

## **Habaraduwa Pradeshiya Sabha**

### **Galle District**

#### **1 Financial Statements**

##### **1.1 Presentation of Financial Statements**

The financial statements for the year under review and the preceding year had been presented to audit on 31 March 2016 and 06 July 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 31 August 2016.

##### **1.2 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Habaraduwa 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 Deficiencies**

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

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

The following accounting deficiencies were observed.

- (a) Instead of debiting the value of motor vehicles and carts costing Rs.1,480,000 received as donations in the preceding year to the assets account in the year under review it had been debited to the accumulated fund account.
- (b) The provisions of Rs.2,096,998 made for receivable for 4 works in the year under review had been erroneously debited to capital expenditure creditors account.
- (c) The value of 10 multi-functional mobile canopys received from the Ministry of Provincial Councils and Local Government as donations had not been brought to account.
- (d) A sum of Rs.518,184 recoverable from 22 employees on no-pay leave for 862 days as at 31 December 2015 had not been brought to accounts as receivable income.

### 1.3.3 Unreconciled Control Accounts

There were deficiencies totaling Rs.9,981,237 between 12 items of accounts shown in the financial statements totaling Rs.34,884,412 and the balances shown in the related subsidiary books and records.

### 1.3.4 Suspense Accounts

According to the Ledger, the debit balance of the Suspense Account as at the beginning of the year under review amounted to Rs.701,430 but according to the financial statements it was shown as a credit balance of Rs.25,633. According to the financial statements of the year under review, it had been a debit balance of Rs.601,430. Action had not been taken to identify the correct balance and make necessary adjustments even by the end of the year under review.

### 1.3.5 Accounts Receivable and Payable

The following observations are made'

- (a) Action had not been taken to settle 4 receivable account balances totaling Rs.1,307,358 brought forward in the financial statements unchanged even in the year under review.
- (b) Action had not been taken to settle 3 payable accounts balances totaling Rs.1,419,827 brought forward in the financial statements unchanged even in the year under review.

### 1.3.6 Lack of Evidence for Audit

Due to non-availability of updated register of fixed assets prepared in terms of classes of assets in respect of Land and Buildings, Plant and Machinery, Motor Vehicles and Carts, Furniture and Fittings and Library Books totaling Rs.89,222,289, properly maintained creditors and debtors registers age analysis, schedules in respect of debtors, creditors, deposits, arrears of other income temporary pensions and salaries payable totaling Rs.15,345,563 schedules relating to normal advances totaling Rs.478,108 etc they could not be satisfactorily verified in audit.

### 1.3.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules and Regulations as detailed below were observed in audit.

#### **Reference to Laws, Rules, Regulation etc.**

#### **Non-compliance**

- 
- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 570 and 571 (1) (2)

-----

Action in terms of the relevant regulations had not been taken in respect of 82 elapsed deposit balances totaling Rs.1,131,733.

(b) Public Finance Circular No.02/2015 of 10 July 2015

As action had not been taken to dispose of 3 motor vehicles belonged to the Sabha in terms of the Circular, they had been decayed.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented to audit, the revenue less than the recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.13,690,542 as compared with the revenue, less than the recurrent expenditure for the preceding year amounted to Rs.18,275,342. As compared with the preceding year an improvement of Rs.4,584,800 had indicated in the financial results for the year under review.

### 2.2 Analytical Financial Review

The following matters were observed.

- (a) As the Commissioner of Local Government had reimbursed only the salaries and allowances of permanent staff, an expenditure of Rs.5,165,462 had been incurred from the revenue of the Sabha for the payment of salaries and allowances of the employees recruited by the Pradeshiya Sabha.
- (b) Even though a decrease of 09 per cent had indicated in the recurrent expenditure of the year under review as compared with the preceding year, the total recurrent expenditure had been as high as 120 per cent of the total recurrent revenue and as such the financial control of the Sabha had been at a very weak level.
- (c) A summary of the revenue grants, self-operating revenue and the recurrent expenditure of the year under review and the 2 preceding years of the Sabha is given below.

Year	Total recurrent revenue	Revenue grants	Self-operating revenue	Total recurrent expenditure	Recurrent expenditure over self-operating revenue
-----	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.	Rs.
2015	67,404,283	44,694,940	22,709,343	81,094,826	(58,385,483)
2014	63,662,705	24,442,688	39,220,017	81,938,046	(42,718,029)
2013	117,970,380	18,091,944	99,878,436	61,788,484	(38,089,952)

The following observations are made in this regard.

- (i) Although self-operating revenue had increased in the previous 2 years, the decrease in that revenue in the year under review amounted to Rs.16,510,674. The revenue grants of the year under review had indicated an increase as compared with that of the previous year.
- (ii) The recurrent expenditure of the Sabha had continuously indicated a high value but attention had not been paid to control such expenditure being identified that position.
- (iii) In the previous year, expenditure over self-operating revenue of the Sabha amounted to Rs.42 million whereas, expenditure over revenue amounted to Rs.58 million in the year 2015. Even after considering the recurrent grants received by the Sabha recurrent expenditure over revenue of the Sabha amounted to Rs.18 million and Rs.14 million respectively.
- (iv) It is the point of view of audit that special attention has to be paid to increase the revenue of the Sabha and to control recurrent expenditure. An expeditious methodology has to be prepared and implemented thereon, otherwise there would be a problematic situation on the going concern of the Sabha as a result of weak financial position and financial control of the Sabha.

## 2.3 **Revenue Administration**

### 2.3.1 **Acreage Taxes**

Out of the rates recoverable relating to the year under review and the preceding years amounting to Rs.9,784,334, only a sum of Rs.3,414,952 or 35 per cent had been recovered. Although the arrears of rates had been at a high value, action in terms of Section 158(1) (a) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover same.

### 2.3.2 **Acreage Tax**

Although a sum of Rs.10,166 had to be recovered in respect of the previous years and the year under review, only a sum of Rs.863 had been recovered. However, action in terms of section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover the arrears.

### 2.3.3 **Lease Rent**

As action had not been taken in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987, the arrears of rent balance by the end of the year under review amounted to Rs.397,142.

### 2.3.4 **Court Fines and Stamp Fees**

Sums of Rs.16,697,121 and Rs.1,484,210 were receivable in respect of Stamp fees and Court fines respectively as at 31 December 2015 from the Chief Secretary of the Provincial Council and Other Authorities.

### **3. Operating Review**

#### **3.1 Irregular Transactions**

As stated in the gazette extraordinary No.1413/15 dated 05 October 2005 of the constitution of the Democratic Socialist Republic of Sri Lanka, a sum of Rs.45,000 had been paid to 4 councilors, contrary to the regulations to be followed in making payments to councilors allowance.

#### **3.2 Management Inefficiencies**

The following matters are observed.

##### **3.2.1 Employees Loans**

The employees loan balances as at the end of the year under review amounted to Rs.11,848,929 which included a sum of Rs.314,037 due from officers who had gone on transfer, vacated their posts and deceased officers. Action had not been taken to recover those loan balances even in the year under review.

##### **3.2.2 Human Resources Management**

- (i) Although there was an excess of 46 employees in the primary level, action had not been taken to regularize those excess posts.
- (ii) In spite of the duties of the substantive post of 14 laborers, another duties had been assigned and a formal assignment of duties had not been done for the Secondary and Primary level employees.
- (iii) As an annual transfer scheme was not implemented, 17 officers and employees had been in service continuously for more than 10 years.

3.2.3 Without being acquired the Modara Wellawatta state land by the Sabha, a Children Park named as "Jovee" had been built in that land.

3.2.4 Due to non-remittance of the relevant form (ii) for the period of July 2014 to December 2012, a surcharge of Rs.163,644 to the Employees Trust Fund Board and a fine of Rs.11,953 due to the default of Nation Building Tax for the year 2010 had been paid on 20 April 2015. Action in terms of Financial Regulation 156 (1) had not been taken in that regard.

3.2.5 The value added tax amounting to Rs.842,867 Nation Building Tax amounting to Rs.65,897 and Stamp duty of Rs.46,857 recovered by the Sabha had not been remitted to the Commissioner General of Inland Revenue even in the year under review.

#### **3.3 Contract Administration**

Agreements had been signed on 26 February 2015 to develop the Ahangama, Kurunduwatta Road by laying concrete with an adult society on an estimate of Rs.387,548. The following matters were observed in that regard.

- (i) According to the condition 03 of the agreement, the work should be completed and handed over within 3 months from 26 February 2015, but works had not been commenced ever up to 17 November 2015.
- (ii) Except for the payment of an advance of Rs.77,509 on 03 March 2015 any course of action whatsoever had not been taken to get that project implemented by the Pradeshiya Sabha.

#### 3.4 **Solid Waste Management**

The Eluketiya Compost Project maintained by the Sabha in a land 09 acres, 01 rood and 20 purchase in extent, obtained on the annual lease rental of Rs.90,000 basis from a private party for the period from 01 January 2007 to 31 December 2016 had been ceased due to public protestation. The Sabha had spent a sum of Rs.2,534,364 on this project.

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

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

- (a) According to the programmes, expenditure over revenue in all 5 programmes was shown in the year under review when compared recurrent revenue and expenditure.
- (b) According to the Budget of the year under review a capital revenue of Rs.7,435,000 and a capital expenditure of Rs.80,800,000 had been estimated. But the manner for the provision of funds to cover the expenditure over revenue and to incur expenditure had not been stated. The actual capital revenue and capital expenditure amounted to Rs.5,938,228 and Rs.10,550,953 and as such capital expenditure of Rs.4,612,725 had been incurred in excess of the capital revenue.
- (c) Savings totaling Rs.69,090,416 in 07 expenditure objects included in the Budget for the year under review, expenditure of Rs.3,270,233 incurred in 2 another expenditure objects in excess of the Limits and the targeted revenue of Rs.116,382,015 in 5 revenue items which had not been reached had existed and as such the budget had not been made use of as an effective instrument of management control.

##### 4.2 **Internal Audit**

In terms of Circular No. දපපා/යභ/01/න.ව.ලේ dated 24 February 2014 of the Commissioner of Local Government (Sothern Province), an internal audit had not been carried out. However, salaries and allowances of Rs.421,257 had been paid to the officer who had been appointed to the Internal Audit Division of the Sabha in the year under review.

##### 4.3 **Audit and Management Committee**

In terms of provisions in the Management Audit Circular No.DMA/2009(i) dated 09 June 2009, action had not been taken to establish the audit and management committee in the year under review.

#### 4.4 **Assets Management**

The following observations are made.

(a) **Idle and underutilized assets**  
-----

As a result of ceasing the compost project on 07 December 2015 two compost fertilizer hullers and a crusher belonged to that project had been removed from use and retained in the Ahangama sub-office.

(b) **Assets not acquired**  
-----

Action had not been taken to acquire the ownership of 7 motor vehicles used by the Sabha valued at Rs.34,872,063 even by the end of the year under review.

(c) **Annual Board of Survey**  
-----

In terms of Financial Regulation 756 of the Republic of Sri Lanka, a Board of Survey should be conducted every year and a copy of that report had not been furnished to the Auditor General in terms of Financial Regulation 757(4).

#### 4.5 **Unresolved and Un-replied Audit Queries** -----

The following observations are made.

(a) Replies to 13 audit queries issued in the year under review and the previous 2 years had not been furnished and the replies to the reminders therefor had not been furnished as well.

(b) Even though it was agreed to rectify the deficiencies pointed out in sub paragraph (c), (h), (i), (j), (l), (r) and (s) of Section 2.2.1 of the Report of the Auditor General for the previous year, by the financial statements of the year under review, action had not been taken accordingly.

#### 5. **Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Human Resources Management