

Hambantota Urban Council

Hambantota District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 10 June 2011 and the financial statements for the preceding year had been presented on 02 July 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Hambantota Urban Council had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Hambantota Urban Council as at 31 December 2010 and the financial results of its operations for the year then ended.

1:3 Comments on Financial Statements

1;3:1 Accounting Policies

- (a) The value of the assets purchased for Rs.1,044,581 in the preceding year and the year under review had not been capitalized.
- (b) Rates amounting to Rs.313,235 and rent amounting to Rs.11,357 received in respect of the ensuing year had been erroneously credited to the Creditors Account instead of crediting the Revenue Received in Advance Account.
- (c) Library books valued at Rs.195,509 purchased and received as donations in the preceding year had not been brought to account as capital assets.

- (d) A sum of Rs.7,810 received during the year from the sale of fixed assets had not been brought to account under the sale of fixed assets.
- (e) The sum of Rs.3,150 received as rent on market stalls in the year under review had been duplicated as it had been brought to account under the debtors as well.
- (f) The issues of stores goods in the year under review had been understated by a sum of Rs.1,898.
- (g) Expenditure amounting to Rs.78,091 in the year under review had been brought to account as recurrent expenditure instead of being brought to account as capital expenditure.
- (h) According to the Board of Survey Report for the year ended 31 December 2009, forty eight items of goods and equipment had been auctioned on 10 December 2010. Action had not been taken for the elimination of their cost from the assets.
- (i) The revenue receivable from Rest House charges in respect of the year under review and the preceding years amounting to Rs.4,677,740 had not been brought to account.
- (j) The sum of Rs.190,380 reimbursable by the Ceylon Electricity Board for the maintenance of street lights in the year under review had not been brought to account.
- (k) The sum of Rs.20,615 receivable for November and December 2010 for the settlement of electricity bills of the Hambantota Bus Stand had not been brought to account.
- (l) The stamp fees and Courts fines revenue receivable for the year under review had not been brought to account.

1:3:2 Unreconciled Control Accounts

The balances of 02 items of account according to the Control Accounts totalled Rs.6,138,542 and the value according to the subsidiary registers amounted to Rs.4,731,574, thus indicating a difference of Rs.1,406,968.

1:3:3 Lack of Evidence for Audit

Non – submission of Information to Audit

Five items of assets valued at Rs.9,700,234 could not be satisfactory vouched in audit due to the non – submission of the required evidence to audit.

1:3:4 Long Outstanding Balances

Arrears of electricity charges amounting to Rs.957,424 had been shown in the financial statements over a long period due to the failure to take action to make the necessary adjustments for settlement.

1:3:5 Non – compliance with Laws, Rules and Regulations

Non – compliances with the provisions of the followings laws, rules and regulations and the management decisions were observed during the course of audit.

(a) Financial Regulations of the Republic of Sri Lanka

- (i) Even though a sub – imprest granted for a purpose should be settled immediately after the completion of the purpose in terms of Financial Regulation 371 (2), advances amounting to Rs.26,070 granted in the year under review had not been settled.
- (ii) Even though the Monthly Performance Summaries and the Daily Running Charts of Motor Vehicles should be furnished to the Auditor General in terms of Financial Regulations 1645 and 1646 the Daily Running Charts of 03 motor vehicles had not been furnished in the year under review.

(b) Financial Rules of the Southern Provincial Council

According to Rule 223:1 money belonging to Local Authorities in whatever form should not be deposited in a private account. Contrary to such Rule, a Management Assistant Grade II of the Urban Council had retained and used a sum of Rs.59,246 of the Council in her private account for a period of about 03 weeks.

2 Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2010 amounted to Rs. 112,005 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.4,882,662 for the preceding year.

2:2 Revenue Administration

2:2:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Chairman is given below.

Item of Revenue	<u>2010</u>			<u>2009</u>		
	Estimated	Actual	Cumulative Arrears as at 31 December	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	3,120	2,495	1,699	3,150	2,460	2,917
Lease Rents	6,025	8,442	2,437	7,968	5,910	2,057
Licence Fees	505	505	--	721	721	--
Charges for Services	2,021	2,360	98	2,127	1,773	354
Warrant Fees and Fines	325	325	--	561	561	--
Other Revenue	655	366	295	2,113	2,113	--

2:2:2 Arrears of Rates

The arrears of Rates receivable amounting to Rs.2,079,777by the Council as at the end of the year under review had not been recovered in terms of Section 170 (1) and (2) of the Urban Councils Ordinance.

2:3 Expenditure Structure

The budgeted and the actual expenditure of the Council for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	<u>2010</u>			<u>2009</u>		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	23,247	21,579	1,668	19,175	19,500	(325)
Others	9,245	8,708	537	8,778	8,476	302
Sub-total	32,492	30,287	2,205	27,953	27,976	(23)
Capital Expenditure	1,710	8,336	(6,626)	1,100	2,526	(1,426)
Grand Total	34,202	38,623	(4,421)	29,053	30,502	(1,449)

2:4 Human Resources Management

2:4:1 Approved and Actual Cadre

(a) Information on the approved and the actual cadre of the Council as at 31 December 2010 is given below.

Category of Posts	Approved	Actual
Staff Grades	02	01
Secondary Grades	17	15
Primary Grades	47	39
Other (Casual Temporary)	--	47

- (b) The Council had recruited and deployed in service 47 casual and temporary employees without obtaining the formal approval in terms of the Management Service Circular No. 28 of 10 April 2006, No. 28 (1) of 10 May 2006, and No. 28 (ii) of 01 August 2006.

2:5 Assets Management

2:5:1 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.3,824,184 and the balances older than 01 year totalled Rs.957,424.

2:5:2 Staff Loans Recoverable

- (a) The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.2,284,186.

- (b) The balances of staff loans amounting to Rs.159,838 recoverable from 03 officers transferred out of the Council was being recovered in installments instead of being recovered in one lump sum.

2:5:3 Non – moving Current Assets

The value of the general stores assets that remained non – moving for over 01 year as at 31 December 2010 amounted to Rs.19,531.

2:6 Operating Inefficiencies

The Council had spent a sum of Rs.72,680 in the year 2010 for the creation of a Website in commemoration of the Local Government Week and the Information Technology Day of the year 2009. It was observed that the Website created had been in operation only for a short period of 02 weeks. The payments made for the above project without carrying out a proper study and abandoning the project are observed as a management inefficiencies.

2:7 Maintenance of Books and Registers

Three registers required to be maintained by the Council had not been maintained in the proper and updated manner while 03 other registers required to be maintained by the Council had not been maintained.

2:8 Internal Audit

An adequate internal audit of the institution had not been carried out.

3. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Debtors / Creditors
- (e) Stores Control