

Hikkaduwa Urban Council
Galle District

1. Financial Statement

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 26 March 2018, and the report of the Auditor General on these financial statements was issued to the Chairman on 31 August 2018.

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 Hikkaduwa Urban Council. as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles..

1.2 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following deficiencies were observed,.

- (a) Capital aids of Rs.2,100,000 receivable for purchasing a generator for crematorium of Walamulla and development of Hikkaduwa weekly fair under criteria based development grants had not been brought to account as capital aids receivable.
- (b) Rs.62,850 receivable for implementing dengue eradication programmes during the year under review had debited to the account for implementation of dengue eradication programmes and credited to excesses/ shortage account.
- (c) Instead of crediting lumpsum payments in arrears amounted to Rs..570,127 to General Deposit Account, the same had been credited to Excesses / Shortage Account.

1.3.2 Unreconciled Accounts

The total of variance between balance applicable to 10 account captions amounting to Rs..179,278,946 shown in financial statements and balances shown in related documents had been Rs.37,436,769.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

A sum of Rs.156,657 receivable for constructing the bridge of Pathana Road, Narigama in 2014 had not been recovered.

(b) Accounts Payable

- (i) A formal arrangement had not been made for settlement of loan of Rs.15,076,729 obtained in 2004 from Local Credit Development Fund for constructing ditch system of the Sabha.
- (ii) Action had not been taken to settle a sum of Rs..941,801 payable in respect of 03 industries of the Sabha during the period from 2008 to 2015.

1.3.4 Lack of Written Evidence for Audit

Non submission of Information for Audit

It was not possible to verify satisfactorily 05 account captions totalled at Rs. 110,983,104 at auditing due to non-submission of required information.

1.3.5 Non-Compliance with Laws, Rules, Regulations and Management Decisions

Instances relating to non-compliance with laws, rules, regulations and management decisions are given below;

Reference to laws, rules, regulations & management decisions	Value	Non-Compliance
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Rs.

(a) Financial Regulation of Democratic Socialist Republic of Sri Lanka

- | | | |
|-------------------|---|---|
| (i) FR 101 to 110 | - | Reports on losses and damages had neither been submitted for audit nor maintained a registr on damages. |
|-------------------|---|---|

(ii) FR 570 & 571 (1)(2) 1,680,421 Action had not been taken to identify and settle balances of 10 category of deposits exceeded over a period of 02 years.

(b) PED/A Public Finance Circular No. 02/2015 issued on 10 July 2015 - No arrangement had been made to dispose of 05 old and unusable vehicles remaining idle.

(c) Treasury Secretary's Circular No. 1A1/2002/02 dated 28 November 2002 - Fixed Assets Register had not been maintained on computers, accessories and software owned by the Sabha

2. Financial Review

2.1 Financial Results

According to financial statements presented for auditing the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2017 amounted to Rs.25,752,199 as compared with the excess of the recurrent expenditure over revenue for the preceding year amounted to Rs.24,438,894

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue in Arrears

Information relating to estimated revenue, billed revenue, collected revenue and revenue in arrears presented in respect of the year under review and the preceding year are as follows

Source of Revenue	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total in arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total in arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates & Taxes	21,878,000	17,887,864	16,461,516	26,357,008	21,778,000	17,842,076	15,509,904	24,235,904
Lease Rent	8,220,000	2,940,230	2,906,555	4,672,045	8,760,000	3,158,570	3,029,500	4,646,770
Licence Fee	1,836,000	598,505	654,365	376,520	2,336,000	167,800	194,125	540,074
	31,934,000	21,426,599	20,022,436	31,405,573	32,874,000	21,168,446	18,733,529	29,422,748

2.2.2 Performance in Revenue Collection

The total estimated revenue of the year under review was Rs.31,934,000 while billed revenue amounted to Rs.21,426,599. Although the total sum recoverable with the opening balance of Rs.29,422,748 in arrears amounted to Rs.50,849,347 the total collected revenue during the year had been Rs.20,022,436. Accordingly the revenue in arrears at the end of the year was Rs.31,405,573.

2.2.3 Rates & Taxes

Estimated revenue of the year under review had been Rs.21,878,000 while billed revenue was Rs.17,887,864. Accordingly 82 percent of the estimated revenue had been billed. Collected amount out of the recoverable revenue had been Rs.16,461,516 which was equal to 39 percent. Accordingly balance in arrears at the end of the year was Rs.26,357,008. However attention of the Sabha had not been paid for implementing a effective arrangement to recover revenue in arrears as per Section 170(2), Chapter 255 of the Urban Council Ordinance.

2.2.4 Lease Rent

Estimated revenue of the year under review had been Rs.8,220,000 while billed revenue was Rs.2,940,230. Accordingly 36 percent of the estimated revenue had been billed. Collected amount out of the recoverable revenue had been 38 percent. Accordingly balance in arrears at the end of the year was Rs.4,672,045. However attention of the Sabha had not been paid for implementing a effective arrangement to recover revenue in arrears as per Section 170(2), chapter 255 of the Urban Council Ordinance.

2.2.5 Licence Fees

Estimated revenue of the year under review had been Rs.1,836,000 while billed revenue was Rs.598,505. Collected revenue out of the recoverable revenue was Rs.654,365 which was equal to 53 percent.

2.2.6 Court Fines and Stamp Fees

Rs.48,525,761 and Rs.3,149,383 had been recoverable as stamp fee and court fines respectively as at 31 December 2017 from the Chief Secretary and other authorities of the Provincial Council.

3. Operating Review

3.1 Performance

Matters revealed in the fulfillment of activities which were to be performed by the Sabha with regard to streamlining and maintaining of public health, common utility services and public roads

as well as satisfaction and welfare of the people under Section 4 of the Urban Council Ordinance are as follows

(a) Action Plan

No Action Plan had been prepared in respect of 29 activities to be performed by the Sabha as per by-laws enacted.

(b) Non Availability of Anticipated Benefit

A sum of Rs.16,540,616 had been obtained at 8% interest to construct a ditch system in 2004 under Urban Development and Low Income Housing Project Loan in order to improve rain water flowing in Hikkaduwa Town. Although a loan balance of Rs.15,076,726 had to be paid by the end of the year under review, any evidence could be found to prove that the above mentioned ditch system had been constructed.

(c) Delays Experienced in Performing Activities

Although a sum of Rs..1,300,000 had been allocated to purchase a Generator for crematorium under Action Plan 2017, it had not been purchased even by the end of the year under review.

(d) Solid Waste Management

All activities relating to waste as well as selling of the same had been made a compulsory undertaking of a local government body under chapter 42 of the Public Security Ordinance effected through Gazette Notification No.2015/53 dated 20 April 2017 in terms of Local Government Circular issued by the Secretary, Provincial Councils and Local Government. However the Sabha had neither a Plan nor any arrangement other than disposing of waste being collected within the area of authority on to the Monrovia watta waste dumping yard.

(e) Sustainable Development Targets

The Sabha had not prepared long-term plans for enhancing living standard and health of the people in the area of authority of the Sabha through global indicators for sustainable development goals and targets in the Ajenda 2030 for sustainable development.

3.2 Human Resources Management

(a) Staff Vacancies and excesses

As per Cadre Plan an excess in respect of 08 primary level posts and 07 vacancies at secondary level posts were available. However action had not been taken either to regularize excess posts or to fill vacancies.

(b) Staff Loan

A sum of Rs.93,200 recoverable from 15 employees recruited on temporary basis, retired from service, died or vacated their posts had to be recovered since 2008.

3.3 Assets Management

3.3.1 Utilization of Vehicles

The following observations were made.

(a) Although 06 out of 30 vehicles owned by the Council were not at usable level, action had not been taken to dispose them of.

(b) Nearly 1 ½ year period had been passed since 03 vehicle owned by the Sabha put in the yard for repairs. However even at the end of the year under review neither repairs had been completed nor attention of the Sabha paid in this regard.

(c) One hand tractor, one large tractor and 02 water bowsers, had been remaining idle in the vehicle yard awaiting repairs.

3.3.2 Idle and Under Utilized Assets

03 vehicles worth Rs.11,637,149 Utong Vibration Roller not valued and Nicolina Road Crusher owned by the council had been remaining idle in the yard without putting them into any usable purpose.

4. Accountability and Good Governance

4.1 Budgetary Control

A considerable variance as indicated below was observed between budgetary and actual income/expenditure during the year under review. Therefore it was observed that the annual budget had not been adopted as effective financial management controlling mechanism.

- (a) Savings of Rs.13,403,005 being the total of 05 expenditure captions were shown while 03 adverse variances of 03 expenditure captions amounted to Rs.5,463,001.
- (b) The total of non achieved targeted revenue of 06 revenue captions had been Rs.202,416,060.
- (c) Estimated capital outlay of the year under review had been Rs..220,606,000 while the actual capital outlay was Rs.11,378,675. Accordingly 95 percent of the estimated provision had not been utilized.

4.2 Internal Auditing

Although an Internal Auditor had been appointed sufficient auditing had not been done..

4.3 Implementation of Audit and Management Committees

Action had not been taken even at the end of the year under review to establish Audit and Management Committees in terms of the provisions of the Audit Management Committee Circular No.DMA/2009 (1) dated 09 July 2009.

5. Systems and Control

Shortcomings observed at auditing were brought to the notice of the Sabha from time to time and special attention shall be paid to the following fields of control.

System -----	Defect -----
(a) Accounting	(i) Non submission of Schedules (ii) Non settlement of account balances being brought forward (iii) Non recording of fixed assets
(b) Vehicle Control	(i) Taking no action on idle vehicles
(c) Budgetary Control	(i) Savings of Provisions (ii) Having adverse variance in revenue captions.
(d) Maintaing Registers	Not maintaining records/registers

- (e) Human Resources Management
 - (i) Not filling vacancies
 - (ii) Non recovering of loan balance
- (f) Collection of Revenue
 - (i) Sufficient arrangement had not been implemented to recover revenue in arrears.
 - (ii) Non recovery of lumpsum in arrears.