

**Hikkaduwa Urban Council
Galle District**

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented for Audit on 27 March 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 31 May 2019 and 14 June 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of matters described in the part basis for qualified opinion in section 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 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for qualified Opinion

(a) Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(i) Discount of Rs.111,794 received at purchasing library books during the year under review had not been brought to accounts.	Should be correctly brought to accounts.	Action will be taken to rectify while preparing accounts in 2019.
(ii) Loan installments of Rs.674,708 payable to Local credit and Development fund at the end of the year under review had been under stated in accounts.	Should be correctly brought to accounts.	Action will be taken to rectify while preparing accounts in 2019.
(iii) The value of Rs.2,932,628 for 06 industries complete as at 31 December of the year under review had not been brought to accounts under industrial creditors in Financial statements.	Should be correctly accounted.	Action will be taken to rectify while preparing accounts in 2019.

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| (iv) Stamp fees of Rs.135,358 receivable as at 31 December of the year under review had been over stated in accounts. | Should be correctly brought to accounts. | Action will be taken to rectify while preparing accounts in 2019. |
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(b) Unreconciled Accounts

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
The balance of 04 items of accounts shown in financial statements as at December of the year under review and the balances in the related subsidiary registers / schedules differed by amount of Rs.4,307,977	Action should be taken to reconcile differences of the respective balances and rectify accounts.	Early action will be taken to rectify doing away with the existing imbalances.

(c) Accounts Receivable and Payable

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(i) Accounts Receivable ----- Action had not been taken even during the year under review to recover balances aggregating Rs.8,719,992 applicable to 04 items of accounts being brought forward during a period from 3 – 11 years.	Action should be taken to recover money receivable	Action will be taken to recover in future.
(ii) Accounts Payable ----- Action had not been taken to settle industrial creditors of Rs.760,970 payable for 03 industries of the Sabha applicable to the period 2012 – 2014.	Action should be taken to settle balances payable	Action will be taken to rectify in future.

(d) Lack of Documentary Evidence for Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
11 items of accounts aggregating Rs.113,676,949 could not be satisfactorily vouched in audit due to non rendering of necessary information.	Evidence to confirm the balances shown in the financial statements should be furnished.	Action will be taken to rectify in future.

1.4 Non compliance

Non compliance with Laws, Rules, Regulations & Management Decisions

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance	Recommendation	Comments of the Accounting Officer
(a) FR 371 of the Democratic Socialist Republic of Sri Lanka.	57,200	Action had not been taken to recover adhoc Interim Imprest balance being brought forward during the period from 01-06 years.	Action should be taken in terms of Financial Regulations.	Action will be taken to rectify in future.
(b) Public Finance Circular No.PED/A/02/2015 of July 2015.	-	Action had not been taken to dispose of condemned bacho L owned by Sabha.	Action should be taken in terms of the circular.	Action will be taken to rectify in future.
(c) Treasury Circular No. IAI/2012/02 dated 28 November 2002.	-	Fixed Assets Register had not been maintained for computers, accessories and software owned by the Sabha.	Action should be taken in terms of the circular.	Action will be taken to rectify in future.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented the excess of recurrent revenue over expenditure of the Council for the year ended 31 December 2018 amounted to Rs.2,993,582 as against the excess of recurrent expenditure over revenue of the preceding year which amounted to Rs.25,752,199.

2.2 Revenue Administration

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

Information relating to Estimated Revenue, Revenue billed, Revenue collected and the arrears of revenue relevant furnished for the year under review and the previous year appear below.

Source of Revenue	2018				2017			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total Arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total Arrears as at 31 December
	Rs..	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	26,050,000	24,668,963	22,379,637	28,646,334	21,878,000	24,612,680	22,491,576	26,357,008
Rent	7,036,000	6,927,690	6,900,143	4,696,424	8,070,000	5,848,146	5,847,433	4,647,482
License Fees	1,846,000	1,107,260	1,243,830	362,744	1,836,000	780,600	821,360	499,314
	34,932,000	32,703,913	30,523,610	33,705,502	31,784,000	31,241,426	24,160,369	31,503,800

2.2.2 Performance in Revenue Collection

Audit Observation

The total revenue recoverable during the year under review amounted to Rs.64,207,717 while collection amounted to Rs.30,523,610, the percentage of revenue collection being equal to 48%

Recommendation

Early action should be taken to recover revenue in arrears.

Comments of the Accounting Officer

Early action will be taken to recover as per budget of the next year.

2.2.3 Rate and Taxes

Audit Observation

Rates and Taxes recoverable during the year under review amounted to Rs.44,927,742 while the collection amounted to Rs.16,281,409 with poor progress of recovery of 36%. Accordingly action had not been taken to recover rates and taxes as per section 170 (I) of the Urban Council Ordinance.

Recommendation

Early action should be taken to recover revenue in arrears.

Comments of the Accounting Officer

Early action will be taken to recover revenue in arrears in future.

2.2.4 Stall Rent

Audit Observation

Although the recoverable stall rent during the year under review amounted to Rs.7,889,962 while collected amount was Rs.3,193,138. Accordingly the progress of revenue collection was 41%.

Recommendation

Early action should be taken to recover revenue in arrears.

Comments of the Accounting Officer

Early action will be taken to recover revenue in arrears.

2.2.5 Court Fines and Stamp Fees

Audit Observation

A sum of Rs.1,931,979 and Rs.37,541,692 as court fines and stamp fees respectively should have been recovered as at 31 December of the year under review from the Chief Secretary and other Authorities of the Provincial council.

Recommendation

Early action should be taken to recover revenue in arrears.

Comments of the Accounting Officer

Early action will be taken to recover in arrears in future.

3. Operating Review

3.1 Performance

Matters revealed on fulfillment of activities appeared as those required for performing duties and functions in terms of section 153, chapter IV of the Urban Council Ordinance.

(a) Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
Annual Action Plan had not been prepared for all tasks to be fulfilled by the Sabha according to the by laws enacted.	An annual action plan should be prepared.	Action will be taken to prepare an annual action plan in future.

(b) Delays in the performance of activities

Audit Observation	Recommendation	Comments of the Accounting Officer
Work on 03 industries, estimated value of which stood at Rs.926,883 required to be completed during the year under review with council fund had not been commenced.	Work on industries should be commenced.	Action will be taken to implement in future.

(c) Solid Waste Material Management

Audit Observation	Recommendation	Comments of the Accounting Officer
Any plan or arrangement had not been with the Council for waste management during the year under review as per Gazette Notification No. 2015/53 dated 20 April 2017 published under Article 42 of the Public Security Ordinance.	A formal and long term plan is required for disposal of waste.	Expect to construct two compost yards during 2019.

(d) Sustainable Development Targets

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The council had not prepared a long – term plan to uplift the living standard and health of the public of the authorized area of the Council by global indicators referred to in the Agenda 2030 for the sustainable development with regard to sustainable development objectives and targets.</p>	<p>Long – term plan should be prepared for sustainable development to increase the living standard of the people.</p>	<p>A plan will be formulated in future to increase the living standard of the people in the Council area.</p>

3.2 Human Resources Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Action had not been taken as at 31 December of the year under review to recover a loan balances aggregating Rs.88,602 recoverable from 11 employees retired, vacated post and those served the Council as temporary employees.</p>	<p>Loan balances in arrears should be recovered.</p>	<p>Action will be taken to recover loan balances in arrears.</p>

3.3 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(i) No legal action had been taken against 10 institutions which defaulted 2% tax payment receivable from hotels, canteens, lodgings in the authorized area registered with the Tourist Board.</p>	<p>Legal action should be taken against institutions which defaulted tax payments.</p>	<p>These 10 hotels remaining as small guest houses are inoperative at present and action had been taken to get their registration with the Tourist Board cancelled.</p>

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| (ii) 1% tax should be obtained from Tourist Board approved institutions based on financial statements confirmed by Audit Reports. However tax had been recovered based on revenue reports prepared by each institutions. At the recovery of tax based on total revenue only form one hotel from which audited financial statements could have been obtained a sum of Rs.16,264,589 yet remained to be recovered for 2016 and 2017. | Tax should be obtained an income confirmed on audit Reports. | Action will be taken to recover tax based on Audit Reports from 2019 and action will be taken to the file cases against this institution. |
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3.4 Assets Management

3.4.1 Assets not acquired

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Although the Hikkaduwa Urban Council has been established in the building on the land where G/Mahamaya Vidyalaya (old) located, the ownership of the land had not been transferred.	Action should be taken to transfer the ownership	Action will be taken to transfer the land in future.
(b) Action had not been taken to transfer the ownership of 09 vehicles received from various institutions during the period 2005 – 2015	Action should be taken to transfer the ownership	Action will be taken to transfer in future.

3.4.2 Non undertaking of Maintenance Repair work

Audit Observation	Recommendation	Comments of the Accounting Officer
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Although there was a vehicle repairing yard owned by the Council, Permanent Technical Officer was not available to attend repair work. Therefore 08 broke down vehicles put for repair remained unattended as at January 2019.	Early action should be taken to repair vehicles	Action will be taken to repair in the near future.

3.5 Procurement

Audit Observation	Recommendation	Comments of the Accounting Officer
Although fixed assets to the value of Rs.3,756,539 had been purchased by the Council during the year under review no procurement plan had been prepared on those purchasing.	A procurement plan should be prepared.	Action will be taken to prepare a procurement plan in future.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Total estimated cost of one vote amounting to Rs.1,900,000 was available as savings.	Actual estimates should be prepared.	Consider seriously in the coming year.
(b) Savings aggregating Rs.14,699,585 of 03 votes were available, value of which ranged between 28% to 87%	Actual estimates should be prepared.	Action will be taken to achieve targets of financial progress in the coming year.
(c) Total adverse variance of 02 votes had been Rs.5,920,885 and this value ranged between 64% - 335%	Actual estimates should be prepared.	Action will be taken to achieve targets of financial progress in the coming year.
(d) Unachieved targets of 06 votes aggregating Rs.21,552,331 were shown, value of which ranged between 21% - 88%	Actual estimates should be prepared.	Action will be taken to achieve targets of financial progress in the coming year.

4.2 Internal Auditing

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Auditor General had not been consulted in the preparation of internal audit plan as per provisions under Financial Regulation 133 and 134 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka and Local Government commissioner's (Sothern Province) Circular No. දපපා/යන/01/න.ව.ලේ dated 24 February 2014. Although an Internal Auditor had been appointed neither sufficient internal auditing had been carried out nor submitted copies of reports thereof.</p>	<p>Action should be taken in terms of Financial Regulations and circulars</p>	<p>Action will be taken to undertake internal auditing and submit report thereof.</p>

4.3 Audit and management committee

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Although action should have been taken to establish Audit and Management Committees as per provisions of Management Audit Circular No.DMA/2009(i) dated 09 June 2009, no Audit and Management Committee meetings held during the year.</p>	<p>Audit and Management Committees should be held,</p>	<p>Action will be taken to implement Committees in future.</p>