

Rajgama 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 25 August 2016 and 03 August 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 16 December 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 Rajgama Pradeshiya Sabha as at 31 December 2015 and its financial performance 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) Interest on 5 fixed deposits which had been invested on self-renewal basis had not been brought to accounts.
- (b) Contributions of Rs.13,645,635 payable to the Local Government Pension's Fund as at 31 December of the year under review had not been brought to accounts.
- (c) The value of 08 motor vehicles received from the Ministry of Local Government and Provincial Councils as donations and the value of 588 galvanize pipes amounting to Rs.602,208 had not been brought to accounts.
- (d) Provision for payables in respect of 2 works in the year under review totaling Rs.306,254 and receivable of Rs.106,260 for a work in respect of capital grants had not been made in the financial statements.
- (e) Warrant charges and fine receivable totaling Rs.2,080,317 in the year under review had been under stated in the financial statements.

- (f) Expenditure incurred for the purchase of Library books in the year under review had been over capitalized.
- (g) The debit balance of Rs.395,266 in the current account No.856 of Bank of Ceylon had been set off against the current assets instead of showing under current Liabilities in the Balance Sheet.

1.3.3 **Unreconciled Control Accounts**

Differences totaling Rs.13,543,756 were observed between the balances totaling Rs.11,454,159 in 8 items of accounts shown in the financial statements and the related subsidiary books and records.

1.3.4 **Suspense Accounts**

As the debit balance of Rs.636,821 in the Suspense account of the previous year had not been identified and settled, the debit balance as at the end of the year under review had increased to Rs.2,980,281 as at the end of the year under review.

1.3.5 **Accounts Receivable**

Action had not been taken to settle 5 receivable account balances totaling Rs.10,053,912 brought forward in the financial statements and 8 receivable account balances totaling Rs.23,907,417 remained as at the end of the year under review.

1.3.6 **Accounts Payable**

Action had not been taken to settle 2 payable account balances totaling Rs.571,597 brought forward in the financial statements and 4 payable balances totaling Rs.11,144,791 remained as at the end of the year under review.

1.3.7 **Lack of Evidence for Audit**

Due to non-rendition of evidence such as the updated register of fixed assets prepared in terms of class of assets in respect of Land and Buildings, Plant and Machinery Motor Vehicles and Carts, Furniture and Cabinets totalling Rs.34,741,112 and Related Schedules, Library books, Board of Survey Reports, Registers and schedules in respect of General Stores Stock of Water Works, Electrical Stores, Ayurveda stores totaling Rs.11,880,202, debtors and creditors registers, age analysis and letters of confirmation of balances in respect of debtors amounting to Rs.1,869,964 and Creditors amounting to Rs.4,029,293, and the deposit register in respect of sundry deposit of Rs.7,115,498 they could not be satisfactorily verified in audit.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, to audit the recurrent expenditure over revenue of the Sabha for the year ended 31 December 2015 amounted to Rs.13,893,961 as against the recurrent revenue over expenditure of the preceding year amounted to Rs.6,141,829. Accordingly a deterioration of Rs.20,035,790 in the financial results for the year under review had indicated.

2.2 Analytical Financial Review

The following matters were observed.

- (a) A sum of Rs.14,045,205 had been spent for the payment of salaries and allowances of the employees recruited by the Sabha from the revenue of the Sabha.
- (b) Recurrent expenditure of the year under review as compared with the recurrent revenue had increased by 46 per cent. From 88 per cent to 134 per cent in comparing with the previous year.
- (c) 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 generating revenue	Total recurrent expenditure	Recurrent expenditure over self generating revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	41,185,849	33,953,372	7,232,477	55,079,810	47,447,333
2014	51,961,631	18,913,026	33,048,605	45,819,802	12,771,197
2013	37,978,557	12,922,046	25,056,511	44,270,617	19,214,106

The following observations are made in this regard.

- (i) Recurrent expenditure of the Sabha had continuously increased considerably and the recurrent expenditure had increased over self-operating revenue, as well.
- (ii) Without the receipt of revenue grants, recurrent expenditure could not be covered from the revenue of the Sabha in any circumstance. Total Recurrent expenditure of the Sabha in the year under review had been incurred in excess of the recurrent revenue by Rs.13,893,961.

- (iii) It is the point of view of audit that server attention has to be paid to increase the revenue and a methodology has to be formulated and implemented therefore; otherwise there would be a problematic situation on the going concern of the Sabha as a result of weak financial management.
- (d) The actual capital revenue of the year under review amounted to Rs.2,327,928 and the actual capital expenditure amounted to Rs.33,000, thus Observing a capital revenue over capital expenditure amounting to Rs.2,294,928. According to the budget of the year under review, the capital revenue amounted to Rs.16,620,000 and the capital expenditure estimated at Rs.18,725,000. However, the manner how to provide funds to meet the capital expenditure of Rs.2,105,000 incurred over capital revenue had not been explained.

2.3 **Revenue Administration**

2.3.1 **Rates**

Out of the arrears of Rs.10,795,713 and billed amount of Rs.351,831 as at the beginning of the year under review, a minimum value of 10 per cent only had been recovered. It affected to become, a high value of arrears balance amounting to Rs.10,058,882 as at the end of the year under review. Action had not been taken to recover the arrears of taxes in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.2 **Lease Rental**

Any money whatsoever had not been recovered during the year out of the arrears of Rs.676,535 existed at the belonging of the year under review. 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 rents.

2.3.3 **Court Fines and Stamp Fees**

Sums of Rs.6,549,214 and Rs.12,745,039 were receivable in respect of court fines and stamp fees respectively as at 31 December 2015 from the Chief Secretary of the Provincial Council and Other Authorities.

3. **Operating Review**

3.1 **Management Inefficiencies**

3.1.1 **Personal Administration**

The following matters are observed in this connection.

- (i) Excess cadre was 31 comprising 25 persons in excess of the approved cadre included in the cadre plan and 6 persons in the posts not approved. Action had not been taken to regularize the excess cadre.
- (ii) Duties of the Management Assistants Service belonging to the Secondary Level had been assigned to 05 road Labourers recruited to the Primary Level excessively and a Sanitary Labourer.

3.1.2 Unsettled Advances

Action had not been taken to recover advances totaling Rs.87,500 given to officers 5 years ago even by 06 September 2016.

3.1.3 Employees Loans

The loan balance of Rs.1,557,558 remained as at the end of the year under review had included balances of Rs.26,833 receivable from 7 employees, who were dead, gone on transfer and vacated service. Action had not been recover those loan balances.

3.2 Operating Inefficiencies

Although an income of Rs.96,097 had been earned from the service of the baco machine of the Sabha, bearing No.RS-1592 on hire basis, a sum of Rs.344,901 had been incurred only on fuel for the machine to earn such an income.

3.3 Irregular Transactions

The following observations are made.

- (a) A total sum of Rs.65,000 had been spent for festivals in 3 instances, contrary to the Section 132(i) of the Pradeshiya Sabha Act No.15 of 1987.
- (b) Without adhering to the method of obtaining the prior approval of the Minister in terms of Section 132(j) and (l) of the Pradeshiya Sabha Act No.15 of 1987, a sum of Rs.399,657 had been spent for the funereal of the Chairman.

3.4 Solid Waste Management

The Solid Waste Project Commenced in the Monraviawatta Land by incurring an expenditure of Rs.4,293,092 by the Sabha with the assistance of the Central Environmental Authority and Pilisaru Project had been inoperative since 01 July 2013. At an audit test check carried out on 19 January 2016 observed the following matters.

- (a) As the manufacture of compost in the Solid Waste Project had been suspended since the year 2013, four equipment valued at Rs.599,000 had remained idle.
- (b) An expenditure of Rs.2,548,520 had been incurred in the year 2010 for the construction of vehicles park in the compost yard.

4. Good Governanceand Accountability

4.1 Budgetary Control

Due to such reasons that savings totaling Rs.35,709,062 in 7 expenditure objects included in the budget, expenditure of Rs.9,114,604 in another object exceeding the Limit, targeted revenue of Rs.28,514,279 in 7 revenue items which had not been reached and not making provision for

capital expenditure from 30 per cent of the self-operating revenue. it was observed that the budget had not been made use of as an effective instrument of financial control

4.2 **Internal Audit**

An internal audit had not been carried out in terms of circular no. දළපා/යහ/01/න.ව.මළු dated 24 February 2014 of the Commissioner of Local Government. (Southern Province)

4.3 **Audit and Management Committee**

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

4.4 **Assets Management**

The following observations are made.

(a) **Idle and underutilized assets**

Action in terms of Treasury Circular No.2/2015 dated 10 July 2015 had not been taken to repair and use or dispose of 7 motor vehicles which were being corroded in the premises of the Sabha.

(b) **Unacquired assets**

Action had not been taken to transfer the ownership of 11 motor vehicles used by the Sabha even by the end of the year under review.

4.5 **Unresolved Audit Paragraph**

Even though it was agreed to rectify the deficiencies mentioned in the Report of the Auditor General for the preceding year in sub paragraphs (a) to (l) of paragraph 2.2.3 action had not been taken as agreed 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) Motor Vehicles Control
- (e) Human Resources Management
- (f) Assets Management