

Hatton Dickoya Urban Council

Nuwaraeliya District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been furnished to Audit on 20 April 2017 while Financial Statements relating to the preceding year had been furnished on 03 June 2016. The Auditor General's Report relating to the year under review was sent to the Secretary on 25 August 2017.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Hatton Dickoya Urban Council as at 31 December 2016 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.3.1 Non-reconciled Control Accounts

Even though payable sundry deposit balance as at 31 December of the year under review was Rs. 10,935,097 according to the financial statements, that balance amounted to Rs. 8,272,691 according to the deposit register. Accordingly, a difference of Rs. 2,662,406 was observed.

1.3.2 Accounts Receivable and Accounts Payable

(a) Accounts Receivable

The total value of 4 receivable accounts balances as at 31 December of the year under review pertaining to a period ranging from 01 year to 25 years amounted to Rs.14,086,415.

(b) Accounts Payable

The total value of 4 payable accounts balances as at 31 December of the year under review pertaining to a period ranging from 01 year to 09 years amounted to Rs.258,245.

1.3.4 Lack of Evidence for Audit

Five Items of accounts valued at Rs.28,223,519 shown in the financial statements as at 31 December of the year under review could not be satisfactorily vouched in audit due to non-submission of detailed schedules, Board of Survey Reports and balance confirmations.

1.3.5 Non-compliance with Laws, Rules and Regulations.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules and Regulations	Non-compliance
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(a). Section 36 (e)(ii) of Urban Council Ordinance (Cap.255)	Seven lots of lands of 1 Rood and 39.14 Perches in extent belonging to the Council had been given on lease to 7 persons without obtaining the approval of the Minister.
(b). Financial Regulations of the Democratic Socialist Republic of Sri Lanka Regulation 571	 Sums totaling Rs.1,697,317 deposited in 53 instances from the year 2009 to 2014 had been retained in the Deposit Account.

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 of the year under review amounted to Rs. 47,050,988 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.27,911,167, thus indicating an improvement of Rs.19,139,821 in the financial results.

2.2 Analytical Financial Review

The improvement of Rs.19,139,821 in the financial results had been mainly attributed to the increase in the income of 05 Items of Revenue and decrease in expenditure of 2 Items of Expenditure.

2.3 Working Capital Management

In comparing current assets with current liabilities, Current Ratio stood at 4:1. Similarly, out of current assets of Rs.92,195,549, a sum of Rs.36,780,132 or 39 per cent represented the cash balance and out of current liabilities of Rs.20,200,758, a sum of Rs.14,446,331 or 71 per cent represented the refundable deposits. It was observed that the excess money could be invested more favourably since it is not required to repay instantly a sum of Rs.11,949,689 or 82 per cent of these refundable deposits.

2.4 Revenue Administration

- (a). According to the particulars pertaining to the revenue presented by the Secretary of the Council, the revenue in arrears amounting to Rs.6,070,136 had not been recovered as at 31 December of the year under review.

- (b). Rentals totalling Rs. 548,138 remained receivable from 9 meat stalls during a period ranging from 9 years to 20 years had not been recovered even in the year under review. Further, arrears of rentals amounting to Rs.433,346 receivable from a person who had obtained a meat stall of the Council on rent in the year 2015 had not been recovered even in the year under review.
- (d). A sum of Rs.295,253 remained receivable relating to renting of Dickoya Reception Hall of the Council in the year 2015 had not been recovered.
- (e). Three blocks of lands belonging to the Council had been rented out during the period from the year 2009 to 2016 at a rental less than the assessed rental and as such, the Council had been deprived of the rental income of Rs.414,660.

2.5 Surcharges

 Value of Surcharges due to be recovered as at 31 December of the year under review in connection with surcharges imposed by me against the persons responsible, in terms of Section 182 (1) of the Urban Councils Ordinance (Chapter 255) was Rs.10,894.

3. Operating Review

3.1 Operating Inefficiencies

- (a). The properties in the area of authority of the Council should be assessed once in 5 years and the Rates should be revised based on that assessment. Nevertheless, despite being assessed the properties in the year 2014 last, Rates had not been recovered based on that assessment and the Rates for the year under review had been recovered based on the assessment of the year 2006 instead. The loss of income caused to the Council due to this reason had not been computed.
- (b). Three blocks of lands containing 27.14 perches in extent belonging to the Council had been given on lease without carrying out assessments within the due period.

- (c). The Environmental Protection Licence had not been issued for 49 businesses undertakings being operated in the area of the authority of the Council.

3.2 Idle/ Underutilized Assets.

The following assets had remained either idle or underutilized

Item of Asset -----	Value -----	Period of Idle or Underutilized -----
	Rs..	
i. Five Juke Machines	150,000	Five years
ii. Five motors of Juke Machines	175,000	Five years
iii. Mahendra Jeep	1,300,000	Three years
iv. Hearse	8,500	Four years
v. Compactor Machine	1,000,000	Te years
	----- 2,633,500 =====	

3.3 Solid Waste Management

- (a). A proper arrangement had not been made for the disposal of waste in the area of authority of the Council and it was observed in audit that waste had been irregularly dumped in many places in the town. Similarly, a sum of Rs.40,000 had been paid to the Central Environmental Authority during the year under review for obtaining the Environmental Report in respect of a project relating to the waste management, whereas the relevant report had not been obtained.
- (b). Although 100 Composte bins and 100 concrete waste bins valued at Rs.686,256 had been purchased with the financial contribution of the Central Provincial Council and the Urban Council during the year under review, 9 Compost bins valued at Rs.32,963 and 87 concrete compost bins valued at Rs.278,400 out of those bins had not been issued.

4. **Accountability and Good Governance**

Budgetary Control

- (a). According to the Budget prepared for the year under review, when estimated revenue and expenditure are compared with the actual revenue and expenditure, variations from 22 per cent to 170 per cent in 4 Items of Revenue and variations from 16 per cent to 53 per cent in 05 Items of Expenditure were observed. Accordingly, it was observed that the Budget had not been made use of as an effective tool of management control.
- (b). Six works valued at Rs.2,050,000 included in the Budget of the year under review and expected to be implemented by the Fund of the Council and not been implemented.

5. **Systems and Controls**

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

Areas of Systems and Controls	Observations
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(a). Revenue Administration.	Revenue in arrears receivable to the Council had not been recovered.
(b). Debtors/ Creditors Control.	Action had not been taken either to recover money that remained recoverable by the Council from various parties or settle the payments payable to various parties.
(C). Control over assets.	Without taking action to dispose of the disposable assets and thereby earn revenue to the Council, those assets had been retained in the Council.
(d). Accounting.	Observing differences between the balance of the Payable Sundry Deposit Account and the Register of Deposit.