

Tangalla Pradeshiya Sabha
Hambanthota District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 10 July 2014 while Financial Statements relating to the preceding year had been submitted on 09 July 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 16 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Tangalla 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

Following observations are made.

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

1.3.2 Accounting Deficiencies

The following observations are made.

- (a.) Value of the tractor No. WPRD 4480 and the Trailer No. WPRD 8994 received as donations 06 June 2013 from the Ministry of Local Government and Provincial Councils amounting to Rs. 1,463,200 had not been capitalized.
- (b.) Value of Fixed Assets purchased during the year under review amounting to Rs.141,340 had not been capitalized
- (c.) Value of the Kolonna Kanda Land acquired on 25 October 2013 for sum of Rs.675,000 had not been capitalized even as at 31 December 2013 while it had not been recorded in the Register of Land and Buildings.
- (d.) Three Items of Recurrent Expenditure totalling Rs.170,000 had been accounted as Capital Expenditure.
- (e.) The sum of Rs.537,306 payable as Local Government Pension Contribution which was being brought forward from previous years had not been included in the accounts for the year under review.

- (f.) The sum of Rs.97,860 collected from visitors to Hummana on receipt No.87789 during the preceding year had been accounted as revenue for the year under review.
- (g.) While the cheque No. 003563 for Rs.51,800 had been received to the Council by deployment of the motor grader machine on 28, 29 and 30 November 2013, the cheque had been dishonored in December. While that amount of Rs.51,800 had not been included in the schedule of vehicle hire charges in arrears as at 31 December 2013, it had not been included in the accounts as well.
- (h.) Although the opening balance of the Salary Reimbursement Account had been shown as Rs.771,500 in the Journal Entry No.01 made to adjust the opening balances to the Ledger, it had been recorded as Rs.71,500 in the Ledger.
- (i.) Expenditure totalling Rs.77,483 relevant to the preceding year had been accounted having considered as expenditure for the year under review.
- (j.) Although the value of expenditure transferred to the Revenue and Expenditure Account from the Expenditure Head 601 in the Ledger had been shown as Rs.5,122,072, it had been taken to the Revenue and Expenditure Account as Rs.5,548,304 and due that a difference of Rs.426,232 was observed.
- (k.) Expenditure totalling Rs.700,650 relevant to the year under review had been omitted in expenditure of the year and provision for creditors.
- (l.) Although a sum of Rs. 52,525 was payable to the Department of Registrar General of Land for preparation lists of provincial Council's Stamp Fees for the years 2011, 2012 and 2013, it had not been shown under Creditors in the Balance Sheet.

1.3.2 Disparities not clarified

Disparities not clarified amounting to Rs. 32,481,511 among the balances taken to the value of Stamp Fees Receivable at the commencement of the year under review, Stamp Fees for the year, Stamp Fees Receivable at the end of the year and values shown in the subsidiary schedules/records were observed.

1.3.3 Lack of Evidence for Audit

Evidence such as registers, schedules and board of survey reports relating to transactions totalling Rs.123,029,947 were not furnished to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs. 334,912 as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 1,383,777.

2.2 Revenue Administration

Following observations are made.

2.2.1 Performance in collection of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	4,395	4,346	163
(ii.) Lease Rent	8,105	4,998	1,337
(iii.) Licence Fees	881	971	50
(iv.) Other Revenue	21,179	21,768	7,835

2.2.2 Lease Rent

(a.) Lease of Stalls

Although sums of Rs. 167,593, Rs. 238,976 and Rs. 106,760 were outstanding as at 31 December 2013, as arrears from lease of Stalls at Yayawatta, Ranna and Netolpitiya respectively, of action in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover those arrears.

(b.) Ranna Weekly Fair Income

The ownership of the Ranna Weekly Fair for the year 2012 had been leased out for a sum of Rs. 1,928,000. Following matters were observed in this connection.

- (i.) It had been stated that a 25 percent of the lease amount, that is Rs. 482,000 should be deposited as security deposit before transfer of the lease ownership, in terms of condition No.01 of the lease agreement. While a sum of Rs.150,000 only had been deposited in 05 occasions as security deposit by the lessee, lease ownership of the weekly fair had been transferred to him contrary to the conditions of the lease agreement.
- (ii.) While the lease money had not been paid properly by the lessee, he had died on 12 April 2013. A sum of Rs. 255,351 was outstanding even as at 31 December 2013.
- (iii.) While action had not been taken to recover the outstanding arrears from the guarantors in terms of the agreement, it was observed that one of them had been the lessee who got the Ranna Weekly Fair for the year 2013. Although a position like this had been there, it had been decided to write-off the arrears money mentioned above through a decision taken by the Council, and a letter had been referred to the Minister to obtain approval for that. I was informed by the Chairman on 25 November 2014 that 75 percent of the arrears money had been recovered as at 31 December 2013.

2.2.3 License Fees

Action in terms of Section 152(4) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover License Fees in arrears amounting to Rs. 50,010 as at the end of the year under review.

2.2.4 Acreage Tax

Action in terms of Section 158(1) (a) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Acreage Tax in arrears amounting to Rs. 101,628 as at the end of the year under review.

2.2.5 Charges to be recovered from Hotels and Rest Houses registered in the Sri Lanka Tourists Promotion Board

Although it had been stated that a charge not exceeding 1 percent of the income for the year, prior to the relevant year could be recovered from hotels, rest houses and lodging houses registered in the Sri Lanka Tourists Promotion Board according to Section 149 of the Pradeshiya Sabha Act No. 15 of 1987, in calculating the charges relevant to the following hotels calculations had been made based on the financial statements for both the relevant year and the preceding year and calculation errors were observed as shown below.

(a.) Hotel Bay

- (i.) While two sets of financial statements for the period ended 31 March 2011 had been sent by the above entity, there were discrepancies in the turnover shown in those financial statements.
- (ii.) The charge of 1 percent had been calculated erroneously by the Sabha based on both statements sent for the same period for granting the license for the year 2012 and an income of Rs. 392,798 had been lost to the Sabha due to erroneous calculation.

(b.) Buckingham Leisure Lanka Private Company

In granting the license for the year 2012, one percent charge had been calculated on the basis of the total turnover for the year 2011, having utilized the financial statements for the two years 2011 and 2012. In calculating the income for the year 2011, a period of nine months for the year ended 31 March 2011 and three months period for the year ended 31 March 2012 according to the financial statements had been taken. Due to that, an income of Rs. 158,737 had been lost to the Sabha.

2.2.6 Recovery of Charges for the Advertisements Boards

- (i.) According to the files maintained in the Sabha and matters revealed at the field inspections, carried out on 06 December 2013, charges had not been recovered for 7 large size advertisements for the year 2013.
- (ii.) It was observed that although a period of about 09 months had elapsed after installing the advertisements boards, it had not been utilized as a source of revenue generation.
- (iii.) Although it had been approved to construct only 05 advertisements boards having made proposals according to paragraph 5.7 of the Sabha meeting held in December 2013, 08 advertisements boards had been purchased contrary to that.

2.2.7 Making 08 Large Size Advertisements Boards for fixing in the Area of Authority of the Sabha as a Source of Revenue Generation

A sum of Rs. 459,270 had been paid vide voucher No. 65 dated 18 March 2013 to a private entity for the above mentioned work. Following observations are made in this connection.

While information relating to the locations of the advertisements boards fixed were not furnished, it was observed at the physical inspection carried out on 06 December 2013 that 02 out of those remained unutilized in the Sabha premises.

2.2.8 Court Fines and Stamp Fees

Court Fines and Stamp Fees totalling Rs. 7,296,064 were outstanding to be recovered from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2013.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- (a.) **Non-issue of Approved Constructions and Sub- partition Applications to Relevant Parties**
It was observed that the general public had been subjected to difficulties due to non-issue of 64 Approved Constructions and Sub- partition Applications to relevant parties by withholding in the Sabha for a period ranging more than one month to one year. Reasons for non-issue of these approved applications to the relevant parties were not disclosed to audit.
- (b.) **Non-clearance of Time Lapsed Cheques**
Action in terms of Financial Regulation 396(d) of the Republic of Sri Lanka had not been taken with regard to 12 cheques totalling Rs. 163,402 issued, but not presented for payment.
- (c.) **Lack of Approval for Recruitments on Casual, Temporary and Contract Basis**
Written prior approval of the Commissioner of Local Government had not been received in terms of Section 19(1)(1) of the Pradeshiya Sabha Act No. 15 of 1987 for 12 appointments made by the Sabha.
- (d.) **Human Resources Management**
 - (i.) It was observed that there were 13 vacancies in 08 posts and 23 excesses in 13 posts according to the Schedule prepared relating to cadre for November 2013.
 - (ii.) According to that information, it was observed that two individuals in the permanent posts and five individuals on casual, substitute, temporary basis are serving in 07 posts.

3.2 Improper Transactions

A sum of Rs. 690,000 had been paid out of Sabha Fund for making three Para Ball Huts on voucher No. 1027 dated 08 November 2013. A written prior approval in terms of Section 132 of the Pradeshiya Sabha Act No 15 of 1987 and Sabha sanction for incurring expenditure had not been obtained for this which amounts to payment without a legal provision.

3.3 Idle assets

While the cab vehicle No. 252-6502 and the concrete mixing machine since the year 2011, two foot cycles since the year 2010 and the earth roller since the year 2012 remained without being used by the Sabha, action had not been taken for disposal of those assets in terms of Public Finance Circular No. 353(5) dated 03 January 2003.

4. Accountability and Good Governance

4.1 Internal Audit

Adequate internal audit had not been carried out at the institution.

4.2 Budgetary Control

While expenditure totalling Rs. 1,226,169 had been incurred in excess of the provisions for 09 items of expenditure during the year under review, supplementary estimates had not been approved for that.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management
- (d.) Staff Loans Administration