

## **Nagoda 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 24 April 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 Nagoda 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**

The following accounting deficiencies were observed.

- (a) Library books valued at Rs.40,000 purchased in the year under review had not been capitalized and library books costing Rs.23,535 which had been disposed of in the preceding years had not been adjusted to the cost of library books and settle the accounts.
- (b) The contribution of Rs.2,360,670 payable to the Local Government Pension's Fund as at 31 December of the year under review had not been brought to accounts.
- (c) A sum of Rs.171,413 received for a work performed during the year under review had been credited to the arrears of revenue account.

###### **1.3.2 Unreconciled Control Accounts**

There were differences totaling Rs.8,325,670 between the 12 items of accounts totaling Rs.24,182,323 shown in the financial statements and the balances shown in the relevant subsidiary books and records.

###### **1.3.3 Suspense Accounts**

Action had not been taken to identify, adjust and settle the credit balance of suspense account totaling Rs.18,315 even in the under review.

#### 1.3.4 **Accounts Receivable and Payable**

The following matters were observed.

- (a) Action had not been taken to settle balances totaling Rs.19,320,774 receivable in 7 accounts as at the end of the year under review and the balance totaling Rs.15,899,305 of the arrears of revenue account brought forward.
- (b) Stamp Duty totaling Rs.1,017,297 payable since the year 2011 and the deposit on Value Added Tax amounting Rs.1,968,246 brought forward since 2012 had not been remitted to the Commissioner General of Inland Revenue. Even by the end of the year under review.
- (c) Action had not been taken even in the year under review to settle general supplies creditors balances totaling Rs.591,483 other creditors balances totaling Rs.10,800 the balance of the other receipts amounting Rs.23,083 and the balance of Government Grants amounting to Rs.14,395,804.

#### 1.3.5 **Lack of Evidence for Audit**

Due to non-remission of evidence such as the 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, Computers and Software totalling Rs.83,789,965 and the age analysis in respect of staff loans totaling Rs.1,810,086 they could not be satisfactorily verified in audit.

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

The following instances of non-compliance with Laws, Rules and Regulations were observed.

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

##### **Non-compliance**

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

Financial Regulation 102 to 110

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Action in terms of the relevant regulations had not been taken in respect of the loss caused to a water bouser on 04 April 2014.

- (b) Financial Regulation 396(d)

Action in terms of relevant financial regulation had not been taken in respect of 32 cheques totaling Rs.132,161 issued but not presented for payments and elapsed for more than 06 months relating to 2 bank current accounts.

(c) Financial Regulation 1645 and 1646

Daily running charts and monthly performance summaries of 18 motor vehicles belonged to the Sabha were not made available for audit in the year under review.

## 2. **Financial Review**

### 2.1 **Financial Results**

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.2,444,034 as against the revenue less than recurrent expenditure of the preceding year amounted to Rs.676,866. As compared with the preceding year, an improvement of Rs.3,120,900 in the financial results had indicated in the year under review.

### 2.2 **Analytical Financial Review**

- (a) Although a decrease of 11 per cent of the recurrent expenditure was shown as compared with the recurrent revenue in the preceding year, recurrent expenditure as compared with the recurrent revenue had been as high as 92 per cent. The audit opinion is that this is not a satisfactory position in terms of financial management.
- (b) A summary of revenue grants, self-operating revenue and recurrent expenditure in the year under review and the preceding 2 years is given below.

Year	Total capital revenue	Revenue grants	Self-operating revenue	Total recurrent expenditure	Recurrent expenditure over self-operating revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	318,861,898	20,363,166	11,498,732	29,417,863	17,919,131
2014	24,069,641	14,206,671	9,862,970	247,46,507	14,883,537
2013	18,147,285	10,326,428	7,820,857	21,777,292	13,956,435

The following observations are made in this regard.

- (i) A considerable improvement of receipt of revenue grants and an average improvement of self-operating revenue had indicated every year.
- (ii) Recurrent expenditure is being continuously increased and the recurrent expenditure had been more than the self-operating revenue of the Sabha every year at considerable values..

- (iii) It indicated that the recurrent expenditure could not be covered by the revenue of the Sabha without the receipt of revenue grants in any way. It is not a satisfactory financial management tool.
- (iv) It is the point of view of audit that special attention has to be paid to increase the revenue of the Sabha. A formal 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 management.

## 2.3 **Revenue Administration**

### 2.3.1 **Rates**

Attention of the Sabha had not been drawn to recover the rates by identifying the developed areas, with the approved of the Assistant Commissioner in terms of Section 134(1) and (2) of the Pradeshiya Sabha Act No.15 of 1987.

### 2.3.2 **Acreage Tax**

The arrears of taxes by the end of the year under review amounted to Rs.261,484. 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 of tax.

### 2.3.3 **Lease Rent and House Rent**

The following matters are observed.

- (a) As action had not been taken to recover the lease rental of Rs.706,000 recoverable relating to the year under review and the previous years in terms of Section 159(a) of the Pradeshiya Sabha Act No.15 of 1987, the outstanding balance as at the end of the year under review amounted to Rs.339,200.
- (b) Without entering into agreements 4 stalls in the 2 storied market complex at Mapalagama, 3 old stalls and 3 stalls in the Thalagaswala Common market had been leased out.
- (c) Rents totaling Rs.308,550 were due from 5 stalls in the ground floor of the Mapalagama 2 storied Market Complex, 5 stalls in the upper floor and 4 old stalls as at 2 February 2016.
- (d) No any money whatsoever could be recovered from shanty destruction house rent relating to the year under review and the previous years.

### 2.3.3 **Court Fines and Stamp Fees**

Stamp fees of Rs.4,997,365 and the Court fines of Rs.425,245 as at 31 December 2015 were receivable from the Chief Secretary of the Provincial Council and Other Authorities respectively.

### 3. **Operating Review**

#### 3.1 **Performance Evaluation**

As compared the estimated capital expenditure stated in the Annual Budget for the year under review, with the actual capital expenditure in the utilization of budgeted provisions to achieve each objective of the Sabha, backward position had indicated and it caused a loss to the general public in the authority limit as well as to the Sabha.

#### 3.2 **Management Inefficiencies**

The following observations are made.

- (a) Action had not been taken to recover the outstanding staff loan balances of Rs.30,247 as at the end of the year under review from 15 employees who had retired and left the service.
- (b) Action had not been taken to fill 9 vacant posts of the permanent cadre included in the cadre plan and to take action to regularize the excess cadre of 20.
- (c) Procurement activities of the Sabha and writing cheques and maintenance of EPF and ETF files had been assigned to a Karyala Karya Sahayaka and a female field labourer by the Sabha.

#### 3.3 **Irregular Transactions**

Without taking action to obtain fuel for motor vehicles belonged to the Sabha by official orders, a sum of Rs.347,777 had been reimbursed from the fund of the Sabha by the Chairman during the year under review by forwarding bills stating that 3,569 liters of diesel had been obtained in cash.

#### 3.4 **Operating Inefficiencies**

A sum of Rs.80,000 received for the implementation of 2 projects within the authority area had been retained in the works account without using for those purposes.

#### 3.5 **Solid Waste Management**

The following observations are made.

- (a) Four labourers and a driver had been employed in the year 2015 for the collection of Litter and to manufacture of compost in the yard of the Sabha and a sum of Rs.1,776,730 had been incurred for the payment of their salaries and wages. However, only compost fertilizer valued at Rs.51,452 had been manufactured.
- (b) Without taking steps to destroy un-mouldered articles collected they had been heaped outside the yard.

- (c) Although waste had been collected within the authority limit without obtaining the environmental license, the attention of the Sabha had not been paid to recover rates from those arrears.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Due to such reasons that savings totaling Rs.28,948,770 in 8 expenditure objects included in the annual budget for the year under review, existence of targeted revenue of Rs.29,229,350 in 7 revenue items which had not been reached, non-provision of 30 per cent from the self-operating revenue for capital expenditure etc, the budget had not been made use of as an effective instrument of financial management.

4.2 **Internal Audit**

Although sufficient internal audit had not been carried out in terms of circular no.දපපා/යන/01/න.ව.ලේ dated 24 February 2014, salaries and allowances totaling Rs.422,848 had been paid to the Internal Audit Officer appointed by the Sabha in the year under review.

4.3 **Audit and Management Committee**

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

4.4 **Assets Management**

(a) **Idle and underutilized assets**  
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Even though the baco machine had been in operative since the year 2011, action had not been taken to get it repaired and put it into operation or to dispose of it and as such it was being dilapidated.

(b) **Unacquired assets**  
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Action had not been taken to transfer the ownership of 6 motor vehicles being used by the Sabha even by the end of the year under review.

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) Vehicles Control
- (f) Human Resources Management