

Thawalama 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 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 27 March 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 Thawalama Pradeshiya Sabha as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards of Sri Lanka.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following observations are made.

- (a.) Provision for 04 Works for the year under review as Capital Grants amounting to Rs.220,000 and Capital Expenditure Payable had not been made. Due to that, Capital Grants for the year under review, Capital Expenditure, Debtors and Creditor had been understated to that extent.
- (b.) Assets valued at Rs. 684,367 received to the Sabha during the year under review had not been shown as Capital Grants in the financial statements.
- (c.) Double Cab Vehicle valued at Rs. 6,390,000 received to the Sabha from the Ministry of Local Government and Provincial Councils during the year under review had been omitted in the financial statements.

- (d.) The sum of Rs. 1,335,200 spent for the purchase of Capital Assets and Improvement of Capital Assets had been shown under recurrent expenditure. Due to that, recurrent expenditure had had been overstated, while Capital expenditure had been understated at the rate of Rs. 1,335,200.
- (e.) Fixed assets valued at Rs. 694,060 during the year under review had not been capitalized.
- (f.) Advances amounting to Rs. 1,482,000 paid for Works not completed during the year under review had been shown as Capital Expenditure, without being shown as un-settled advances in the financial statements.
- (g.) Provision for Audit Fees in arrears payable to the Auditor general during the years 1994, 2009, 2010, and 2013 amounting to Rs.16,250, Rs.40,356, Rs.39,648 and Rs.47,712 respectively totalling to Rs.143,966 and provision for Audit Fees for thy year under review as well had not been made in the accounts.
- (h.) Although the Courts Fine Revenue Receivable for the year under review was Rs.183,499, it had been shown as Rs.216,061 in the financial statements. Due to that, Fines and Warrant Charges Revenue of the year under review and Revenue Debtors had been overstated at the rate of Rs.32,562.
- (i.) Although the Stamp Fees Revenue in arrears Receivable for the preceding year was Rs.957,440, it had been provided as Rs.600,000 in the financial statements. Due to that, Accumulated Fund and Revenue Debtors had been understated at the rate of Rs.357,440 in the financial statements.
- (j.) Inventory goods valued at Rs. 115,716 not falling under Fixed Assets belong to the Sabha had been shown as Fixed Assets in the financial statements. Due to that, Fixed Assets had been overstated to that extent.

1.3.2 Suspense Account

Action had not been taken to identify and adjust the debit balance of Rs. 18,448 in the Suspense Account as at 31 December of the year under review.

1.3.3 Lack of Evidence for Audit

Evidence such as up-dated Fixed Assets Register, Board of Survey Reports, Creditors Register, Debtors Register, Age Analysis and letters of Confirmation of Balances, relevant to transactions totalling Rs.72,328,952 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, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2014 amounted to Rs.1,129,676 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 379,708.

2.2 Revenue Administration

2.2.1 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 amounting to Rs. 79,109 due to be recovered to the Pradeshiya Sabha relevant to the year under review and past years.

2.2.2 Lease Rent

(i) 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. 67,000 due to be recovered to the Pradeshiya Sabha relevant to the year under review and past years.

Although an arrears lease rent and fines amounting to Rs. 60,200 were due as at 31 December 2014 from 5 lessees who had not paid rent for more than 06 months, the Secretary to the Sabha had no taken action in terms conditions in the lease agreement.

- (ii) Although Lease rent should be assessed at least once in 05years and rent should be recovered accordingly in terms of the Circular No. SP/LG/2010/01 dated 27 December 2010 of the Commissioner of Local Government, Southern Province, 12 stalls were carrying on business without lease agreements / updating. In spite of the fact that the assessed values had been informed to the Sabha vide letter No. GL-11/RP/2154 dated 16 July 2014 by the Chief Valuer , without action being taken accordingly, rates had been recovered on the basis of the assessment made 09 years ago and due to that a loss amounting to Rs. 90,800 had occurred to the Sabha.
- (iii) The Secretary to the Sabha had not taken action to recover the sum of Rs. 538,000 due from 08 stalls in the Batahena two storied market complex belongs to the Sabha, although 10 years had elapsed.

2.2.3 License Fees

The Annual Survey had not been carried out with regard to business entities liable to recover License Fees and Business Taxes for the year 2014. Although there were Business Taxes and Trade License Fees totaling Rs.274,550 in arrears due from 226 business entities, as at 31 December 2014, the Secretary to the Sabha had not taken action in terms of section 152(4) of the Pradeshiya Sabha Ac No. 15 of 1987 to recover the arrears.

2.2.4 Court Fines and Stamp fees

Courts Fines amounting to Rs. 469,936 and Stamp Fees amounting to Rs.1,850,000 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31December 2014.

3. Operational Review

3.1 Un-authorized Transactions

(a.) Making Payments for Utilization of a Backhoe machine for Works

A sum of Rs. 286,800 had been paid during the year under review out of Sabha Fund for Utilization of a Backhoe Machine for 239 hours in respect of four Works during preceding years.

Following observations are made in this connection.

- (i.) Estimates had not been prepared and Sabha approval had not been obtained for each Work.
- (ii.) Although the owner of the Backhoe Machine had submitted bills indicating that Works were fulfilled during the years 2012 and 2013, those bills had not been recommended by the Technical Service Officer/ Officers who were in Sabha service during that period. However, those bills had been recommended 03 March 2014 by the Technical Service Officer who is in service of the Sabha at present, on without due professional attention.
- (iii.) Quotation had not been called for in connection with hiring the Backhoe Machine.
- (iv.) Files had not been maintained for the relevant Works by the Sabha.
- (v.) Provision had not been made under creditors for these payments during prior years.

(b.) 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. 182,621 had been spent during the year 2014 by the Sabha without obtaining sanction of the Minister in Charge of the Subject .

3.2 Management Inefficiencies

Following observations are made.

Non-submission of Declaration of Assets and Liabilities

According to the requirements of the Declaration of Assets and Liabilities Act No. 01 of 1975 as amended by Act No. 74 of 1988, Declarations of Assets and Liabilities should be furnished by all the Members including the Chairman, Vice Chairman. However, Declaration of Assets and Liabilities had not been furnished by the Chairman, Vice Chairman and 07 Members for the years from 2011 to 2014 even up to 10 April 2015.

3.3 Purchase of an Electricity Generator Machine

The Sabha had purchased an Electricity Generator Machine having spent a sum of Rs.999,990 under the National Program for Strengthening Pradeshiya Sabha under the Budget Proposals for the year 2014.

Following observations are made in this connection.

- (i.) Specifications had not been prepared for the purchase of the Electricity Generator Machine.
- (ii.) While it could not be established that the quotations submitted had been received under calling for opened quotations, date stamps had not been placed for the quotations received.
- (iii.) Evidence was not submitted to audit to support that the purchase was referred to the Finance Committee or the Sabha in terms of Pradeshiya Sabha (Financial and Administrative) Rules 177 and 178 of 1988. Accordingly, quotations submitted had not been referred to a Technical Evaluation Committee and obtained recommendations.
- (iv.) The Sabha had not entered into an agreement with the supplier.
- (v.) Although the Sabha had called for quotations for supplying an Electricity Generator Machine of more than 10 kilowatts (10kv) capacity, manufactured in Japan or England, an Electricity Generator Machine of 10 kilowatts (10kv) manufactured in China had been purchased by the Sabha.

4. Accountability and Good Governance

4.1 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.) Revenue Administration
- (c.) Assets Management