

Halawatha Urban Council
Puttlam District

1. **Financial Statements**

1.1 **Presentation of Financial Statements**

The financial Statements for the year under review had been presented for Audit in 31 March 2016 and the financial statements for the preceding year had been presented on 29 May 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 30 June 2016.

1.2 **Qualified Opinion**

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this reports, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Halawatha Urban Council as at 31 December 2015.

1.3 **Comments on Financial Statements**

1.3.1 **Accounting Deficiencies**

A variance of Rs.34,864,403 was observed between balances of administrative accounts relating to 17 items of accounts and balances of financial statements.

1.3.2 **Accounts Receivable and Payable**

The following observations are made.

- (a) The value of the entertainment tax reimbursements in arrears recoverable from Commissioner of Local Government being brought forward before the year 2011 amounted to Rs.501,257 and recovery of these revenue had been uncertain.
- (b) Action had not been taken to recover a sum of Rs.591,631 recoverable for renting out of 05 items of assets of the Council being brought forward before the year 2014.
- (c) Value of the account balance payable as at the end of the year under review amounted to Rs.26,651,123 of which the creditors' balance between 2005 to 2014 amounted Rs.16,112,736. Action had not been taken by the Urban Council to settle those creditors' balances being brought forward over a long period.
- (d) Pre-paid value of Rs.8,660,133 being brought forward over a number of years and deposit value being made by the Council amounting to Rs.73,940 had not been settled.

1.3.3 Lack of Evidence for Audit

In the absence of evidence such as detailed schedules relating to 08 items of accounts to the value of Rs.69,265,422, board of survey reports and summary reports it had not been possible to make verification satisfactorily in audit.

1.3.4 Non - Compliance with Laws, Rules & Regulations

Action had not been taken as per FR 571 either to bring expired deposits value of Rs.10,986,475 included in deposit balance to revenue or to make necessary adjustments.

2. Financial Review

2.1 Financial Result

According to financial statements presented, the excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2015 amounted to Rs.47,861,605 as compared with the excess of the recurrent expenditure over income for the preceding year amounted to Rs. 36,368,525. Following the computation of capital aid of the year under review and preceding year that had been amounted to Rs.37,346,809 and Rs.19,097,034 and the capital expenditure amounted to Rs.39,827,320 and Rs.32,619,424 respectively, the excess of the same has been Rs.45,381,094 and Rs.22,846,135 respectively. Accordingly an increase of Rs.22,534,959 is indicated in the financial result of the year under review.

2.2 Analytical Financial Review

- (a) Total operating assistance of the Council during the year under review amounted to Rs.82 mn. and when compared with the operating assistance of the preceding year which amounted to Rs.47 mn. an increase of Rs.35 mn. was observed.
- (b) Operating revenue of the Council during the year under review amounted to Rs. 90. mn. and when compared with the operating revenue of the preceding year which amounted to Rs. 83 mn, an increase of Rs.07 mn. was observed.
- (c) Capital revenue of the Council during the year under review amounted to Rs.37 mn. and when compared with the capital revenue of the preceding year which amounted to Rs.19 mn. an increase of Rs.18 mn. increase was observed.
- (d) In view of the above the excess of the year ender review amounted Rs. 45 mn. and when compared with the excess of the preceding year which amounted to Rs. 23 mn. an increase of Rs.22 mn. of the financial result was observed.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Revenue in arrears.

Information on estimated revenue, actual revenue and revenue in arrears of the year under review in comparison to the previous year are given below.

Item of Revenue	<u>2015</u>			<u>2014</u>		
	Budgeted Rs.'000	Actual Rs.'000	Arrears as at 31Dec. Rs.'000	Budgeted Rs.'000	Actual Rs.'000	Arrears as at 31Dec. Rs.'000
a) Rates & Taxes	21,767	21,877	28,225	21,680	13,645	277,470
b) Lease Rent	38,297	40,344	17,561	80,858	66,532	67,217
c) License Fees	171	1,419	-	2,010	7,832	-
d) Other Revenue	14,625	17,314	35,719	18,150	11,747	22,877

When considered actual and estimated value of the preceding year as well as actual value of the year under review, it had not been observed that estimation of the revenue of the year under review had been made in real terms. For example although estimated value of licence fees amounted to Rs.170,500 the actual revenue had been Rs.1,248,395 which represented 732% increase.

2.3.2 Arrears of Revenue

Effective measures had not been taken in respect of collecting revenue in arrears of below mentioned items of revenue, Revenue collected as a percentage of revenue in arrears and billed revenue are given below.

Item of Revenue	Arrears as at 01.01.2015 Rs.	Billed revenue for the year Rs.	Revenue collected (Total) Rs.	Revenue collected during the year Rs.	Collected income as a % of revenue to be collected Rs.
a) Rates & Taxes	27,747,042	21,680,940	49,427,982	21,447,190	43
b) Shop rent	13,615,415	17,105,091	30,720,506	11,618,208	38

Performance of collecting revenue in arrears and billed revenue in respect of the above mentioned items of revenue had been within the stretch of 38% to 43 %

2.3.3 Three Wheeler fees

(a) Rules have not been formulated to amend and recover three wheeler fees in term of provision under section 153 of Urban Council Ordinance.

- (b) Number of registered three wheelers in the 27 three wheeler parks being operated within area of authority had been 318 of which 71 had not been registered for 2015.

2.3.4 Notice Board Fees

- (i) The Urban Council had not taken action to enact by - laws for recovery fees from trade advertisement and notice boards.
- (ii) Action had not been taken to recover notice board fees in arrears amounting to Rs.318,500 as at 31 December 2015

2.3.5 Stall Rent

- (a) Although amendments to shop rent had been made effective from February 2013, and revenue registers revised accordingly, the Council had failed to recover shop rent as per those amendments.
- (b) Stall rent in arrears at the end of the year under review amounted to Rs.17,561,226 and at the audit it was observed that there are large number of leasers who had not paid any rent during the year under review and the preceding year.

3.4.1 Structure of Expenditure

Budgeted and actual expenditure of the Council for the year under review and the preceding year also comparing with the preceding year along with the relevant variance are given below.

Item of Expenditure	<u>2015</u>			<u>2014</u>		
	Budgeted	Actual	Variance	Budgeted	Actual	Variances
	Rs.'000	Rs.'000	as at 31Dec. Rs.'000	Rs.'000	Rs.'000	as at 31Dec. Rs.'000
Personal Emoluments	86,924	89,767	(2,843)	78,278	64,502	13,776
Other Recurrent Expenditure	44,921	34,007	10,914	32,272	28,619	3,653
Sub Total	131,845	123,774	8,071	110,550	93,121	17,429
Capital Expenditure	17,450	12,661	4,789	21,958	32,619	(10,661)
Grant Total	<u>149,295</u>	<u>136,435</u>	<u>12,860</u>	<u>132,508</u>	<u>125,740</u>	<u>6,768</u>

- (a) 27% of budgeted capital expenditure of the year under review i.e. Rs.05 mn. had not been used for relevant capital purposes.
- (b) During the year under review Rs.2.8 mn. had been spent on personal emoluments in excess of the estimated expenditure.

3 Operating Review

3.1 Construction of crematorium

The project of constructing crematorium in Halawatha under Deyata Kirula National Development Programme 2014 had been commenced and the Urban Council was to bear 50% of the approved estimated amount. A loan of Rs. 6,250,000 had been obtained from Local Credit and Development Fund on 31 December 2014 to meet Councils contribution. As the project had not been implemented as scheduled, that loan had been deposited in a fixed deposit on 14 May 2015.

3.2 Solid Waste Management

A suitable land for establishment of a solid waste management centre had been obtained on 10 year lease basis from 01 November 2015 to 31 October 2025 and paid Rs. 224,200 in the year under review. However an objection from third party had been raised on several occasions against the disposal of waste on the land obtained on lease. According to the project report prepared by the Council activities such as classification of waste, production of compost not-decayed waste disposal should have to be initiated at the date of audit it had not been materialized .

4. Accountability and Good Governance

Although an annual action plan which includes activities aimed at achieving objectives of the relevant Act with long - term vision as stipulated under sections from 04(a) to (f) of the Public Finance Circular No.PFD/RED/01/04/2014/01 of 17 February 2014 had to be formulated, an action plan different from that had been prepared.

4.1 Human Resources Management

Approved and Actual Cadre

Information relating to approved and actual cadre of the Council as at 31 December 2015 is given below.

Employee Grade	Approved	Actual	Vacant	Excess
Executive	02	01	01	-
Secondary	70	29	41	-
Primary	136	161	08	33
Total	<u>208</u>	<u>191</u>	<u>50</u>	<u>33</u>

The following observations are made

- Approved cadre of the Council had been 208 and excess was 33 while the actual number employed was 191.
- Whereas excess were shown within total number of employees, there were 50 vacancies
- Approved carder for primary position consist of 136 while actual number of employees are 161. Accordingly the total employee excess were within the primary section.

6. Systems and Controls

Special attention of the Council is drawn to the following fields of Systems and Controls.

- (a) Accounting
- (b) Budgetary control
- (c) Revenue Administration
- (d) Debtor & Creditor Control
- (e) Assets Management
- (f) Solid Waste Management
- (g) Waste Management