

**Hikkaduwa Urban Council  
Galle District**

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**1 Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year 2016 had been presented to audit on 31 March 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 14 November 2017.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Hikkaduwa 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**

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**1.3.1 Accounting Deficiencies**

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The under provision of Rs.174,167 for stamp fees pertaining to the previous year had not been brought to account.

**1.3.2 Unreconciled Control Accounts**

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The balances of 11 items of accounts aggregated Rs. 77,430,336 as per financial statements. However, the balances shown in the subsidiary registers and reports differed with the above balances and the variations observed aggregated Rs.29,773,805.

**1.3.3 Accounts Receivable and Payable**

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The following matters were observed.

- (a) Action had not been taken even during the year under review to settle the balances of pre payments and advances of the Council aggregating Rs.160,795 which continued to be brought forward in the financial statements since 2014 without any change.
- (b) Action had not been taken to recover the sum of Rs.789,164 receivable on behalf of the construction of the bridge at Naarigama Pathana Road in 2014.

- (c) A sum of Rs.15,576,729 had been obtained from the Local Loans and Development Fund in 2004 to construct drains in the premises of the Council. A proper method had not been prepared and executed to settle the loan.
- (d) Action had not been taken to settle the loan of Rs.2,061,259 payable on behalf of 04 jobs of the Council for the period 2008 to 2015.

#### **1.3.4 Lack of Evidence for Audit**

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A register of fixed assets and proper schedules prepared with updated particulars of classification of assets pertaining to fixed assets aggregating Rs.98,116,648 shown in the financial statements, a register of fixed deposits for the fixed deposits of Rs.4,341,718, confirmation letters for bank balances amounting to Rs.12,730,877, an updated register of deposits and schedules for the refundable deposits of Rs.11,093,588 and an updated register of loans for the loan of Rs.16,981,982 obtained from the Local Loans Development Fund had not been furnished and as such these could not be satisfactorily examined in audit.

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

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

<b>Reference to Laws, Rules, Regulations etc.,</b>	<b>Non- Compliance</b>
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(a) Financial Regulations of the Republic of Sri Lanka  ----- 570 and 571(1)(2)	Action had not been taken to correctly identify and settle the balances of 11 types of deposits aggregating Rs.1,472,216 which had exceeded a period of 02 years as at 31 December 2016.
(b) Public Administration Circular No.41/90 of 10 October 1990	Consumption of fuel by 31 vehicles of the Council had not been tested.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented for audit, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs.24,438,894 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.18,224,786. An improvement in financial results of the year under review amounting to Rs.6,214,108 had been observed as compared with the preceding year.

### **2.2 Revenue Administration**

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#### **2.2.1 Rates and Taxes**

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The balance of rates and taxes by end of the year under review amounted to Rs.24,235,904. The Urban Council had not paid attention to formulate proper methods and to implement them in terms section 170(2) of the Urban Councils Ordinance, so as to recover the amount concerned.

#### **2.2.2 Lease Rent**

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Action had not been taken in terms of Section 170(a)(1) of the Urban Councils Ordinance to recover the arrears of lease rent of Rs.4,646,770 as at end of the year under review.

#### **2.2.3 Licence Fees**

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The arrears of licence fees as at end of the year under review amounted to Rs.540,074. Action had not been taken in terms of Section 170(a)(1) of the Urban Councils Ordinance to recover the arrears.

#### **2.2.4 Court Fines and Stamp Fees**

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The stamp fees and court fines receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2016 amounted to Rs.33,022,548 and Rs.1,600,000 respectively.

## **3. Operating Review**

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### **3.1 Management Inefficiencies**

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The following matters were observed

#### **(a) Employees' Loans**

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A sum of Rs.51,300 was due from 02 officers who had retired / vacated posts as at 31 December of the year under review. This continued to be brought forward since 2008 without being recovered.

**(b) Human Resources Management**  
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- (i) Recruitments had been made without approval for the post of Community Development Officer, an executive post and for 06 posts of pre school teachers while there were excesses in the post of Development Officer of tertiary division and in 06 posts in the primary division.
  - (ii) The Council had not taken action to recruit a person for the approved post of Dispenser at the Hikkaduwa Ayurveda Centre since 2002.
  - (iii) Minor employees had been employed to cover up the duties of 04 posts of Management Assistants of the Council.
  - (iv) The personal file of a revenue inspector was not available at the Urban Council. A management assistant and a revenue inspector had continuously worked for 13 years and 09 years respectively at the Urban Council as there was no proper method of transfer.
- (c) A sum of Rs.2,718,047 had been spent from the revenue of the Sabha to pay the salaries and allowances of employees who had been recruited without approval.
- (d) The Sabha had not taken action to acquire 14 vehicles used by it.

**3.2 Contract Administration**  
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The District Secretary had handed over Rs.12,938,594 to the Chief Secretary of the Provincial Council for the IInd stage of the Walamulla crematorium. However, the IInd stage of the work had not been commenced even by 23 August 2017. The Council had not taken action to get the work completed by drawing attention.

**3.3 Idle/Under Utilized Assets**  
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The following matters were observed.

- (a) Action had not been taken to dispose of, three four wheeled tractors, 02 trailers and a becko loader in terms of circular No. 02/2015 dated 10 July 2015.
- (b) The Foton Tremor Road Roller valued at Rs.7,967,144 obtained as aid in 2015 and the galie bowser valued at Rs.3,000,000 given by the Ministry of Nation Building in 2016 remained without being used for any purpose.

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

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

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Savings in seven items of expenditure aggregating Rs.26,112,414, adverse variances in 02 other items amounting to Rs.1,512,744 and the target of revenue not reached in 06 items of revenue aggregating to Rs.16,278,476 had been observed with regard to the budget for the year under review. Thus, it was observed that the budget had not been used as an efficient instrument of financial management.

##### **4.2 Internal Audit**

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Internal audit had not been carried out in terms of Financial Regulations 133 and 134 of the Republic of Sri Lanka and the Circular No.දළපා/යහ/01/න.ව.මේ. dated 24 February 2014 of the Commissioner of Local Government (Southern Province). A development officer had been appointed as internal audit officer by the Urban Council.

##### **4.3 Implementation of Audit and Management Committees**

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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 Management Audit Circular No. DMA/2009(i) of 09 June 2009.

##### **4.4 Unresolved and Unreplied Audit Queries**

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Although it had been agreed to rectify the deficiencies pointed out in paragraphs 2.2.6(a)(i),(ii),(iii), 2.2.6(c), 4.3(d), 5.4(ii) and 5.7 of the Auditor General's report of the previous year, the rectifications had not been made even during the year under review.

#### **5. Systems and Controls**

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Deficiencies observed during the course of audit were brought to the notice of the Council from time to time. Special attention is needed on respect of the following areas of systems and controls.

<b>System</b>	<b>Main deficiency in the System</b>
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(a) Accounting	(i) A schedule had not been furnished along with the financial statements.  (ii) Balances of accounts continuously brought forward without any change had not been settled.  (iii) The fixed assets purchased during the year under review had not been entered in the register of fixed assets.

- (b) Control over Vehicles
  - (i) Action had not been taken to test the consumption of fuel by vehicles belonging to the Council.
  - (ii) Thirteen out of 31 vehicles of the Council remained without usage.
  - (iii) Action had not been taken to repair/dispose of idle vehicles.
  - (iv) Suitable action had not been taken with regard to 02 vehicles which had never performed.
- (c) Budgetary Control
  - (i) Savings had been observed in 07 items of expenditure.
  - (ii) Adverse variances had been observed on 06 items of revenue.
- (d) Maintenance of Registers
  - (i) A register of losses and damages had not been maintained.
  - (ii) The register of fixed assets had not been updated.
  - (iii) A register had not been maintained for capital aid.
  - (iv) An updated register of deposits had not been maintained.
- (e) Human Resources Management
  - (i) Action had not been taken to fill vacancies in the staff and to regularize the excess cadre.
  - (ii) Action had not been taken to recover loan balances of officers who had served at the Council.
- (f) Collection of Revenue
  - (i) A proper method had not been adopted to recover arrears of revenue.
  - (ii) An updated recovery of stamp fees not been carried out.
  - (iii) Action had not been taken to recover the long outstanding key money.