

Dikwella Pradeshiya Sabha

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2014 and the financial statements for the preceding year had been presented to audit on 28 March 2013. The Report of the Auditor General for the year under review was furnished to the Chairman of the Sabha on 04 December 2014.

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 Dickwella Pradeshiya Sabha as at 31 December 2013 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

- (a) In terms of the Circular No. PED/54 dated 19 January 2010 of the Director General of Public Enterprises, the local government authorities should prepare financial statements in accordance with the Sri Lanka Public Sector Accounting Standards with effect from 01 January 2011. Nevertheless, those standards had not been complied with.
- (b) The cash flow statement had not been furnished along with the financial statements of the year under review.

1.3.2 Accounting Policies

The accounting policies adopted in the preparation of accounts had not been disclosed in the financial statements presented for the year under review.

1.3.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Equipment valued at Rs.42,300 purchased by the Sabha during the year under review had not been capitalized.
- (b) As the collected tax income of the Dickwella Public Market amounting to Rs.40,543 as at 28 December 2013 had not been credited to the revenue of the year under review, the revenue for the year had been understated.
- (c) In order to rectify the mistake of entering the billing of licence charges amounting to Rs.1,951,626 of the year 2012 twice in the Licence Charges Account, the Licence Charges Control Account should have been credited and the Cumulative Fund Account should have been debited. Nevertheless, the Licence Charges Control Account had been debited and Cumulative Fund Account had been credited through the journal entry No.32.

(d) According to the bank reconciliation statement prepared in March 2014 on the Common Account and the Road Account of the Pradeshiya Sabha, out of the cheque books and cheques dishonouring charges relating to the years 2012 and 2013 amounting to Rs.45,790, a sum of Rs. 30,040 should have been adjusted to the expenditure of the year under review and Rs.15,750 should have been adjusted to the cumulative fund. However, as adjustments had not been so made, that expenditure had been omitted from the accounts.

1.3.4 Unreconciled Control Account

According to the financial statements of the year under review, the value relating to 08 items of accounts amounted to Rs.61,012,920 and according to the supporting documents, the value of those account balances amounted to Rs.5,408,298, thus resulting in a difference of Rs.55,604,622.

1.3.5 Accounts Receivable and Payable

The following observations are made.

- (a) The total value of the receivable account balances older than a period of one year as at the end of the year under review amounted to Rs.138,311,971.
- (b) The receivable employees loan balances as at 31 December 2013 amounted to Rs.3,907,625.

1.3.6 Lack of Evidence for Audit

Evidence in relation to 05 items of accounts valued at Rs.52,592,601 had not been furnished to audit.

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 2013 amounted to Rs.627,340 as against the excess of recurrent expenditure over revenue for the preceding year amounting to Rs.80,589,896.

2.2 Working Capital Management

The working capital deficit in the preceding year was Rs.93, 217,489 while it had been Rs.1,466,884 for the year under review. Hence, it was observed that there existed a continuous working capital deficit and accordingly there was a weakness in the administration of working capital.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review presented by the Chairman is given below.

	Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.'000	Rs.'000
(i)	Rates and Taxes	3,447	1,991	1,393
(ii)	Lease Rent	5,551	2,818	1,522
(iii)	Licence Fees	852	589	109
(iv)	Other Revenue	41,263	33,508	127,009

2.3.2 Performance in the Collection of Revenue

(a) Rates in Arrears

- (i) The billed rates for the year under review was Rs.1,408,085 and out of which, only a sum of Rs.703,235 could have been recovered and as such the percentage of the recovery had been 50 per cent. Further, out of the Rs.1,373,826 remained outstanding at the beginning of the year under review, only Rs.716,429 had been recovered and its percentage of the recovery was 53 per cent. Accordingly, the Secretary of the Sabha who is the Revenue Authority in terms of the section 158 of the Pradeshiya Sabha Act, No.15 of 1987, had not focus attention on the Section 158 1 (d) of the act for the recovery of the rates in arrears.

(b) Lease Rent in Arrears

The lease rent in arrears at the beginning of the year under review amounted to Rs.1,379,496 and out of that amount only a sum of Rs. 496,856 had been recovered. Accordingly, the amount that remained in arrears as at 31 December 2013 pertaining to the year 2012 and the preceding years was Rs.884,646. Accordingly, the percentage of recovery was 35 per cent.

(c) Stamp Fees

The stamp fees receivable as at 31 December 2013 amounted to Rs.10,995,563.

(d) Trade Stall Rents

Action had not been taken to recover an outstanding trade stall rent amounting to Rs.974,022 as at 31 December 2013 from the relevant owners of 18 trade stalls owned by the Pradeshiya Sabha.

(e) Trade Licence Fees

According to the register prepared by the Pradeshiya Sabha on the business for which licence fees should be recovered for the year 2013 and the Licence Fees Recovery Register, licence fees of Rs.27,500 had not been recovered from 31 business enterprises.

3. Operating Review

3.1 Operating Inefficiencies

Construction of Library Building , Radampala (Criteria Based Grants)

In order to construct a library building at Radampola under the criteria based grants as contained in the Development Plan,2012, an agreement valued at Rs.3,545,278 had been entered into with a private institution on 13 November 2012 an Rs.2,081,910 had been paid through the second installment.

It had been targeted to provide benefits to 250 school students, youths and elders through the construction of this library building. However, construction had not been completed, though a period over one year had elapsed and as a result it had not been utilized for the interest of the general public. Accordingly, a sum of Rs.2, 081,910 borne by the Sabha up to date had been futile.

3.2 Audit and Management Committees.

Audit and Management committees for the year under review had not been held.

3.3 Budgetary Control

According to the budget presented for the year under review, a significant variance was observed between the budgeted and actual income and expenditure when comparing the estimated income and expenditure with the actual income and the expenditure of the year. As such the budget had not been made use of as an effective instrument of management control.

3.4 Unresolved Audit Queries.

<u>No. and the date of the Query</u>	<u>Matter</u>	<u>Observations</u>
SN/MR/Dick.Pra.Sa./P.I/2012/01 (7) 2012 July 05	Payment of compensation of Rs.1,566,416 for the cases No. L/9440 and M/7253	It had been accepted by the reply letter of the Chairman dated 19 July 2012 that, the said expenditure had to be incurred due to carelessness and the inefficiency of the Sabha and action be taken against the persons responsible for in this connection according to the Financial Regulation 119 of the Republic of Sri Lanka. To take action after being identified the responsible persons had not taken place even by the date of audit discussion held on 20 May 2014.

SN/MR/B/Dick.Pra.Sa./P.I/2012/01 (1) of 17 May 2012.

In the construction of Arankahadeniya-Samanmalwatta road under the Local Government Infrastructure Development Project ADB-2201 SRI (SF), due to the Newton Value of the concrete mixture being Grede 10.6 to 19.9, though the prescribed value was Grede 25 and the Newton Value of the concrete mixture used for the Radampola – Usgangoda road being Grede 14.7 to 23.8 despite the prescribed value of Grede 25, the construction had been at very poor level. Nevertheless, payments of Rs.8,014,475 had been made although the construction had not been carried out as per the prescribed standard and liquidated damages of Rs.3,338,858 had not been recovered.

It was revealed at the audit discussion dated 20 May 2014 that, since the construction of the roads had not been completed the Sabha had decided not to make payments and the recovery of payment of Rs.8,014,457 made in respect of the construction which had not been in conformity with the prescribed standards had not taken place.

04. **Systems and Controls**

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management