

**Haputhale Urban Council**  
**Badulla District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 23 May 2014 and the financial statements for the preceding year had been presented on 02 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 16 September 2014.

**1.2 Opinion**

In my opinion, except for the effects on the financial statements of the matters referred to in paragraph 1.3 of my report, the financial statements have been prepared in accordance with Sri Lanka Public Sector Accounting Standards and give a true and fair view of the state of affairs of the Haputhale Urban Council as at 31 December 2013 and the financial results of its operations and cash flows for the year then ended.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

- (a.) Rates and taxes in arrears amounting to Rs.2,553,147 as at 31 December of the year under review had been brought to account as Rs.2,464,036 and therefore, the balance of accounts receivable as at end of the year had been understated in the financial statements by Rs.89,111.
- (b.) According to the information made available to audit, income from rest house management fees receivable as at 31 December of the year under review amounted to Rs.4,078,242 where as it had been brought to account as Rs.3,471,258 thus understating the revenue receivable as at 31 December of the year under review in financial statements by Rs.606,984.
- (c.) The amount payable to the Local Government Pensions Fund as at 31 December of the year under review amounted to Rs.319,307. But, only a provision of Rs.3,004 had been made under creditors thus, understating the liabilities in the financial statements by Rs.316,303.
- (d.) The balance of the reimbursements reserve account amounting to Rs.83,065 had not been invested and the assets represent the reserve could not be identified.

**1.3.2 Accounts Receivable and Payable**

The value of the balances of accounts receivable as at 31 December of the year under review amounted to Rs.15,305,408 and the value of the balances of accounts payable as at that date amounted to Rs.30,835,785.

### 1.3.3 Lack of Evidence for Audit

Transactions totaling Rs.1,222,207 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

### 1.3.4 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with following laws, rules and regulations were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Section 164 of the Urban Council Ordinance (Chapter 255)	- Although a licence fee not exceeding 1% of the receipts of the preceding year should be recovered from the lodges approved by the Lanka Tourism Promotion Board, licence fees had not been recovered from 02 lodges carrying out business within the area of the Council.
(b.) F.R.371 of the Financial Regulations of the Republic of Sri Lanka	- Advances amounting to Rs.348,042 paid by the Council to various parties at 15 instances within the period 1997 to 2013 had not been settled.
(c.) Section 1:6 and 4 of Chapter xxiv of the Establishments Code of the Republic of Sri Lanka	- Employees loans amounting to Rs.176,816 remained unrecovered for periods from 02 to 17 years from 29 employees transferred, vacated posts and deceased had not been recovered.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs.9,913,515 as compared with the excess of revenue over recurrent expenditure amounting to Rs.5,154,215 for the preceding year, thus indicating a favourable variance of Rs.4,759,300 in the financial result.

### 2.2 Analytical Financial Review

An analytical review of the net increase of the financial result is shown below.

<u>Recurrent Revenue</u>	<u>2013</u>	<u>2012</u>	<u>Variance</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	
Rates and Taxes	1,755,787	1,775,997	(20,210)	
Lease Rent	6,952,042	7,283,384	(331,342)	
Licence Fees	387,850	384,650	3,200	
Service Charges	10,333,564	1,876,394	8,457,170	
Warrant Charges and Fines	174,745	131,925	42,820	
Other Revenue	426,057	291,560	134,497	
Revenue Aid	14,543,625	13,664,533	879,092	9,165,227
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### **Recurrent Expenditure**

Salaries and Allowances	16,855,207	16,312,262	(542,945)	
Travelling Expenses	317,441	241,267	(76,174)	
Supplies and Equipment	1,431,700	944,592	(487,108)	
Repairs and Maintenance of Capital Assets	1,402,071	913,468	(488,603)	
Transport and Utility Services	1,604,710	1,025,246	(579,464)	
Payment of Interest, Dividends and Bonus	2,116,332	-	(2,116,332)	
Aid, Contributions and Subsidies	752,698	538,139	(214,559)	
Pensions, Pensionery Benefits and Gratuities	179,996	279,254	99,258	(4,405,927)
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			Favourable Variance	4,759,300
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### **2.3 Revenue Administration**

#### **2.3.1 Performance of Collection of Revenue**

The level of the progress of recovery of revenue in arrears as at 01 January 2013 and recovery of revenue billed in year 2013 was low.

#### **2.3.2 Rates and Taxes**

Action had not been taken to carry out a survey on the constructions completed within the area of the Council and to recover rates and taxes since the assessment carried out in year 2006 in respect of properties for which rates and taxes to be paid.

#### **2.3.3 Lease Rent**

Lease rent in arrears amounting to Rs.647,459 due from the lessees who had taken on lease the meat and fish stalls owned by the Council for the period from 2001 to 2012 and the lease rent amounting to Rs.419,629 due from the lessees who had taken the lease for year 2013 had not been recovered.

#### **2.3.4 Rest House Management**

Rest house rent amounting to Rs.3,974,194 due relating to the period 1999 to 2007 in respect of the rest house managed by the Urban Development Authority and the electricity charges amounting to Rs.74,824 settled by the Council that had been defaulted by the Manager of the rest house had not been recovered by the Council.

#### **2.3.5 Court Fines and Stamp Fees**

Court fines and stamp fees recoverable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
Court Fines	154,083
Stamp Fees	370,129

### **2.3.6 Stall Rent**

- (a.) The monthly rent for the stalls owned by the Council had not been assessed in terms of the provisions of Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government and a rent decided by the Council that is less than the market value is being recovered.
- (b.) When a lessee at his will gets cancel the lease agreement of a stall, it should be vested with the Council and action should be taken to re-tender and lease out it. Nevertheless the Council had given the lease by recovering only a charge for changing the name at 09 instances, without re-tendering.
- (c.) The Council owned a multi-purpose building consists of 22 stalls and of this only 01 stall had been leased out. The Department of Valuation had assessed minimum bid amount and the monthly lease rent, but the minimum bid amount of several stalls had been significantly increased at a range of 12% to 104% more than the amount assessed.
- (d.) As the minimum bid amount had increased by a high value, no applicants did apply for stalls. A sum of Rs.14,404,482 had to be paid as interest itself in respect of the loan amounting to Rs.24,089,846 obtained from the Local Loans and Development Fund for construction of the Multi-purpose building. As the building is lying idle, it had adversely affected the financial position of the Council Fund.

### **2.3.7 Hoarding Charges**

Accordingly to the Schedule published in Part IV (b) of the Gazette Notification No.1780 of the Republic of Sri Lanka on 12 October 2012, an annual fee of Rs.100 per square foot should be charged or permanent hoardings installed within the area of the Council. However annual display fees amounting to Rs.271,200 had not been recovered for 2013 for 11 permanent hoardings installed within the area of the Council.

## **3. Operating Review**

### **3.1 Operating Inefficiencies**

- (a.) Action had not been taken to levy by-laws for separating communication towers within the area of the Council and to recover charges. Four communication towers had been installed at 04 places within the area of the Council by 2013.
- (b.) An environmental licence had not been issued to the Filling Station operates within the area of the Council and action had not been taken to issue environmental licence to 17 hotels/ guest houses, a grinding mill and a tea factory which had obtained trade licence for the year 2013.

### **3.2 Idle and Underutilized Assets**

Rumanian type Road Roller of which the normal assessment is Rs.300,000 and is owned by the Council had been lying idle in the Council yard since year 2007.

### **3.3 Contract Administration**

Retention money of 10% relating to concreting the balance part of the Auther Sirisena Mawatha of which the value of works completed is Rs.792,389 had been released to the contractor on 09 October 2013. But, 30 square feet of the concrete layer of the yard had been

damaged and action had not been taken to get repair the relevant part of the road before paying retention money.

#### **4. Accountability and Good Governance**

##### **4.1 Budgetary Control**

The following variances were observed between the budgeted income and expenditure of the Council relating to the year under review and the actual income and expenditure and therefore, it was observed that the budget had not been made use of as an effective tool of management control.

<b><u>Recurrent Revenue</u></b>	<b><u>Budgeted</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>	<b><u>Percentage of</u></b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b><u>Variance %</u></b>
Rent	13,647,731	6,952,042	6,695,689	49
Licence Fees	352,200	387,850	35,650	10
Service Charges	2,174,999	10,333,564	8,158,565	375
Warrant Charges and Fines	121,302	174,745	53,443	44
Other Revenue	140,000	426,057	286,057	204
<b><u>Recurrent Expenditure</u></b>				
Supplies and Equipment	1,040,500	1,431,700	391,200	37
Repairs and Maintenance of Capital Assets	1,626,000	1,402,071	223,929	14
Transport, Utility Services and Other Services	1,257,000	1,604,710	347,710	28
Payment of Interest , Dividends and Bonus	4,029,000	2,116,332	1,912,668	47
Aid, Contributions and Subsidies	1,207,400	752,698	454,702	38
Pensions, Pensionery Benefits and Gratuities	405,600	179,996	225,604	56

#### **3. Systems and Controls**

Special attention is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Stores Control