

Horana Urban Council

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

While Financial Statements for the year 2017 had been submitted to Audit on 29 March 2018, the Auditor General's Report relating to the year under review was sent to the Chairman of the Council on 05 October 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Horana 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 Statements

1.3.1 Accounting Deficiencies

Following deficiencies were observed.

- (a) Tax revenue on land sales amounting to Rs. 250,025 relevant to the year under review had not been shown in the financial statements.
- (b) Although the value of fixed deposits investments as at 31 December 2017 according to Investment certificates was Rs. 26,861,105, it had been shown as Rs. 25,751,244 in the financial statements. Due to that, value of fixed deposits had been understated in a sum of Rs. 1,109,861
- (c) Although the fixed deposits interest revenue relevant to the year under review was Rs. 2,651,531, it had been accounted as Rs. 1,609,760 in the financial statements. Due to that fixed deposits revenue had been understated in a sum of Rs. 1,041,771
- (d) Rent revenue relevant to the year under review had been overstated in a sum of Rs. 5,400 in the financial statements.
- (e) The sum of Rs. 106,000 spent for the purchase of a printer had not been shown under capital expenditure.
- (f) The sum of Rs. 1,537,598 to be shown under recurrent expenditure in Program 06 had been shown under capital expenditure. Due to that, capital expenditure for the year under review had been overstated in a sum of Rs. 1,537,598.

- (g) Although the value of library books purchased and the value of books donated relevant to the year under review was Rs. 1,613,022, it had been capitalized as Rs. 1,588,169 in the financial statements. Due to that library books account and contribution from revenue to capital outlay account had been overstated by Rs.24,853.
- (h) A sum of Rs. 199,000 spent for fixing fire extinguishing equipment had not been capitalized. Due to that plant and machinery account and contribution from revenue to capital outlay account had been understated by Rs.199,000.
- (i) Value of expenditure creditors relevant to the year under review had been understated in a sum of Rs. 167,638. Due to that, value of creditors and expenditure for the year under review had been understated by Rs. 167,638.
- (j) Staff loans over recovered amounting to Rs. 4,500 had not been shown as an amount payable in the accounts. Due to that, staff loans as at the end of the year under review had been overstated in a sum of Rs.4,500.
- (k) Stamp fees revenue amounting to Rs. 7,330,395 relevant to prior years received during the year under review had been accounted as a revenue for the year, without being credited to accumulated fund.
- (l) Value Added Tax, Nation Building Tax and Stamps Fees amounting to Rs. 96,790, Rs. 39,216 and Rs. 2,300 respectively, which should be debited to creditors account at the beginning of the year under review, had been debited to relevant tax accounts. Value Added Tax, Nation Building Tax and Stamp Fees amounting to Rs. 96,703, Rs. 39,216 and Rs. 5,315 respectively, which should be shown in the relevant revenue accounts as at 31 December 2017 had been transferred to Creditors Account. The balances as at 31 December 2017 in the creditors account and the relevant revenue accounts were incorrect due to wrong accounting in this manner during number of years.

1.3.2 Non-reconciled Accounts

- (a) When balances amounting to Rs. 68,136,906 relevant to 11 items of account shown in the financial statements are compared with balances shown in the relevant schedules, a difference of Rs. 18,836,960 was observed.
- (b) Although a sum of Rs. 821,889 and a sum of Rs. 303,627 had been shown as deposits received during the months of March and October respectively, in the analysis of total deposits submitted with the financial statements relevant to the year under review, according to the Summary Revenue Register, those values were Rs. 816,889 and Rs.304,607 respectively.

1.3.3 Accounts Receivable and Payable

Accounts Receivable

A sum of Rs.426,979 as an irrecoverable balance due from trade stalls in the super market building and an arrears balance of Rs. 69,134 as parking fees had been continuously shown in the accounts.

1.3.4 Lack of Written Evidence for Audit

Non- rendition of Information to Audit

Six items of accounts totaling Rs. 111,522,188 could not be satisfactorily verified/vouched in audit due to non- rendition of required information .

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non-compliance with laws, rules, regulations and management decisions are shown below.

Reference to laws, rules, and regulations	Value Rs.	Non-compliance
(a) Urban Councils Ordinance (Chapter 155) Section 193		Although by-laws had been published in the gazette, for vehicle parking places, A proper scheme had not been introduced for the recovery of fees.
Financial Regulations of the Democratic Socialist of		
(i) Financial Regulation 371 (d)	3,298,470	Advance given for a particular work should be settled immediately after completion of such work, action had not been taken to settle advances brought from the period prior to the year 2013. from the period prior to the year 2013.
(ii) Financial Regulation 571 (1)(2)	1,816,704	In the every financial year a list of time lapsed deposits should be prepared and be credited to government revenue. However, action had not been taken accordingly.
(III) Financial Regulation and 164(a)	756, 757	While a full survey of vehicles had not been carried out, when handing over a vehicle from one officer to another a vehicle from one officer to another a handing over a vehicle from one officer to another a survey had not been carried out.

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| (c) Public Administration Circular
No. 2016/30 dated 29 December
2016 Paragraph 3.1 . made based
on the attendance | Fuel consumption tests of all vehicles
belong to the Council had not been carried
out annually. . |
| (d) Commissioner of Local
Government Circular No.
LGD/13/2016 dated 03
November 2016 | In the events of sub-leasing properties
belong to the Council by primary lessees,
those sub-lessees had not been made as
lessees. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 had been Rs. .27,311,671 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. .21,329,552 in the preceding year.

2.2 Financial Control

The balance of Rs. 99,885 remaining idle in Urban Development Authority current account No. 719675 since the year 2009 had not been utilized for any fruitful purpose even up to 17 May 2018.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under and preceding year as furnished are shown below.

Source of Revenue	2017				2016			
	Estimated	Revenue	Revenue	Balance as at 31	Estimated	Revenue	Revenue	Balance as at
	Revenue	Billed	Collected	December	Revenue	Billed	Collected	31 December
	Rs..	Rs..	Rs..	Rs..	Rs..	Rs..	Rs..	Rs..
(i) Rates and Taxes	15,750,000	15,840,487	18,957,810	3,937,510	15,750,000	15,424,638	16,892,762	6,272,965
(ii) Rent	8,815,072	8,910,082	8,499,647	2,824,764	5,524,440	5,809,009	6,517,284	2,153,324
(iii) License Fees	2,200,000	2,014,260	2,013,260	30,500	2,200,000	2,347,580	2,404,220	29,500

2.3.2 Rates and Taxes

(a) Rates

- i. While there were rates in arrears amounting to Rs. 5,218,716 at the beginning of the year under review, out of arrears a sum of Rs. 3,711,381 or 71 percent had been recovered during the year.
- ii. While rates billing for the year had been Rs. 14,788,315, out of that a sum of Rs. 313,081 had been written off. Receipts during the year had been Rs. 13,350,949 or 92.1 percent..
- iii. Out of the opening balance of rates in arrears at the beginning of the year under review, the balance of rates in arrears at the end of the year was Rs. 1,307,353. Out of that, arrears exceeding 3 years and 5 years amounted to Rs. 296,501 and Rs. 221,984 respectively, while arrears exceeding one year amounted to Rs. 193,880. Action in terms of provisions in the Act had not been taken with regard to rates in arrears over a long period.

(b) Entertainment Tax

While Entertainment Tax in arrears at the beginning of the year under review had been Rs. 1,068,598, annual billings had been Rs. 1,052,172. While receipts during the year had been Rs. 1,056,123, arrears at the end of the year under review was Rs. 1,064,647.

2.3.3 Rent

(a) Stalls Rent

- (i) While there was a balance of Stalls Rent in areas amounting to Rs. 2,150,174 at the beginning of the year under review, out of that a sum of Rs. 1,485,953 or 69 percent only had been recovered during the year.

- (ii) While stalls rent billings during the year under review had been Rs. 8,905,582, out of that a sum of Rs. 6,870,673 had been recovered during the year. Accordingly, balance to be recovered further had been Rs. 2,034,909.
- (iii) Action had not been taken either to renew agreements for 07 fish stalls of which agreements period had lapsed or to award those to other parties.

2.3.4 License Fees

(a) Industrial Taxes

While there was a balance of Industrial Tax in arrears amounting to Rs. 14,500 at the beginning of the year under review, out of that a sum of Rs. 2,000 only had been recovered during the year. While cases had been filed for Rs. 7,500 out of the balance tax in arrears amounting to Rs. 12,500, full industrial tax outstanding to be recovered at the end of the year was Rs. 12,500.

(b) Business Tax

While Business Tax in arrears at the beginning of the year under review was Rs. 15,000, billings relevant to the year had been Rs. 1,535,760. While receipts during the year amounted to Rs. 1,532,760, arrears of revenue at the end of the year under review amounted Rs. 18,000.

2.3.5 Other Revenue

(a) Vehicle Parking Fees

Although by-laws had been imposed with effect from 01 January 2017 to recover fees from three wheeler vehicles parked in the area of authority of the Council, fees had not been recovered during the year under review.

(b) Advertisement Boards Revenue

Although charges amounting to Ra. 657,375 should be recovered from 73 advertising boards /publicity advertisements fixed in the area of authority of the Council according to survey carried out during the year 2017, as per gazette notification No. 1999 dated 23 December 2016 of the Democratic Socialist Republic of Sri Lanka, any amount had not been recovered. Action had not been taken to derive revenue amounting to Rs. 87,700 from 26 permanent advertisement boards identified according to the survey carried out during the year 2016 as well.

(c) Vehicle Hire Charges

Although cases had been filed during the year 2016 for the recovery of vehicle hire charges amounting to Rs. 54,887 in arrears as at the beginning of the year under review, it had not been able recover the charges even as at the end of the year under review.

2.3.6 Court Fines and Stamp Fees

Court Fines

Action had not been taken to get a sum of Rs. 148,500 due relevant to cases filed during the years 2014, 2015, 2016 and 2017, against the places involved in sale of foods not in conformity with the provisions in the Foods and Drugs Act no. 26 of 1980.

3. Operatiional Review

3.1 Performance

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public thorough fares, generally with the protection and promotion of the comfort convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

(a) By-laws

Although by-laws have to be imposed under Section 157 of the Urban Councils Ordinance in order to perform 15 main functions, by-laws had been imposed only for 4 functions even up to 31 December 2017.

(b) Action Plan

- (i) Particulars relating to works to be performed during the year 2017 had not been included in the action plan.
- (ii) While an estimate of Rs.26,580,000 had been prepared for 25 council works to be implemented under capital expenditure during the year 2017, out of that 20 works amounting to Rs. 21,107,581 only had been performed.

(c) Solid Wastes Management

A heavy expenditure amounting to Rs.3,662,875 had to be incurred by the Council, due to lack of proper procedure for wastes management for the year 2017, and entrusting that to an outside party. Although by-laws had been imposed for waste management including enforcement of garbage tax to cover this cost, garbage tax had not been recovered.

(d) Sustainable Development Targets

The Council had not been aware of the agenda for Sustainable Development Targets – 2030. Due to that, long term plans for uplifting the living condition health of people in the area of authority of the Council through global index had not been prepared even as at 11 June 2018.

3.2 Human Resources Management

- (a) A Supra Grade Management Assistant had been appointed to cover the post of secretary which should be held by an officer in the Sri Lanka Administrative Service.
- (b) There were 16 vacancies as 04 tertiary level,, 03 secondary level and 09 preliminary level.

3.3 Management Inefficiencies

Fire brigade Unit

- (i) The Council had not implemented a methodology with regard to providing fire extinguish services to areas outside the area of authority of the Council, providing fire risk protection certificates for newly constructed buildings, certificates of building plans and fire protection systems, providing ambulance services etc., having sanctioned by-laws for those.
- (ii) There was no by-law for providing fire protection certificates to workshops outside the Council limit. Due to that, certificates had been issued as and when necessary, on the basis of a Council decision, after levying a charge.
- (iii) A vehicle belongs to the Fire brigade Unit remained idle, without being registered since the year 1994. The Council did not have any document relating to this vehicle of Heno type Japan.
- (iv) A cab vehicle belongs to the Fire brigade Unit ha been utilized for work of the Council Head Office since August 2017. Due to that it had been possible to carry out the functions of the Fire brigade Unit properly.

3.4 Assets Management

3.4.1 Ensuring Security of Assets

- (a) While an outside party had been running an unauthorized trade stall in a portion of the children's park, Council had not taken necessary course of action to remove it.
- (b) While an outside party had encroached about 10 perches of the land belongs to Council where Wewala preschool is located; action had not been taken to get back that portion of land.
- (c) While a portion of the land in extent of 2 roods 6 perches, allocated for common amenities from the Horanawawatta auctioned land during the year 1994 had been encroached by the adjoining landlord, action had not been taken to get back that portion of land.
- (d) Unauthorized persons had put up houses and were residing in the Halgodalla land in extent of 1 acre 2 roods and 13 perches belong to the Council.

3.4.2 Assets not vested

The Council did not have title deeds for Horana Library Building and the land , Horana Old Town Hall Building and the land, the Land where Public Stadium, Children' Stadium, Pre-school near Children's Stadium and the Fire Brigade Unit is located, which are used by the Council.

3.4.3 Idle/Under-utilized Assets

- (a) The number of users of the Body Building Centre commenced in June 2016 was getting decreased, indicating that the benefits accrued from it to the public are few.
- (b) Out of Latrine Complex and Bath Room Complex constructed incurring expenditure amounting to Rs. 5,200,445 during the year, 2009, only the Latrine Complex is used by the public. However, Bath Room Complex remained idle without being used for any purpose.

3.5 Stock Shortages

Although a sum of Rs. 104,950 had been paid for the purchase of 20 gas cylinders, in getting cylinders to the stores there had been a shortage of 02 cylinders, while value of those had been Rs. 10,495.

4. Accountability and Good Governance

4.1 Budgetary Control

Material variations between the budget and actual revenue and expenditure were observed, indicating that the budget had not been made use of as an effective tool of management.

5. Systems and Controls

Deficiencies observed were brought to the notice of the Council through audit queries issued from time to time. Special attention of the Sabha is needed in the following areas of controls.

System	efficiency
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(a) Accounting	I. Omissions, under/over statements in the accounts. II. Non-maintenance of up-dated registers.
(b) Revenue Administration	I. Inadequate recovery of arrears of revenue. II. Non-assessment of taxes within specified time limit.
(c) Budget	I. Material variances between the budget and actual expenditure. II. Unrealistic revenue estimates.
(d) Stock Control	Lack of supervision with regard to receipts and issues.
(e) Garbage Management	Lack of proper system.
(f) Fixed Assets	I. Non-updating registers II. Lack of adequate steps for security of assets.