

Ambalangoda Urban Council
Galle District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit on 12 April 2017 and the financial statements for the preceding year had been presented on 31 March 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Council on 27 October 2017.

1.2 Qualified Opinion

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

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The payment of Rs.255,742 relating to the previous year had been debited to the expenditure of the current year resulting in an overstatement of expenditure of the year under review.
- (b) Revenue from stamp fees receivable for the year under review had been understated by Rs.14,758,140. As a result, the revenue of the year and the current assets had been understated.
- (c) The sum of Rs.246,483 receivable from the Southern Province Road Development Authority had not been brought to account. As a result, the revenue and the balance receivable had been understated.
- (d) The sum of Rs.209,324 receivable from the Ambalangoda Divisional Secretariat on behalf of 02 jobs had been shown as payable in the financial statements. As a result, the creditors and the debtors had been overstated and understated respectively by similar amounts.

1.3.2 Unreconciled Control Accounts

The following matters were observed.

- (a) The balances of 14 items of accounts included in the financial statements aggregated Rs.51,476,993. A difference of Rs.44,631,211 appeared between these balances and the balances shown in the subsidiary registers/schedules.
- (b) A difference of Rs.26,826 was observed between the balances of the Employees' Security Deposits and the balances of the Employees' Security Deposits Investment Account both of which should be equal to each other.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a) Receivables amounting to Rs.109,338,404 as at end of the year under review including the guest house rent of Rs.8,334,529 which was in arrears for over 06 years and the compensation due from the Electricity Board amounting to Rs.6,402,250 had not been settled.
- (b) The unsettled liabilities as at end of the year under review amounted to Rs.70,724,474. An age analysis pertaining to the balances aggregating Rs.6,995,459 included in the above balances had not been furnished for audit.
- (c) The arrears of contributions payable to the Local Government Pensions Fund as at end of the year under review as per financial statements aggregated Rs.11,166,432.

1.3.4 Lack of Evidence for Audit

Files and letters of confirmation relating to the bus stand water project account amounting to Rs.73,913,952, accounts payable aggregating Rs.73,251,732 and the arrears of revenue account aggregating Rs.8,869,302, an updated and properly maintained register of fixed assets relating to 05 items of fixed assets aggregating Rs.77,767,795 as appearing in the financial statements had not been furnished. As such, these could not be satisfactorily examined in audit.

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations etc.,	Non – compliance
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(a) Financial Regulations of the Republic of Sri Lanka	

(i) Financial Regulation 110	A register of losses and damages with 11 columns had not been prepared as per approved specimen form to report on losses and damages.
(ii) Financial Regulation 396 (d)	Action had not been taken with regard to 17 cheques aggregating Rs,96,305 issued in respect of 02 bank current accounts of the Urban Council. These cheques had not been presented for payments and their period of validity had expired.

2. Financial Review

2.1 Financial Results

According to the financial statements presented to audit, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs.22,050,881 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs14,757,495. An improvement in financial results amounting to Rs.7,293,386 had been observed as compared with the preceding year.

2.2 Working Capital Management

Although minor improvements had been observed in the current and quick ratios as compared with the previous year, the presence of lapsed debtors' balance of Rs.14,736,779 in the debtors balances receivable showed that the current and quick ratios were not in a satisfactory level.

2.3 Revenue Administration

2.3.1 Rates and Taxes

Out of the balance of arrears of tax as at end of the year under review amounting to Rs.19,452,886, a sum of Rs.6,645,518 had been recovered during the year resulting in a higher value of Rs.12,807,368 as arrears. Action had not been taken to recover the arrears of rates and taxes in terms of Section 170(2) of the Urban Councils Ordinance.

2.3.2 Lease Rent

The arrears of lease rent observed as due from stalls as at 31 December of the year under review amounted to Rs.3,083,090. Action had not been taken in terms of Section 170(a)(1) of the Urban Councils Ordinance to recover the arrears of lease rent.

2.3.3 Stamp Fees

Stamp fees revenue amounting to Rs.51,518,405 had been included in the arrears of other revenue as at end of the year under review. Of this, a sum of Rs.49,859,838 belonged to a period prior to the previous year.

3. Operating Revenue

3.1 Performance

The following matters were observed.

- (a) A sum of Rs.19,320,000 had been estimated to execute 29 jobs and to modernize the office under the 04 year plan of the Urban Council for the period 2016 to 2009. However, the work concerned had not been executed.
- (b) The sum of Rs.4,741,579 received for 07 development projects within the authoritative area of the Sabha had been deposited in 07 savings accounts since 04 years without executing those projects.

3.2 Management Inefficiencies

The following matters were observed

- (a) There were 13 vacancies in the approved cadre. Meanwhile, there were 20 excesses in the unapproved cadre, Action had not been taken during the year under review to regularize the excess cadre or to fill the vacancies.
- (b) Action had not been taken to recover the balances of employees' loans aggregating Rs.282,190 recoverable from 03 employees of the Council who had been transferred/retired and from 55 casual and substitute employees.
- (c) The Fishery Trade Complex of the Urban Council had been given on lease without recovering the key money as per agreement. Although an arrears of Rs.259,584 was due by end of the year under review, action had not been taken to recover it.
- (d) The instalments payable for the loan of Rs.51,792,000 obtained in 1998 from the Asian Development Bank had not been paid after 30 June 2010. As such, the arrears of loan payable by end of the year under review amounted to Rs.33,857,798 in addition to the extra interest of Rs.40,980,107 payable.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) (i) Action could be taken in terms of Section 170(a)(i) of the Urban Council Ordinance with regard to continuous non payment of lease rent for over 03 months. However, action had not been taken accordingly.
- (ii) According to the Condition No.5.3.2 of the agreement, the lessee of the stall should pay water and electricity bills. However, water charges amounting to Rs.48,400 was due from 14 stalls by 31 December of the year under review.
- (b) The salaries and allowances of the approved cadre of the staff alone is reimbursed by the Commissioner of Local Government. As such, the salaries and allowances of the employees recruited by the Council amounting to Rs.7,746,591 had been incurred from the funds of the Council.
- (c) None of the hotels registered under the Tourism Development Act had furnished their audited accounts while paying the 1 % of the entire revenue payable to the Council in terms of Section 164(2) of the Urban Councils Ordinance with reference to hotels, canteens and lodgings.

3.4 Contract Administration

The soil around the well under construction had collapsed while reconstructing the Okanda Public well at an estimated cost Rs.640,000. The well had to be closed on the instructions of the Engineering Assistant due to the risk prevailed, by spending a sum of Rs.53,300. Meanwhile, the society which undertook the work on contract had furnished a bill for Rs.148,760 for the work done up to then.

3.5 Idle/ Underutilized Assets

The following matters were observed.

- (a) Action had not been taken even by 21 June 2017 to repair and use or to dispose of, the tractor getting corroded at the premises of the Sabha, a three wheeler costing Rs.259,000 and a hand tractor amounting to Rs.432,500.
- (b) A stock of timber valued at Rs.181,197 purchased before 2014 and included in the balance of stores shown in the financial statements of the year under review remained idle at the stores even by 21 June 2017.
- (c) Although an expenditure aggregating Rs.3,302,458 had been incurred on constructing a centre for body building and for purchasing equipment, the centre remained idle since October 2015.

3.6 Solid Waste Material Management

The following matters were observed

- (a) The Urban Council had not followed any method with regard to garbage management. Meanwhile, out of the daily collection of garbage, the degradable garbage had been sent to the Monrowiyawaththa garbage division and the rest of the garbage had been sent to a barren land named Halwathura which was 500 metres away from the Colombo road where it had been buried in the soil every 03 months. Mosquitoes and flies had increased in this area due to the accumulated heap of garbage causing health hazards to the people of the area. An environmental licence had not been obtained for the place where garbage had been disposed of.
- (b) The machine obtained for commencing the garbage management project in the authoritative area of the Urban Council remained idle at the stores since prior to 2012. The Council was not in possession of any information relating to the machine and its value too had not been shown in the financial statements.

4. Good Governance and Accountability

4.1 Budgetary Control

Out of the amounts included in the budget for the year under review, savings of 07 items of expenditure aggregated Rs.46,014,168, expenditure exceeding the limits in 02 items of accounts amounted to Rs.590,203 and the targets not achieved in 06 items of revenue amounted to Rs.39,416,443.

4.2 Internal Audit

Internal audit had not been carried out in terms of provisions in 133 and 134 of the Financial Regulations of the Republic of Sri Lanka and the Circular No.අප්ප/ප්‍ර/01/න.ව.ලේ of 24 February 2014 of the Commissioner of Local Government (Southern Province). A Development Officer had been appointed as Internal Audit Officer by the Council.

4.3 Implementation of Audit and Management Committees

Action had not been taken even by end of the year under review to establish Audit and Management Committees in terms of provisions in the Audit and Management Circular No. DMA/2009 (i) of 09 June 2009.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Council by audit queries. Special attention is needed in request of the following areas of systems and controls.

System	Deficiencies in the System
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(a) Accounting	<ul style="list-style-type: none"> (i) Actual revenue and expenditure of the year under review had not been correctly identified. (ii) Evidence had not been furnished for certain items shown in the financial statements. (iii) Action had not been taken to settle balances of accounts exceeding 04 years. (iv) Certain capital expenditure had not been brought to account under fixed assets.
(b) Control over Vehicles	<ul style="list-style-type: none"> (i) Action had not been taken to test consumption of fuel by vehicles of the Council. (ii) Three vehicles had been allowed to get corroded in the premises of the Council without any action being taken.
(c) Maintenance of Register	<ul style="list-style-type: none"> (i) A register of vehicles had not been maintained by the Council. (ii) A register of loss and damages had not been maintained so as to include information regarding losses and damages. (iii) The ledger balances had not agreed with the schedules.
(d) Revenue Control	<ul style="list-style-type: none"> (i) Recovery of arrears of revenue was weak. (ii) Action had not been taken to recover stamp fees in an updated manner. (iii) Arrears of stall rent exceeding 04 years were in existence. (iv) The collection of rates and taxes appeared to be slow.

- (e) Staff Management
 - (i) Action had not been taken to regularize the posts of 20 casual/substitute/excess labourers of the Council.
 - (ii) Action had not been taken to fill vacancies in posts.
 - (iii) Salaries had been paid from the funds of the Council to 08 security officers who had been recruited in excess of the approved cadre.

- (f) Budgetary Control
 - (i) The estimated provision of 07 items of expenditure had been saved.
 - (ii) The approved limits of 02 items of expenditure had exceeded.
 - (iii) The estimated targets of 06 items of revenue could not be achieved.
 - (iv) The percentage of variations between the estimated values and the actual values of capital expenditure was 50.
 - (v) Follow up action had not been taken to revise the budget.