

Neluwa Pradeshiya Sabha

Galle District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review and the preceding year had been presented to audit on 31 March 2016 and 20 April 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 18 August 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 Neluwa Pradeshiya Sabha as 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 accounting had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Provision for works creditors for the previous year amounting Rs.549,674 court fine revenue of Rs.10,000, trade stall penalties of Rs.79,552 had been overstated in the accounts.
- (b) Rent income of 200,772 receivable for JCB machine, contribution of Rs.853,685 payable to the Local Government Pensions Fund had not been brought to accounts.
- (c) The cost of truck purchased and capitalised for Rs.7,200,000 in the previous year, had been capitalised in the year under review as well.

1.3.3 Unreconciled Control Accounts

There were differences totaling Rs.46,968,339 between the balances of 15 items of accounts shown in the financial statements and the balances in the related books and schedules.

1.3.4 Suspense Account

The credit balance of suspense account amounting to Rs.72,839 brought forward had not been identified and adjusted the accounts even in the year under review.

1.3.5 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken to recover the government grants totaling Rs.13,898,048 due for 25 works as at the end of the year under review. License fees of Rs.41,850, rental of Rs.232,396 stamps fees of Rs.2,500,000 and Court fines of Rs.60,917 and the arrears of lum sums totaling Rs.198,400 even in the year under review.
- (b) Action had not been taken to settle a sum of Rs.10,842,107 payable for 20 works as at the end of the year under review.

1.3.6 Lack of evidence for Audit

Due to non-remission of evidence such as fixed deposit certificates in respect of fixed deposits totaling Rs.70,000, receipts and schedules in respect of unidentified revenue totaling Rs.104,337, schedules in respect of arrears of License fees and expenditure creditors balances totaling Rs.553,683 and stock books and Board of Survey reports in respect of stock totaling Rs.48,465, they could not be satisfactorily verified in audit.

1.3.6 Non – Compliance with Laws, Rules, Regulations and Management Decisions

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

	<u>Reference to laws, rules, regulations etc.</u>	<u>Non – Compliance</u>
(a)	Stamp duty Special Provisions Act No.12 of 2006	Action in terms of provisions referred to had not been taken in respect of stamp fees of Rs.14,000 recovered in issuing works licenses.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
	(i) Financial Regulation 396(d)	Action had not been taken in terms of regulations in respect of 8 cheques valued at Rs.46,674 issued by 2 bank current accounts but not presented for payment and the validity period of which was lapsed.
	(ii) Financial Regulation 1645 and 1646	Daily running charts and monthly performance summaries in respect of 10 motor vehicles were not made available for audit during the year under review.

2. Financial Review

2.1 Financial Results

According to the financial statements presented to audit, the revenue over recurrent expenditure for the year ended 31 December 2015 amounted to Rs.226,718 as compared with the revenue over recurrent expenditure for the preceding year amounted to Rs.3,616,104. As compared with the preceding year a deterioration of Rs.3,389,386 in the financial results was indicated.

2.2 Analytical Financial Review

A summary of revenue grants, self operating revenue and recurrent expenditure of the year under review and the 2 preceding years is given below.

<u>Year</u>	<u>Recurrent revenue</u>	<u>Revenue grants</u>	<u>Self operating revenue</u>	<u>Recurrent expenditure</u>	<u>Expenditure over self operating revenue</u>
	Rs.	Rs.	Rs.	Rs.	Rs.
2015	23,397,853	14,080,858	9,316,995	23,171,133	13,854,138
2014	22,438,984	14,253,896	8,185,088	18,822,879	10,637,791
2013	14,238,049	7,062,535	7,175,514	13,624,529	6,449,015

The following observations are made in this regard.

- (i) There was an increase of recurrent expenditure in excess of the self operating revenue in the preceding 2 years as well as in the year under review.
- (ii) It was indicated that the recurrent expenditure of the Sabha could not be covered by the revenue of the Sabha without getting government grants. However attention of the Sabha had not been drawn to minimize the expenditure.

2.3 Revenue Administration

2.3.1 Lease Rent

Even though the arrears of rent income of Rs.257,924 as at the end of the previous year had been reduced to Rs.232,395 by the end of the year under review, sufficient steps had not been taken to recover a receivable amount of Rs.151,603 remained outstanding for more than 3 years from 7 tenants.

3.3.2 Court fines and stamp fees

A sum of Rs.2,500,000 was receivable from the chief Secretary of the Provincial Council and other authorities as stamp fees as at 31 December 2015.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

3.1.1 Motor Vehivles control

- (i) Insurance coverage for 5 motor vehicles belonged to the Sabha had not been obtained in terms of Motor Traffic Ordinance No.14 of 1951.
- (ii) Fuel consumption of 10 motor vehicles belonged to the Sabha had not been tested in terms of Public Administration Circular No.41/90 of 10 October 1990.
- (iii) According to the Public Administration Circular No.08/2014 of 26 December 2014, all the motor vehicles belonging to the government and semi-government institutions should be insured through the insurance Trust Fund or Sri Lanka Insurance Corporation. Nevertheless insurance coverage had been obtained for 3 motor vehicles owned by the Sabha from a private insurance Company.

3.1.2 Human Resaources Management

The following matters were observed.

- (i) Action had not been taken to fill the vacancies of 6 posts and 8 posts in the secondary level and primary level employees respectively.
- (ii) Although there was an excess employees of 9 on substitute and casual basis, action had not been taken to regularise them. It was observed that despite self operating revenue was insufficient, payment of salaries had become problematic.

3.1.3 Employees loans

Adequate steps had not been taken to recover the outstanding loan balances totaling Rs.16,304 due from 7 employees as at the end of the year under review which had elapsed for more than 5 years.

3.2 Contract Administration

Although 2 Projects had been approved to be performed by councilors provisions of Rs.100,000 they had not been implemented even as at 31 December 2015.

3.3 Solid Waste Management

In terms of Section 93 of the Pradeshiya Sabha Act No.15 of 1987 it is the function of the Sabha that all steps as much as possible should be taken to dispose of all garbage within the area of authority, household garbage and faeces. However a proper methodology had not been followed by the Sabha in that connection.

4. Good Governance and Accountability

4.1 Budgetary Control

As the existence of savings of the entire provision in one object amounting to Rs.500,000 included in the budget for the year under review and savings totaling Rs.2,466,613 in another 4 expenditure objects, incurred expenditure totaling Rs.34,818,715 in 4

expenditure objects in excess of limits and the targeted revenue totaling Rs.7,111,882 in 6 revenue items which had not been reached, the budget had not been made use of as an effective instrument of management control.

4.2 Internal Audit

An Internal Auditor had not been appointed in terms of Circular No.୧୫୫/୫୩/୦୧୩.୧.୧୧ dated 24 February 2014 of the Commissioner of Local Government.

4.3 Assets Management

The following matters were observed.

(a) Idle and under utilized assets

The elevator costing Rs.25,000 had been removed from use since 26 November 2014 and parked unprotected in the Sabha premises.

(b) Assets not acquired

The ownership of 10 motor vehicles used by the Sabha had not been transferred to the Sabha even by the end of the year under review.

5. System and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Motor Vehicles Control
- (e) Human Resources Control