

## Baddegama Pradeshiya Sabhawa

### Galle District

#### **1. Financial Statement**

##### **1.1 Presentation Of Financial Statement**

Financial Statements for the year under review and the preceding year had been presented to audit on 17 February 2016 and 06 March 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 20 June 2016.

##### **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 Baddegama Pradeshiya Sabha as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

##### **1.3 Comments On Financial Statements**

###### **1.3.1 Accounting Policies**

Accounting policies followed in the preparation of financial statements had not been disclosed in the financial statements.

###### **1.3.2 Accounting Deficiencies**

The following accounting deficiencies are observed.

- (a) The value of 328 galvanize pipes amounting to Rs.363,096 received in the previous year and the value of the motor grader and 2 trailers belonged to the Sabha had not been brought to accounts.
- (b) Fixed assets valued at Rs.286,600 purchased during the year under review had not been capitalised and the 3 buildings valued at Rs.249,012 constructed during the year under review had been under capitalised.
- (c) The loan installment of Rs.167,556 payable to the Local Loan and Development Fund for the year under review and the contribution of Rs.6,187,360 payable to the Local Government Pensions Fund had not been brought to accounts.
- (d) Three works debtors balances and a balance of a creditor totaling Rs.458,354 had been over accounted whereas another two creditors balances totaling Rs.197,621 and the court fine revenue of Rs.91,583 had been under accounted in the year under review.
- (e) Provision for creditors for 8 works totaling Rs.7,196,977 fulfilled during the year under review had not been made.

### **1.3.3 Unreconciled Control Accounts**

Differences totaling Rs.11,000,132 were observed between the balances, totaling Rs.15,171,108 relating to 8 items of accounts shown in the financial statements and the related subsidiary books and records.

### **1.3.4 Suspense Accounts**

The debit balance of Rs.5,581,230 as at 31 December of the year under review had been debited to the Accumulated Fund Account without being identified and settled with relevant adjustments.

### **1.3.5 Accounts Receivable and Payable**

Action had not been taken to settle two account receivable balances totaling rs.40,282 brought forward without changing for more than the period of 10 years, 3 account payable balances totaling Rs.384,685, another 2 account payable balances totaling rs.686,497, remained for more than 5 years, even in the year under review.

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

Due to non rendition of evidence such as title deeds and documents to ensure the ownership in respect of land and buildings totaling Rs.71,456,395, the updated register of fixed assets prepared in terms of classes of assets totaling Rs.33,141,960, debtors and creditors registers, age analysis and balance confirmation letters in respect of debtors and creditors balances totaling Rs.25,103,761 etc. they could not be satisfactorily verified in audit.

### **1.3.7 Non – Compliance with Laws, Rules, Regulations and Management Decisions**

The following non – compliances with laws rules and regulations were observed.

#### **Financial Regulations of the Republic of Sri Lanka**

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| (i) Financial Regulation 371 (2)              | Advances totaling Rs.17,850 given to the officers in 2 instances by the Sabha had not been settled.  |
| (ii) Financial regulation 570 and 571 (1) (2) | Action in terms of regulation referred to had not been taken in respect of 60 deposit balances totaling rs.2,794,009.  |
| (iii) Financial regulations 1645 and 1646     | Daily running charts and monthly performance summaries in respect of 12 motor vehicles belonged to the sabha for the period from January 2012 to September 2015 were not made available for audit. |

## **2. Financial Review**

### **2.1 Financial Results**

The following matters are observed

- (a) According to the financial statements presented to audit, the revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.11,784,647 as compared with the revenue over recurrent expenditure for the preceding year amounted to Rs.8,034,220. An improvement of Rs.3,750,427 had indicated in the financial results for the year under review as compared with the preceding year.
- (b) As compared the recurrent revenue and expenditure of the year under review in terms of programs, expenditure in 4 programs had arisen over the revenue.
- (c) Capital expenditure of Rs.5,682,800 had been incurred in excess of the capital revenue in the year under review.

### **2.2 Analytical Financial Review**

#### **Ratio between total revenue and total expenditure**

The following matters were observed.

- (a) It was observed that the expenditure had been 83 per cent of the total revenue and as such the expenditure of the Sabha had been at a high level as compared with the revenue.
- (b) It is the view of the audit that without getting revenue grants, the recurrent expenditure could not be covered by self operating revenue, in any way. The attention of the Sabha has to be paid to increase the revenue and control expenditure.

### **2.3 Revenue Administration**

#### **2.3.1 Performance of Revenue collection**

The following observations are made in respect of the performance of revenue collection of the Sabha as at 31 December 2015.

- (a) Out of the estimated amount of Rs.44,646,400 in respect of rates, acreage taxes, rent and trade Licenses for the year under review, only a sum of Rs.3,994,862 had been collected. Accordingly, progress of revenue collection had been as low as 9 per cent.

- (b) Out of the arrears of rates, acreage tax, Lease rent and trade Licenses totaling Rs.9,694,913 remained as at the beginning of the year, a sum of Rs.3,944,862 had been recovered. Accordingly, the progress of recovery of arrears of revenue had been about 41 per cent.

### **2.3.2 Rates and acreage taxes**

As the recovery of rates was at a very low level, the balance due as at the end of the year under review had been at a high level as Rs.5,173,221. However, action had not been taken to recover the arrears of tax in terms of Section 158(1) (a) of the Pradeshiya Sabha Act No.15 of 1987.

### **2.3.3 Lease Rent**

As the recovery of arrears of Lease rental balances was at a low value, the arrears amount by the end of the year under review had been Rs.552,081. Action in terms of Section 159(1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover the arrears of rent. Fees had been recovered from boutiques, transcendent to tender decisions and the fair taxes had been collected by other person who was not the Lessee.

### **2.3.4 Trade stall rent**

- (a) Trade stall rent of Rs.233,310 was due from 14 stalls located in the city of Baddegama as at 31 December 2015.
- (b) Although the Survey Department had informed that 3 trade stalls closed down were not suitable for use due to dilapidation, any course of action whatsoever had not been taken in that connection.

### **2.3.5 Court fines and stamp fees**

Stamp fees of Rs.11,441,220 and court fines of Rs.350,958 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2015.

## **3. Operating Review**

### **3.1 Management Inefficiencies**

The following matters were observed.

- (a) Attention of the Sabha had not been paid to regularise the excess cadre of 26 as at the end of the year under review.
- (b) In terms of paragraph 11.5.2 of the Public Administration Circular No.08/2005 dated 31 March 2005 the money spent by the government on property loans should be reimbursed to the Sabha. As action had not been taken accordingly a sum of Rs.902,776 was due to the Sabha from the Department of Local Government by 10 January 2016.

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

##### **4.1 Budgetary Control**

Due to the existence of expenditure in 2 expenditure objects included in the budget for the year under review amounting to Rs.10,707,132 incurred in excess of the approved Limits, Savings totalling Rs.33,964,451 in another 4 expenditure objects and the targeted revenue of Rs.36,874,229 in 2 revenue items, which had not been reached, the budget had not been made use of as an effective instrument of management control.

#### **5. Sysytem and Contrlos**

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

- (a) Accounting
- (b) Revenue Administration
- (c) Human Resources Management
- (d) Assets Management
- (e) Motor vehicles control