

**Habaraduwa Pradeshiya Sabha**  
**Galle District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 06 July 2015 while Financial Statements relating to the preceding year had been submitted on 13 August 2014. The Auditor General's Report relating to the year under review was issued to the secretary to the Sabha on 31 August 2015.

**1.2 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 Habaraduwa Pradeshiya Sabha as at 31 December 2014 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**

Following observations are made.

- (a) Accumulated Fund and Debtors had been understated in a sum of Rs. 1,461,771, due to omission of Capital Grants amounting to Rs. 1,461 771 receivable for 03 Works as at 31 December of the preceding year.
  
- (b) Accumulated Fund had been overstated in a sum of Rs. 2,459,699 and Creditors had been overstated in a sum of Rs. 2,459,699 due to omission of provision amounting to Rs. 2,459,699 in respect of 05 Works as at 31 December of the preceding year and debiting that payment to Creditors Account during the year under review .

- (c) Debit and Credit Balances of Rs.26,600,000 shown as Cash Transfer Accounts as at 31 December of the year under review had not been settled by setting off the balances with each other.
- (d) Refund of Loans amounting to Rs. 355,626 had not been recorded in the relevant loan account. Due to that, Loan Account had been overstated in a sum of Rs.355,626.
- (e) Revenue for the year under review had been understated in a sum of Rs. 354,431 due to omission of making provisions in the financial statements in respect of Court Fines receivable for the year under review amounting Rs. 354,431.
- (f) Receipt of Stamp Fees relevant to past years had been adjusted to Court Fines Receivable in the financial statements. Due to that, Stamp Fees Receivable had been overstated in a sum of Rs.649,415 while Court Fines Receivable had been understated to that extent.
- (g) Provision had not been made in respect of Court Fines Receivable amounting to Rs.645,966 for the preceding year. Due to that Court Fines Receivable and Accumulated fund had been understated at the rate of Rs. 645,966.
- (h) Employees Provident Fund Benefits amounting to Rs. 153,300 received during the preceding year had been shown as Court Fines Revenue in the financial statements for the preceding year and that error had not been rectified. Due to that, Accumulated Fund had been overstated in a sum of Rs. 153,300, while Employees Provident Fund Deposits had been understated to that extent.

- (i) A sum of Rs. 50,510 paid as interest to the Local Loans and Development Fund during the preceding year had been debited to the Local Loans Development Fund Loan Account and that error had not been rectified. Due to that, Accumulated Fund had been overstated in a sum of Rs. 50,510, while Local Loans Development Fund Loan Account had been understated to that extent.
- (j) Provision had not been made in the financial statements for Pension Contributions Payable on behalf of the Retired Local Government Employees amounting to Rs. 5,870,837 as at 31 December of the year under review.
- (k) Machinery and Equipment amounting to Rs. 457,050, Furniture and Fittings amounting to Rs. 263,900 and Library Books amounting to Rs. 2,070 purchased during the year under review totalling Rs. 723,020 had not been capitalized as fixed assets.
- (l) While the balance of accumulated Fund and Reserves according to the main ledger was Rs. 36,726,616, it had been Rs. 35,919,531 in the financial statements indicating a difference of Rs. 807,085.
- (m) Although the Fixed Deposits Interest for the year under review was Rs. 430,790, it had been shown as Rs. 521,252 in the financial statements. Due to that, Revenue for the year and Fixed Deposits had been overstated at the rate of Rs. 90,462.
- (n) Capital Grants amounting to Rs. 11,577,830 receivable for 22 Works as at 31 December of the year under review had not been shown in the financial statements. Due to that, Capital Grants for the year under review and Debtors had been understated at the rate of Rs. 11,577,830.
- (o) Purchased of Furniture and Fittings amounting to Rs. 736,430 during the year under review had been shown as recurrent expenditure in the financial Statements.

- (p) Capital Grants amounting to Rs. 16,270,926 received during the year under review in respect of 34 Works of the preceding year had been shown as Capital Grants for the year. Due to that, Capital Grants and Debtors had been overstated at the rate of Rs. 16,270,926.
- (q) A sum of Rs. 3,000,000 transferred to the Works Account from the General Account had been show as Capital Grants. Due to that, Capital Grants had been overstated.
- (r) Capital Grants of Rs. 126,651 received with regard to the construction work associated with the Madolduwa Main Jetty during the year under review had been credited to the Deposits Account and therefore Capital Grants had been understated to that extent while Deposits had been overstated. Payment of Rs. 100,357 made for that Work had been debited to that Advance Account and therefore the Capital Expenditure had been understated while Advance Account had been overstated to that extent.
- (s) Settlement of salary advances amounting to Rs. 115,500 paid during the year under review had not been recorded in the Advance Account. Due to that, Advances Account had been overstated to that extent.
- (t) Although the value of Ayurvedic Stock in hand as at 31 December of the year under review was Rs. 120,966, it had been shown as Rs. 283,319 in the financial statements. Due to that, Current Assets had been overstated in a sum of Rs.162,353.
- (u) Obtaining advances amounting to Rs. 33,750 on 13 October of the year under review and settlement of that had not been recorded in the Advance Account.

- (v) The Advances granted amounting to Rs. 207,704 in various instances during the year under review had been settled by submission of bills for Rs. 195,411 and by payment of cash amounting to Rs. 12,293. However, expenditure amounting to Rs.76,750 had not been shown under Donations, Contributions and Subsidy Payments, while a sum of Rs. 195,411 had not been credited to the Advance Account. Due to that, expenditure had been understated in a sum of Rs. 76,750 in the financial statements of the year, while balance of the Advance Account had been overstated in a sum of Rs. 195,411.

### **1.3.2 Non-reconciled Control Accounts**

Following observations are made.

- (a) A difference of Rs. 7,843,909 was observed between the balances according to control account relevant to 05 items of accounts and the balances according to subsidiary registers.
- (b) Although the value of Fixed Assets as at 31 December of the year under review was Rs. 54,448,897, balance of the Contribution from Revenue to Capital Outlay Account had been Rs. 52,968,897. Accordingly, a difference of Rs. 1,480,000 was indicated.

### **1.3.3 Suspense Account**

Action had not been taken as at 31 December of the year under review to identify and adjust the accounts with regard to the credit balance of Rs.25,633 in the Suspense Account.

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

Evidences such as up dated Register of Fixed Assets, Schedules, properly maintained Creditors Registers and Debtors Registers, Age Analysis and Certificates of Confirmation of Balances, connected with transactions totalling Rs.106,586,089 shown in the financial statements were not furnished to audit.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

According to the Financial Statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2014 amounted to Rs. 18,275,341 as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.56,181,896.

### **2.2 Revenue Administration**

#### **2.2.1 Rates**

Action in terms of Section 158(i)(a) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Rates amounting to Rs.6,096,521 due to be recovered to the Pradeshiya Sabha during the year under review and past years.

#### **2.2.2 Lease Rent**

(a.) Action in terms of Section 159(1)of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Lease Rent amounting to Rs. 202,377 due to be recovered to the Pradeshiya Sabha during the year under review and past years.

(b.) Lease Rent amounting to Rs. 69,945 was in arrears for the two stalls No. 01 and 02 belong to the Kathaluwa Sub Office. While action had not been according to condition 02 of the agreement with regard to 06 stalls, the exhibition booth located in the ground floor of the Habaraduwa New Market Complex had been partitioned and altered contrary to the condition 04 in the agreement.

#### **2.2.3 Trade License Fees**

Action in terms of Section 152(4) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Trade License Fees amounting to Rs.182,119 due to be recovered to the Pradeshiya Sabha during the year under review and past years.

#### **2.2.4 Court Fines**

Court Fines amounting to Rs.198,198 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2014.

### **3. Operational Management**

#### **3.1 Unauthorized Transactions**

Following observations are made.

(a) **Foreign Study Tours**

A sum of Rs.3,661,896 had been spent out of the Sabha Fund by the Members of the Sabha and the Secretary for 03 Foreign Study Tours which is a function not falling under functions referred to in Section 132 of the Pradeshiya Sabha Act No. 15 of 1987 where legal provisions are made with regard to application of the Pradeshiya Sabha Fund.

(b) **Payment of Rs. 200,000 to the Pradeshiya Sabha Welfare Association**

A sum of Rs.200,000 had been paid to the Pradeshiya Sabha Welfare Association out of the Sabha Fund on 31 December 2014 by voucher No 276 for the picnic of the Sabha Members and Employees for the year 2014 which is a function not falling under functions referred to in Section 132 of the Pradeshiya Sabha Act No. 15 of 1987 where legal provisions are made with regard to application of the Pradeshiya Sabha Fund.

(c) **Expenditure for Functions**

The total expenditure to be incurred for functions relating to a matter connected with common interest should not exceed one thousand Rupees per annum and in the event of exceeding that prior written sanction of the Minister in Charge of the subject should be obtained in terms of Section 132(a) of the Pradeshiya Sabha Act No. 15 Of 1987. However, a sum of Rs.160,227 had been spent out of the Sabha Fund by the Sabha without obtaining sanction of the Minister in Charge of the Subject.

### **3.2 Management Inefficiencies**

Following matters are observed.

(a) Non-submission of Declaration of Assets

Declaration of Assets had not been furnished by 12 Members of the Sabha except the Chairman, for the year 2014 according to requirements in the Declaration of Assets Act No.01 of 1975 as amended by Act No. 74 (Amendments) of 1988.

(b) Non- remittance of Taxes

Value Added Tax amounting to Rs. 2,022,594 recovered in respect of various services provided by the Sabha during the years 2012, 2013 and 2014 amounting to Rs. 2,022,594 and Nation Building Tax amounting to Rs. 361,860 and Stamp Duties amounting to Rs. 194,127 had not been remitted to the Commissioner General of Inland Revenue up to 17 July 2015, date of audit.

### **3.3 Esala Asiriya Program**

Approvals of the Minister in Charge of the subject had been granted in terms of Section 132(a) of the Pradeshiya Sabha Act to spend a sum of Rs.515,700 for this Program. Although the total expenditure for this Program had been Rs.614,407 according to information made available to audit, vouchers were not presented with regard to expenditure amounting to Rs.161,262. Although the total income of this Program had been Rs.161,000, counterfoils of the receipts issued in collecting that income were not presented to audit.

### **3.4 Idle Assets**

Following observations are made.

- (a) The Backhoe Machine had been withdrawn from running since 08 October 2013 and had been parked getting corroded up to 10 April 2015, date of audit. Similarly, a Cab Vehicle, a Tractor, Hand tFactor and a Water Bowser as well were getting corroded during a period of more than five years. However, 02 rims two front tyres and two tubes; and a tool set had been purchased having spent a sum of Rs. 381,029 during the year 2014 for the Backhoe Machine. Those items



too had been kept idle in the stores. Action had not been taken to repair the Backhoe Machine and other 04 vehicles or for disposal.

- (b) Two Time Recording Machines purchased having spent a sum of Rs. 78,500 out of Sabha funds for the Head Office and Ahangama Sub-office on 27 February 2012 remained idle as at 17 July 2015, date of audit.

### **3.5 Assets Management**

Although the maintenance and repair works of 04 vehicles used by the Sabha are made by the Sabha, the ownership of those vehicles had not been vested in the Sabha up to 10 April 2015, date of audit.

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

### **Budgetary Control**

It was observed that there were variations of revenue between the budget estimates and the actual revenue and there were savings in certain items of expenditure. Accordingly, it was observed that the budget had not been made use of as an effective tool of management.

## **5. Systems and Controls**

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

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