

Hikkaduwa Urban Council
Galle District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2019 had been presented for audit on 29 April 2020 and the report of the Auditor General sent on 19 June 2020 and the Detailed Management reports sent on 30 June 2020 to the Chairman of the Council.

1.2 Qualified Opinion

In my opinion, except for the effect of matters described in the, basis for qualified opinion under the Section of my report the financial statements give a true and fair view of the financial position of the Hikkaduwa Municipal council as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

1.3.1 Accounting Deficiencies

Audit observations	Recommendations	Comments of the Accounting Officer
(a) 41 non capital items amounting to Rs.98,434 had been capitalized under the furniture and fitting as at 31 December at the year under review.	Assets should be accounted correctly.	Action will be taken to rectify during the preparation of accounts of the year 2020
(b) Receivable court fines due as at 31 December of the year under review had been understated by an amount of Rs.937,756.	Should be accounted correctly.	Action will be taken to rectify during the preparation of accounts of the year 2020
(c) Receivable Stamp fees due as at 31 December of the year under review had been overstated by an amount of Rs.22,037,338.	Should be accounted correctly.	Action will be taken to rectify during the preparation of accounts of the year 2020
(d) Since capital expenditure amounting to Rs.499,928 had not been capitalized, Fixed Assets and Capital contribution by Income account was understated by that amount.	Should be accounted correctly.	Action will be taken to rectify during the preparation of accounts of the year 2020

1.3.2 Unreconciled accounts

Audit observations

Recommendations

Comments of the Accounting Officer

There was a difference amounting to Rs.3,988,738 between Balances of the Financial Statement and utility Ledgers/ Schedules of 08 Accounting items as at 31 December of the year under review.

Action should be taken to rectify the accounts after reconciling the balances.

The difference will be finding out and rectified and will be corrected by 2020 accounts.

1.3.3 Receivable and Payable accounts

Audit observations

Recommendations

Comments of the Accounting Officer

(a) Receivable accounts

(i) Action had not been taken to collect a receivable Capital donation amounting to Rs.1,942,643 relevant to the preceding period of time.

Receivable account balances should be collected.

Will be rectified after checking documents.

(ii) Action had not been taken to recover a recoverable amount of Rs.142,665 as at 31 December 2015 according to the Advance register.

Receivable account balances should be recovered.

Will be rectified after checking the documents.

(b) Payable Accounts

Action had not been taken to settle Work Creditors amounting to Rs.656,337 due from preceding years.

Payable account balances should be settled.

Problems coming from a long time will be rectified in due course.

1.3.4 Lack of documentary evidence for Audit

 Non-Submission of information

Audit observations	Recommendations	Comments of the Accounting Officer
Information regarding 07 items of accounts amounting to Rs.112,157,880 had not been presented for Audit.	Information confirming the balances of the financial statements should be submitted.	Action will be taken to rectify in future.

1.4 Non compliance

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

References to the Laws, Rules, Regulations and Management decisions	Non-compliance	Recommendation	Comments of the Accounting Officer
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(a) Parliament Acts.

Authority 225 Paragraph 170(1) of the Municipal Council Ordinance.	Action had not been taken regarding the taxpayers who had not paid the Assessment Tax.	Action should be taken according to the Act.	Action will be taken to rectify in future.
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(b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 371	Action had not been taken to settle advance amounting to Rs.215,217 issued in the year 2012.	Action should be taken according to the Financial Regulations.	Required action will be taken after looking through the registers.
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| (ii) | Financial regulation 571 | Action had not been taken regarding 255 deposits expired by 02 years amounting to Rs.1,735,452. | Action should be taken according to the Financial Regulations. | Required action will be taken after looking through registers. |
| (iii) | Financial regulation 1645 | Relevant running charts for vehicles had not been presented for audit. | Running charts should be presented for audit | Drivers were notified and will be presented in the future without delay. |
- (c) Public administration Circulars.
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| (i) | The Circular No.02/2015 of the Ministry of Finance dated 10 July 2015. | Action had not been taken for 03 vehicles removed from running. | Action should be taken according to the Circulars. | Action will be taken to rectify in the future. |
| (ii) | Paragraph 3.1 of the Circular No.30/2016 of the Public Administration and Management dated 29 December 2016 | Fuel consumption tests was not done for 23 vehicles belonging to the council. | Action should be taken according to guidelines of the Circulars. | Action will be taken to rectify in future. |

2. Financial review

2.1 Financial Results

According to the Financial Statements presented, the Recurrent expenditure over the Revenue of the Council for the year ended 31 December 2019 amounted to Rs.5,064,629 as compared with the corresponding Recurrent Expenditure over Revenue for the preceding year amounted to Rs.2,993,582.

2.2 Revenue Administration

2.2.1 Estimated Income, Billed Income, Collected Income, and Arrears of Income

The details of the Estimated Income, Billed Income, Collected Income and Arrears of income for the year under review and the preceding year are shown below.

Source of Income	2019				2018			
	Estimated Income	Billed Income	Collected Income	Total arrears of income at 31 December	Estimated Income	Billed Income	Collected Income	Total arrears of income at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and tax	18,000,000	19,591,873	14,778,056	33,460,151	26,050,000	24,668,963	22,379,637	28,646,834
Rent	3,400,000	3,387,490	3,705,362	4,420,126	7,036,000	6,927,690	6,900,143	4,737,998
Permit fees	956,000	639,610	730,174	272,180	1,846,000	1,107,260	1,243,830	362,744
Total	22,356,000	23,618,973	19,213,592	38,152,457	34,932,000	32,703,913	30,523,610	33,747,576

2.2.2 Assessment and Tax

Audit observations

An amount of Rs.15,014,791 was to be collected from 183 assessment units with arrears balances more than Rs.10,000 as at 31 December 2019.

Recommendations

Arrears of income should be recovered exigent.

Comments of the Accounting Officer

Red notice had been sent to the arrears parties and action will be taken to recover the arrears using Mobile services and Revenue inspectors.

2.2.3 Court fines and Stamp fees

Audit observations

The Court Fines amounting to Rs.244,078 and Stamp fees amounting to Rs.57,487,618 was to be taken from the Chief Secretary of the Provincial Council and other authorities at 31 December of the year under review.

Recommendations

Arrears of income should be collected exigent.

Comments of the Accounting Officer

Relevant parties have been notified.

3. Operational Review

3.1 Performance

Facts observed relating to the execution of activities by the Pradeshiya Sabha in accordance with Section 3 of the Pradeshiya Sabha Act such as regulation of health of the general public, common

utility services and public road facilities and maintenance of people's welfare, facilities and development are given below.

(a) Action plan

Audit observations

Recommendation

Comments of the Accounting Officer

An action plan was not prepared for the duties to be performed as according to the established bylaws by the Council for the year under review.

An annual Action plan should be made.

Action will be taken to prepare an action plan in the year 2020.

(b) Solid Waste Management

Audit observations

Recommendation

Comments of the Accounting Officer

A proper waste Management system was not initiated.

Proper and long-term plans should be made for the disposal of waste.

Noted that the relevant problems will be fixed with a new project.

(c) Goals of Sustainable Development

Audit observations

Recommendation

Comments of the Accounting Officer

Plans had not been made according to 2030 Agenda for the Purposes of Sustainable Development for the global view of such purposes to enhance the living standards and health of the people living in the Council Territory.

Action should be taken to prepare and include long-term plans for the Sustainable Development within the action plan.

A plan will be made in the future to enhance the living standards of the people living within the area of authority.

3.2 Management Inefficiencies

Audit observations

An amount of Rs.48,297 was not collected from 04 Health labour employees for no pay leave to be collected for to 03 years.

Recommendation

Relevant recoveries should be done.

Comments of the Accounting Officer

Noted that recoveries will be done in the future.

3.3 Human Resource Management

Audit observations

(a) Vacancies and Excess of Cadre

(i) 31 Vacancies and 62 of Excess of cadre was present in the approved cadre.

Recommendation

Vacancies should be recruited, and excess should be formalized.

Comments of the Accounting Officer

Noted that the relevant divisions have been notified using letters and recruitment work was stopped temporarily due to Election.

(ii) 59 workers recruited under Casual, Substitutes, and Contract based against the Management Service Circular No.25/2014 were paid Rs.14,154,321 as salary and wages in the year under review.

Action should be taken according to the circular.

No answers were given.

(b) Staff loans

(i) Action had not been taken to recover staff loan advance amounting to Rs.40,400 taken from 11 Casual and Substitute workers of the council due from 12 years.

Arrears of loan balances should be collected.

Noted that they were notified using letters and action will be taken to collect arrears of loan balance.

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| (ii) | Staff loans amounting to Rs.56,202 were not collected from 04 staff members who had retired or left service. | Arrears of loan balances should be recovered. | Noted that they were notified using letters and action will be taken to recover arrears of loan balance. |
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3.4 Assets Management

3.4.1 Idle and Underutilized assets

Audit observations	Recommendation	Comments of the Accounting Officer
(i) A Gulley bowser in running condition amounting to Rs.3,000,000 was not registered as such was not used since 2013.	Should be registered and run.	It was parked in the vehicle parked since it cannot be utilized in the narrow roads and it is expected to be utilized in the future.
(ii) 17 shop rooms were left idle of the upstairs of a public Shopping complex building built in 2005 for Rs.300 lakhs.	Action should be taken to collect income after leasing the shop rooms of the building.	Noted that it was proposed to get a decision by the Council meeting regarding this matter.

3.5 Procurement

Audit observations	Recommendation	Comments of the Accounting Officer
Although the Municipal Council had bought Fixed assets amounting to Rs.2,806,378 in the year under review, yet a procurement plan was not prepared related to the purchases.	A procurement plan should be made.	Action will be taken to prepare in future.

4. Accountability and Good Governance

4.1 Internal Audit

Audit observations

Recommendation

Comments of the
Accounting
Officer

A proper internal audit had not been conducted even though an Internal Audit officer were appointed.

Proper internal audit should be conducted.

A proper internal audit cannot be conducted since the appointed officers are deployed in other duties.

4.2 Audit and Management committees

Audit observations

Recommendation

Comments of the accounting
officer

Audit and Management Committees were not held within the year under review.

Audit and Management Committees should be held.

Relevant action was delayed due to the unfavorable conditions within the country.