, action had not been taken for the settlement of those balances.
- (c) Steps had not been taken for the settlement of the balances totalling Rs.9,252,495 lapsed for over 05 years and balances of 06 accounts totalling Rs.6,097,007, the settlement of which reasons delayed over and over again.

1.3.5 Lack of Evidence for Audit

In view of the failure to furnish evidence such as the updated and proper Register of Assets and the Reports of Boards of Survey in respect of fixed assets totalling Rs.88,707,407, the schedules and Stock Verification Reports in respect of general stores and the Ayurveda Stocks totalling Rs.18,547,865, the schedules and the proper Register of Creditors in respect of the expense creditors balances totalling Rs.77,928,076, the Loan Registers and confirmation of balances in respect of loans totalling Rs.39,916,515 and the proper Register of Deposits and the Schedules in respect of the refundable deposits totalling Rs.14,633,987, those could not be satisfactorily examined in audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

Contrary to Financial Regulation 261(3) of the Financial Regulation of the Republic of Sri Lanka, cheques totalling Rs.3,500,576 had been issued on 04 Bank Current Accounts which did not have sufficient cash balances.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.159,912 as against the excess of recurrent expenditure over revenue amounting to Rs.2,728,198 for the preceding year. The financial results for the year under review as compared with the preceding year, indicated as improvement of Rs.2,888,110.

2.2 Analytical Financial Review

The following matters are observed.

(a) Ratio between the Recurrent Revenue and Recurrent Expenditure

The recurrent expenditure of the year under review as compared with the recurrent revenue represented a very high level of 99.8 per cent.

(b) A Summarized Statement of the total Recurrent Revenue, the Self-generated Revenue and the Revenue Grants and the total Recurrent Expenditure of the Council for the year under review and the two preceding years is given below.

Year	Total Recurrent Revenue	Revenue Grants	Self- generated Revenue	Total Recurrent Expenditure	Recurrent Expenditure exceeding the Self- generated Revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	109,090,520	58,645,730	50,444,790	108,930,608	(58,485,818)
2014	94,470,320	37,674,386	56,795,934	97,198,517	(40,402,583)
2013	88,423,077	28,620,894	59,802,183	88,742,599	(28,940,416)

The following matters were observed in this connection.

- (i) The Revenue Grants of the Council for the year under review and the two preceding years had improved whilst there was a decrease of Rs.6,351,144 in Self-granted Revenue of the year under review as compared with the preceding year.
- (ii) Even though the Recurrent Expenditure of every year had increased continuously in considerable measure, the attention of the Council had not been paid for controlling that position.
- (iii) The recurrent expenditure of the three years had increased in considerable amounts exceeding the Self-generated Revenue of the Council and that amount in the year under review had exceeded the Self-generated Revenue by a sum of Rs.8 million.
- (iv) If Revenue Grants are not received, it indicates that it will not be possible in any manner whatsoever to cover the recurrent expenditure from the self-generated revenue of the Council.
- (v) In view of the matters shown at the paragraphs (i) to (iv) above, it is observed that the attention of the Council should be paid for increasing the revenue position, that a formal course of action for that purpose should be prepared and implemented and if such action is not taken, it would create problems relating to the financial position of the Council, thereby causing adverse impacts on the going concern of the Council.

2.3 Working Capital Management

The negative value of the working capital amounting to Rs.18,315,757 in the year 2014, amounted to Rs.16,067,526 in the year 2015. Even though the negative value had decreased by Rs.2,248,231, it is the opinion of the audit that the unavailability of adequate current assets for the settlement of the current liabilities is not a favourable position in terms of financial management.

2.4 Revenue Administration

2.4.1 Rates and Taxes

In view of the failure to take action in terms of Sections 170(1) and (2) of the Urban Councils Ordinance for the recovery of the arrears of the Rates and Taxes, the arrears of the Rates and Taxes as at the end of the year under review amounted to Rs.5,426,648.

2.4.2 Lease Rent

No recoveries whatsoever had been made during the year from the arrears of balance as at the beginning of the year amounting to Rs.1,533,204. Action in terms of Section 170(1) of the Urban Councils Ordinance had not been taken for the recovery of the outstanding balances.

2.4.3 Rest House Rent

No action whatsoever had not been taken even during the year under review for the recovery of the Rest House Rent amounting to Rs.807,510 remaining outstanding from the preceding years.

2.4.4 Courts Fines and Stamp Duty

Courts fines amounting to Rs.87,600 and Stamp Duty amounting to Rs.2,910,900 remained receivable from the Chief Secretary of the Provincial Council and other Authorities.

3. Operating Review

3.1 Management Inefficiencies

(a) Arrears of Trade Stall Rents and Tender Lease Rents

The arrears of Trade Stall Rents and Tender Lease Rents as at the end of the year under review including a sum of Rs.2,718,534 totalled Rs.6,030,246. The Council had not taken any steps whatsoever for the recovery of arrears of lease rent.

(b) Implementation of Recommendations of Boards of Survey

Five motor vehicles including 02 motor vehicles recommended for disposal and 03 other vehicles had been left parked unprotected without taking any action whatsoever by the Council.

3.2 Human Resources Management

The following observations are made.

- (i) Action had not been taken to formalize the excess Cadre of 49 deployed in the posts of Secondary and Primary Levels.
- (ii) A sum of Rs.2,071,784 had been spent in the year under review from the Council Funds for the payment of salaries and allowances of 15 employees recruited on the daily paid basis.

3.3 Operating Inefficiencies

Unauthorized Constructions in the Area of Authority of the Council

Legal action in terms of Section 28(3) of the Urban Development Act, No.41 of 1978 as amended by the Amendment Act, No.4 of 1982 and the Amendment Act, No.44 of 1984 had not been taken on the unauthorized constructions.

3.4 Identified Losses

The expenditure exceeding the revenue for the year under review in respect of the Ranpohoniya Trade Stall functioning contrary to the objective of establishment amounted to Rs.7,183,970 and that represented 33 per cent of the total revenue of the Council.

4. Good Governance and Accountability

4.1 Budgetary Control

The expenditure under one item of expenditure in the budget for the year under review had exceeded the limit of provision by a sum of Rs.14,047,426, the savings of 06 other items of expenditure totaled Rs.110,307,996 and the non-achievement of the targets of revenue of 07 items of revenue totaled Rs.118,221,726. As such the budget had not been made use of as an effective instrument of management control.

4.2 Internal Audit

An adequate internal audit had not been carried out as specified in the Financial Regulations 133 and 134 of the Financial Regulations of the Republic of Sri Lanka and the Circular No.දපපා/සභ/01/නවලේ dated 24 February 2014 of the Commissioner of Local Government of the Southern Province.

4.3 Audit and Management Committee

Action had not been taken even by the end of the year under review for the establishment of the Audit and Management Committee.

4.4 Assets Management

The following observations are made.

(a) Idle and Underutilized Assets

The Green Retreat Constructed at a cost of Rs.2,661,725 in the year 2013 has become an idle resource as it is not open for the public.

(b) Assets not Vested

Even though 11 motor vehicles costing Rs.53,450,139 are being used by the Council, action had not been taken up to the end of the year under review to transfer the ownership of those to the Council.

5. Systems and Controls

Special attention of the Council is drawn to the following areas of systems and controls.

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