

**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 13 August 2014 while Financial Statements relating to the preceding year had been submitted on 24 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman on 22 December 2014.

**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 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 Public Sector Accounting Standards**

Following observations are made.

- (a.) Although Local Authorities should prepare the financial statements according to the Sri Lanka Public Sector Accounting Practices with effect from 01 January 2011, in terms of circular No.PED/54 dated 19 January 2010 of the Director General of Public Enterprises, those standards had not been followed.
- (b.) The Cash Flow Statement had not been submitted together with the financial statements for the year under review.

**1.3.2 Accounting Policies**

Accounting Policies followed by the Sabha had not been disclosed together with the financial statements.

**1.3.3 Accounting Deficiencies**

Following observations are made.

- (a.) Capital Grants and Debtors of the year under review 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 year under review.
- (b.) Capital Expenditure and Creditors of the year under review had been understated in a sum of Rs.2,959,356, due to omission of Capital Expenditure amounting to Rs. 2,959,356 payable for 06 Works as at 31 December of the year under review.
- (c.) Revenue for the year under review had been overstated in a sum of Rs.163,630 due to showing Court Fines amounting to Rs.163,630 received relevant to the preceding year as Revenue for the year under review.
- (d.) Revenue for the year under review had been understated in a sum of Rs. 645,966 due

to omission of making provisions in the financial statements in respect of Court Fines receivable for the year under review amounting to Rs. 645,966.

- (e.) Revenue for the year had been overstated in a sum of Rs. 1,000,000 due to Receipt of Stamp Fees amounting to Rs. 1,000,000 relevant to the previous years as Revenue for the year under review in the financial statements.
- (f.) The sum of Rs. 50,510 paid to the Local Loans and Development Fund as interest for the year under review, had been debited to the Local Loans and Development Fund Account. Due to that, expenditure for the year under review and loan balance of the Local Loans and Development Fund had been understated in a sum of Rs. 50,510.
- (g.) Although the interest on Fixed Deposits for the year under review was Rs. 838,947, it had been shown as Rs. 338,948 in the financial statements. Due to that, revenue for the year under review had been understated in a sum of Rs. 499,999.
- (h.) Other Revenue in a sum of Rs. 500,000 and Fixed Deposits balance in a sum of Rs.500,000 for the year under review had been overstated.
- (i.) Although the value of stock in hand as at 31 December of the year under review was Rs.1,222,023, it had been shown as Rs. 1,126,516 in the financial statements. Due to that, Current Assets had been understated in a sum of Rs. 95,507.
- (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. 6,101,400 as at 31 December of the year under review.
- (k.) Machinery and Equipment amounting to Rs. 415,050 and Furniture and Fittings amounting to Rs. 263,900 purchased during the year under review had not been capitalized as Fixed assets.
- (l.) A sum of Rs. 192,646 received relevant to the preceding year in respect of concreting work of the Meepe, Puwakwatta Road had been shown as Sundry Deposits of the year under review. Due to that, balance of the Deposits Account and the Debtors had been overstated in a sum of Rs.192,646.

#### **1.3.4 Non-reconciled Control Accounts**

A difference of Rs. 5,963,846 was observed between the balances according to control accounts relevant to 06 items of accounts and the balances according to subsidiary registers.

#### **1.3.5 Suspense Account**

Action had not been taken during the year under review to identify and adjust the accounts with regard to the debit balance of Rs. 7,090 in the Suspense Account.

### **1.3.6 Lack of Evidence for Audit**

Evidences such as Title Deeds, up dated Register of Fixed Assets, Schedule, properly maintained Creditors/Debtors Registers of Debtors, Confirmations of Balances, Detailed Schedules and Age Analysis connected with transactions totalling Rs. 142,650,503 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 revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.56,181,896 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.8,475,818.

### **2.2 Revenue Administration**

#### **2.2.1 Rates and Acreage Tax**

Action in terms of Section 158 of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Rates amounting to Rs. 5,564,098 and Acreage Tax amounting to Rs. 10,300 due to be recovered to the Pradeshiya Sabha during the year under review and preceding years.

#### **2.2.2 Trade License Fees and Lease Rent**

Action in terms of Section 159 of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Trade License Fees amounting to Rs. 127,400 and Lease Rent amounting to Rs.212,905 due to be recovered to the Pradeshiya Sabha during the year under review and preceding years.

#### **2.2.3 Stamp Fees**

Stamp Fees amounting to Rs. 72,720,970 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013.

#### **2.2.4 Land and Buildings Tax**

(a.) Agreements had been signed to take on lease the Community Trade Centre Land and Building situated in Habaraduwa by the C.W. E. Sri Lanka for a period of three years from 19 November 2010 to 18 November 2013 at a monthly rent of Rs. 35,000. Although the agreement period had ended; action had not been taken to extend the agreement period up to 05 September 2014, date of audit. It had been mentioned that lessee agrees to pay a damage of Rs.2,000 for each day remaining in the property after the end of the agreement period or termination of the agreement, according to condition 24 of the agreement. Although the agreement period of the lease had elapsed on 18 November 2013, action had not been taken for the recovery of the sum of Rs. 86,000 to be recovered by the Sabha for the period remaining without signing the agreement as at 31 December of the year under review.

(b.) Agreements had been signed to take on lease the Community Trade Centre Land and Building situated in Ahangama by the C.W. E. Sri Lanka for a period of three years from 10 October 2009 to 09 October 2012 at a monthly rent of Rs. 40,000. Although

the agreement period had ended; action had not been taken to extend the agreement period up to 05 September 2014.

- (c.) It had been mentioned that the C.W. E. Sri Lanka agrees to pay a damage of Rs.2,000 for each day remaining in the property after the end of the agreement period or termination of the agreement according to condition 25 of the agreement. Accordingly, action had not been taken to recover damages to be recovered amounting to Rs. 894,000 as at 31 December of the year under review for the period remained after elapse of the agreement period.

### **2.2.5 Lease of Stall Rent**

Following matters were observed at the physical inspection carried out on 26 August 2014 in connection with leasing of stalls belong to the Sabha.

- (a.) While the lease agreement is enforceable for a period of 03 years according to condition 02 of the agreement, it was required to enter into an agreement with the Pradeshiya Sabha by the lessee renewing this lease thereafter. However, such action had not been taken with regard to 11 stalls in Habaraduwa Market Complex, 02 stall in the Koggala Free Beach Garden and a stall in the Ahangama Market Complex.
- (b.) It had been stated according to condition 03 of the agreement, that lease should not be transferred or sub-leased to another person without prior approval of the Sabha, by the lessee under any circumstances, and that in such event lease will be abolished. Although the Stall No.16 in the Habaraduwa Market Complex had been sub-leased, action had not been taken in terms of conditions in the agreement.
- (c.) According to condition 04 of the agreement, the lessee should not make any structural change in the plan of the stall taken on lease without prior approval of the Sabha, by the lessee under any circumstances. However, changes had been made in a part in front of the exhibition cabin located in the ground floor of the Habaraduwa Market Complex.
- (d.) Although keeping any trading materials or exhibition should not be done outside the stall except in the stall taken on lease, in terms of condition 07 of the agreement goods had been exhibited in front of the stalls in the ground floor of the Habaraduwa Market Complex.
- (e.) According to condition 12 of the agreement, when payment of lease rent is in default for a period of more than 03 months, the lease agreement will be invalid and the Sabha has the power to seal off the stall making it impossible to carry on with business, after taking course of legal action in that regard. However, such action had not been taken in connection with 11 stalls.

- (f.) Acceding to condition 16 of the agreement, if one of the conditions or more number of conditions of the agreement have been breached by the lessee, the Sabha has the power to cancel the lease and remove the lessee from that stall after giving one calendar month notice. However, such action had not been taken in connection with any one of the lessees who had breached the conditions of the agreement.
- (g.) Although a monthly rent of Rs. 500 is recovered for 07 stalls in the Habaraduwa Old Market, files had not been opened for 06 stalls having signed the agreements.

### **3. Operational Management**

#### **3.1 Management Inefficiencies**

- (a.) Although Declarations of Assets and Liabilities should be furnished by all Members as required in terms of Act No. 01 of 1975 as amended by Act No. 74 of 1988, Declarations of Assets and Liabilities had not been furnished for the year 2011 by the Chairman, vice Chairman and 11 Members, for the year 2012 by the Vice Chairman and 11 Members and for the year 2013 by the Vice Chairman and 07 Members.
- (b.) Action had not been taken to settle dishonored cheques amounting to Rs. 6,216 those were being brought forward since a period prior to 06 years, even as at 05 September 2014.
- (c.) Although advances amounting to Rs. 141,950 had been granted to the Officers and Employees of the Sabha during the year under review, action had not been taken to settle the advances immediately after completion of the relevant work for which advance was granted, in terms of provisions in financial regulation 371(b) of the Republic of Sri Lanka. Although it has been stated that Ad-hoc Imprest should be granted only to the staff officers, in two instances advances amounting to Rs. 13,000 had been granted to drivers.
- (d.) Value added Tax amounting to Rs. 1,094,573, Nation Building Tax amounting to Rs. 217,943 and Stamp Duties amounting to Rs. 150,025 recovered in respect of various services provided by the Sabha during the years 2012 and 2013 had not been remitted to the Department of Inland Revenue even up to 05 September 2014, date of audit.
- (e.) Following matters were observed at the audit inspection carried out with regard to construction of the Jovi Children's Park.
  - (i.) Although the construction works of the park had been carried out by a Non-Governmental Organization, an agreement of understanding had not been signed between the Sabha and the said Organization.

- (ii.) While the Children's Park had been opened on 19 March 2012, administrative works and collection of income had been carried out by the Non-Governmental Organization. Accordingly, income receivable to Sabha during the period from 19 March 2012 to 03 July 2013 had been lost to the Sabha.
- (iii.) Action had not been taken vest this land to the Sabha through the Divisional Secretariat.

### **3.2 Idle Assets**

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 05 September 2014, date of audit.

### **3. Systems and Controls**

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

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