

Haputhale Urban Council
Badulla District

01. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2017 had been submitted for audit on 22 March 2018 and the report from the Auditor General had been sent to the Chairman on 30 August 2018.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in Paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Haputhale Urban Council as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statement

1.3.1 Accounting Deficiencies

The following were observed

- a. Employee Security Deposits amounting to Rs. 62,851 as at 31 December for the year under review had not been accounted as liabilities
- b. Although the total amount to be paid to the Local Loan Development Fund as at 31 December for the year under review amounted to Rs.14,681,621, it was accounted as Rs.15,164,017 in the Financial Statements as such the liabilities had been overstated by Rs.482,396.
- c. Although fixed deposits income for the year under review amounted to Rs.1,131,958 it was accounted as Rs.992,886, as such interest income had been understated by Rs.139,072.
- d. Fixed deposit interest amounting to Rs.246,200 had not been accounted in the year under review, as such current asset had been understated by that amount.

1.3.2 Accounts Receivable and Payable

a. Accounts Receivable

At the end of the year under review, accounts payable balance amounting to Rs.13,319,106 includes Arrears of Rates due from 29 years Rs.429,308, Arrears of Miscellaneous Income due from 29 years amounting to Rs.12,855,822 and value of Dishonored Cheques due from 3 years amounting to Rs.33,976.

b. Accounts Payable

Action had not been taken to settle lapse for 29 years expenditure creditors amounted to Rs.2,173,846 as at 31 December of the year under review.

1.3.3 Lack of Documentary Evidence for Audit

Due to the lack of documentary evidence, one item of accounts amounting to Rs.33,976 could not be satisfactorily vouched in audit.

1.3.4 Non-compliance

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

Following instances of non-compliance with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions -----	Value -----	Non compliance -----
	Rs.	
a. Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
i. Financial Regulation 189, 486	33,976	Amounts of 05 dishonored cheques coming from 14 years had not been recovered.
ii. Financial Regulation 371	283,643	Advance paid in 16 instances had not been recovered even as at 31 December.
iii. Financial Regulation 571	427,811	Action had not been taken to settle of 9 expired deposits.
b. Public Administration Circular No.30/2016 dated 29 December 2016		Fuel Consumption of 10 vehicles had not been checked.
c. Circular No.09/2009 of the Secretary to the Ministry of Public Administration and Home Affairs dated 16 April 2009		To confirm the attendance and departure of the officers had not used fingerprint machines.

- d. Circular No.IAI/202/02 of the Secretary to the General Treasury dated 28 December 2002. A Fixed Asset Register for computers and accessories had not been maintained.
- e. The Public Finance Circular No.PF 437 dated 18 September 2009. 586,514 Insurance cover for 12 vehicles had been obtained through insurance agents.
- f. Circular No.890 dated 01 April 1986 of the Secretary to Ministry of the Home Affairs Economic Rental of the year 2017 for quarter No.1 and No.2 located in the Badulla road had not been assessed and recovered.

02. Financial Review

2.1 Financial Results

According to the Financial Statements presented, surplus of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.8,135,460 and the corresponding surplus over recurrent expenditure for the preceding year amounted to Rs.5,629,876.

2.2 Revenue Administration

2.2.1 Estimated Income, Billed Income, Collected Income and Arrears of Income

The details of the Estimated Income, Billed Income, Collected Income and Arrears of Income for the year under review and the preceding year is stated below.

Source of Income	2017				2016			
	Estimated Income	Billed Income	Collected Income	Arrears as at 31 December	Estimated Income	Billed Income	Collected Income	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,883,484	1,843,076	1,879,076	-	1,868,100	1,837,533	1,806,410	31,123
(ii) Rental	12,611,619	6,952,528	11,347,817	-	8,868,300	7,716,635	9,555,957	-
(iii) License Fees	805,300	-	998,287	-	837,200	-	1,000,284	-
(iv) Other Income	2,343,600	-	4,408,587	-	2,615,700	-	2,166,543	-
Total	<u>17,644,003</u>	<u>8,795,604</u>	<u>18,633,767</u>		<u>14,189,300</u>	<u>9,554,168</u>	<u>14,529,194</u>	<u>31,123</u>

2.2.2 Performance of Revenue Collection

The total billed revenue for the year ended 31 December 2017 amounted to Rs.8.7 million while collected revenue for three years amounted to Rs.18.6 million. Arrears revenue from preceding years had been included in the collected revenue.

2.2.3 Rates and Taxes

Action had not been taken to recover the areas of water tax amounting to Rs.31,123 due from the preceding year.

2.2.4 Rental

The fish stall belonging to the Council was rented out for an amount of Rs.55,317 and recovery of rent had been done regularly from the first month of the rented out as such there was an arrears of Rs.169,949 was receivable as at 31 December 2017.

2.2.5 Other Income

The following were observed.

- a. Recovery of tender income of meat and fish stalls was at a low level of two per cent.
- b. Although the restroom of the bust stand had been rented out for an amount of Rs.26,417, per month for the year 2017 regular recovery of monthly rentals had not been done from June 2017. As such there was an arrears of Rs.167,087 as at 31 December 2017.
- c. Although an amount of Rs.100 should be charged per square feet from the advertisement boards fixed in the authority area of the council a sum of Rs.141,000 had not been recovered relating to 04 advertisement boards.

2.2.6 Court Fines and Stamp Fees

The Court Fines and Stamp Fees amounted to Rs.183,329 and Rs.778,943 respectively had to be recovered from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017.

3. Operational Review

3.1 Performance

It was revealed after the analyzing the execution of activities by the Pradeshiya Sabha in accordance with the Section 4 of Pradeshiya Sabha Act 1987 such as regulation of health of the public, common utility services and public road facilities and maintenance of people's prosperity, welfare and development are given below.

a. Active plan

An action plan for the year under review had not been prepared.

b. Sustainable Development Goals

Due to the Council not being aware of 2030 agenda of Sustainable Development Goals, the global view of such purposes to enhance the living standards and health of the people living in the Council area of authority had not been initiated even by 31 December 2017.

3.2 Management Inefficiency

a. Overtime and Holiday Pay

An amount of Rs.213,908 had been paid to the staff of the Council from April to December 2017 without stating the duties performed.

b. Prior Approval to Work on Holidays

Although maximum two days are allowed to work on holidays with the prior approval according to Public Administration Circular No.21/2013 (a) and (b) of dated 07 October 2013, approval to work for more than two days on holidays were obtained certain instances.

c. Illegal Construction

i. Legal Action had not been taken relating to 11 illegal constructions in terms of the Sections 72, 73 and 74 of the Chapter 255 of the Municipal Council Act of 1988.

ii. It was observed that a construction of third floor of a hotel in Haputale and a second and a third floors of a hotel in Welimada is being done without the approval of the Council on a field inspection carried out on 11 September 2017, but action had not been taken to remove the illegal constructions by the Council.

iii. Action had not been taken in term of the Section 72(1) of Municipal Council Act to demolish wholesale market store room 22 and an illegally built building nearby.

3.3 Human Resource Management

a. Vacancies and Excess of Carder

There were 11 vacancies and 02 excess in cadre of the Council as at 31 December of the year under review.

b. Staff Loans

Action had not been taken to recover a loan amounting to Rs.50,422 from 19 employees who had transferred, left the service or deceased.

3.4 Operational Inefficiencies

Details of the shop rent assessments had not been submitted to audit as at 31 December 2017.

3.5 Asset Management

3.5.1 Repairing Vehicles

Action had not been taken to repair a vehicle belonging to the Council which was not in running condition as at 30 June 2017.

3.5.2 Idle and Under-Utilized Assets

A road flattening machine had been in an unusable condition since the year 2002 and action had not been taken to discard the said machine.

3.6 Procurement

3.6.1 Procurement Plan

A procurement plan had not been prepared in Terms of Section 4.2 of the Chapter 4 of Procurement Guide Lines of 2006.

04. Accountability and Good Governance

4.1 Budget Control

It was observed that there were considerable variations in the budget revenue and expenditure for the year under review with the Actual revenue and expenditure and that a variation of 10 per cent to 256 percent had been observed in 6 items of income and a variation of 4 per cent to 39 percent had been observed in 7 items of expenditure as such indicating the budget had not been used as an effective instrument of management control.

4.2 Internal Audit

A Proper internal audit had not been carried out for the year 2017.

4.3 Audit and Management Committees

Necessary attention had not been taken to held the Audit and Management Committees.

05. System and Control

Weaknesses observed during the audit had been informed to Council time to time and special attention is needed in the following areas of control.

System -----	Weaknesses -----
a. Accounting	i. Account balances not tallying with schedules. ii. Non-current assets were left out or understated in financial statements.
b. Revenue Administration	i. Progress of recovery of arrears of revenue at law level.
c. Fixed Assets.	i. Not assessing the Land and Building belonging to the Council. ii. Assets not categorized.
d. Stock Control	i. Stock reports not maintaining properly.