

Thangalla Urban Council
Hambanthota District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 March 2016 while Financial Statements relating to the preceding year had been submitted on 08 April 2016. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 26 September 2017.

1.2 Qualified Opinion

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

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed during the course of audit.

- (a.) Payments for payable salaries amounted to Rs.392,601 had been adjusted to Accumulated Fund and Deficit Account instead of adjusting to debtors account.
- (b.) The balance of the employee Loans had been understated by Rs.9,015 in the financial statements during the year under review.
- (c.) The value of the stock of Compost fertilizer about 2,865 Kilograms had not been accounted at the end of the year under review.

1.3.2 Unreconciled Control Accounts

A difference between the employee security investment account and the employee security deposit account had been observed amounting to Rs.13,645.

1.3.3 Accounts Receivable and Payable

Following observations are made.

(a.) Accounts Receivable

Action had not been taken during the year under review to recover the Rest House Rent receivable from a long period of time amounted to Rs.2,564,818 as at 31 December in the year under review.

(b.) Accounts Payable

Action had not been taken to pay the money and settle the salary payable account amounting to Rs.269,355 for the year 2014.

1.3.4 Lack of Evidence for Audit

Time analysis of the revenue that filed cases against, amounted to Rs.3,231,309 according to the financial statements, the deposit balances totaled to Rs.1,030,470 that had been written-off by the journal entries and the detailed schedules of the accounting of stock totaling to Rs.342,560, had not been furnished therefore had not been satisfactorily observed in audit.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

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

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Urban Councils Ordinance Chapter 255 Section 180(1)	- Even though it had to present a detailed report at the end of each year on the money received to the Sabha fund, the nature of the Sabha expenditure and amounts with the administration of the Sabha.
(b.) Financial Regulations of the Republic of Sri Lanka 1992 -----	
(i.) Financial regulation 210(1)	- Even though the payments had to be made as soon as possible to receive discounts, discounts had not been collected for the water charges paid amounted to Rs.385,785 during the year under review.
(ii.) Financial regulation 571(3)	- Action had not been taken about 549 deposit balances totaled to Rs.1,186,042 relevant from the year 2004 to 2014.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs.10,419,278 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.1,253,326. Accordingly, an improvement amounting to Rs.9,165,952 is shown in the financial results of the year under review.

2.2 Analytical Financial Review

The following matters are observed.

- (a) Recurrent expenditure was about 88 per cent of the recurrent revenue, expenditure had been relatively a high value compared to income of the Sabha during the year under review.
- (b) Expenditure over the self-generated income had been continuously increased I considerable amounts every year, it had been over 03 times the self-generated income in the year under review.
- (c) Even though a situation had been arisen,that recurrent expenditure become impossible to recover by the income of the Sabha without Revenue Grants, consideration had not been given to control the expenditure.

2.3 Working Capital Management

It was observed that the standard levels of the current and quick ratios.

2.4 Revenue Administration

2.4.1 Performance in Collection of Revenue

The following observations are made about the performance of revenue collection as at 31 December 2016.

- (a) The revenue that had been billed during the year under review amounted to Rs.23,013,122 from that Rs.17,304,170 had been recovered. Accordingly the progress of performance in collection of revenue was 75 per cent.
- (b) Revenue receivable balances totaled to Rs.9,762,052 during the year under review and from that Rs.3,406,309 had been recovered. Accordingly the performance in collection of revenue receivable was 35 per cent.

2.3.2 Rates and Taxes

Following observations are made.

- (a.) 66 per cent of the opening deficit had been recovered during the year under review and the deficit at the end of the year was Rs.966,145. That balance included 51 units of tax balances over Rs.2,000 amounted to Rs.330,190. Action had not been taken to recover the receivable balances according to the Section 170(a) of Urban Council Ordinance.
- (b.) Tax had been claimed according to an assessment made in 1999 up to the year under review, a new assessment of tax had been handed over to the Sabha on 20 June 2016 but actions had not been taken on those recommendations to the date 31 July 2017.

2.3.3 Lease Rent

Action had not been taken by the Urban Council under Section 170(a) of Urban Council Ordinance to recover an amount of money from Lanka Rest House Limited, a subsidiary of Urban Development Authority amounted to Rs.2,564,818 as at 31 December 2016 for the Thangalla Rest House.

2.3.4 Stall Rent

Following observations are made.

(a.) Agreements Not Updated

(i.) Even though according to Paragraph 05 of Circular No.දළපා/පළාමකා/2010/01 on 27 December 2010 by the Commissioner of Southern Provincial Council, agreements had to be updated every 03 years, action had not been taken to update the agreements of 44 stalls over time periods of 06 years to 31 years.

(ii.) Even though estimation should be made every 05 years and update the stall rent, action had not been taken according to Section 06 of the above Circular at the end of the year under review. The decisions had been taken under the decisions made by the Sabha in 2002 and 2011 instead of the estimation made on 23 February 2016. Therefore Sabha Fund had been lost the income during March 2016 to December an amount of Rs.2,931,635.

(b.) Stalls at JayasingheWatta

(i.) Even though Urban Development Authority had been started a construction, building stalls in Jayasinghe Watta owned by Urban Council, about 08 years ago, it had not been finished to the date 31 July 2017. But the agreements had been made with lessees for 16 stalls on 25 June 2009 and for 11 stalls on 06 January 2011.

(ii.) Agreement had been made in the year 2009 to give out 15 stalls at JayasingheWatta with 15 lessees for their stalls at the Market Place to be demolished but action had not been taken to demolish the stalls at the Market Place to the date 30 June 2017.

(c.) Receivable Stall Rent

Stall rent from 14 stalls at Thangalla Bus Stand had not been recovered from 01 year to 07 years and the money receivable at the end of the year under review had been Rs.171,181.

3. Operating Review

3.1 Performance Review

(a.) Provisions made by the annual budget for 46 tasks including repairs and maintenance of drains, totaled to Rs.5,446,200 had been completely remained.

(b.) Provisions made for a project Minimizing the Mosquito density and improve the health of people amounted to Rs.100,000 had been transferred to other items of expenditure.

3.2 Management Inefficiencies

Following observations are made.

- (a.) Inspection of Fuel Consumption
the fuel consumption had not been inspected 11 out of 18 vehicles owned by the Sabha according to Paragraph 02 of Circular No.41/90, on 10 October 1990.
- (b.) Investigation held on 07 July 2015 revealed that 02 sets of equipment of 02 vehicles belong to Sabha Fire and Disaster Management Unit had been taken away by the Last Chairman of the Sabha. Even though it had been over 02 years, those equipment sets had not been returned to the Sabha to the date 10 July 2017.

3.3 Solid Waste Management

The following matters are observed.

- (a.) Even though a project for recycling the Solid Waste had been commenced, an environmental licence or environmental recommendations had not been obtained until 30 June 2017.
- (b.) Action had not been taken to impose tax to recover the expenses.

3.4 Human Resource Management

There had been an excess of 27 persons for 06 posts and 25 vacancies for 16 posts in the staff as at 31 December of the year under review. Action had not been taken to fill the vacancies and to regulate the excess number of employees.

4. Good Governance and Accountability

4.1 Budgetary Control

Objectives that had not been accomplished in 05 items of revenue amounting to Rs.28,438,804, it was in a range of 10 to 80 per cent and it was observed that budget had not been used as an effective management control tool.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Budgetary Control