

Thawalama 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 01 December 2016 and 31 March 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 27 February 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 Thawalama 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

The following accounting deficiencies were observed in audit.

- (a) A difference of Rs.684,567 had existed between the fixed assets and the revenue contributions to capital employed account.
- (b) Boutique rent of Rs.24,585 business tax revenue of Rs.179,860 and the supplies and equipment expenditure of Rs.78,770 had been under accounted in the year under review.
- (c) As employees loan interest of Rs.56,888 received in the year under review had been posted to the credit of the loan account, the loan balance had been under stated by that amount.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs.11,334,143 had been observed between the balance relating to 14 items of accounts totaling Rs.54,587,339 shown in the financial statements and the balances of related subsidiary books and records.

1.3.3 Suspense Account

Action had not been taken to settle the debit balance of Rs.18,448 brought forward for more than 3 years without being changed by making relevant adjustments even in the year under review.

1.3.4 **Accounts Receivable**

- (i) The balance of market complex security deposits of Rs.538,000 receivable and brought forward and the arrears of trade license fees of Rs.8,800 had not been settled.
- (ii) Action had not been taken to recover the sum of Rs.777,849 for the development projects executed within the authority Limit of the Sabha in the year 2011, a sum of Rs.3,406,400 for the year 2014 and a sum of Rs.5,000,000 for the year 2015.

1.3.5 **Accounts Payable**

Action had not been taken to settle a sum of Rs.9,784,249 payable for 20 works as at the end of year under review of that, a sum of Rs.577,849 payable for 2 works had been brought forward prior to the year 2011.

1.3.6 **Lack of Evidence for Audit**

Due to non-remission of evidence such as the updated register of fixed assets in respect of fixed assets totalling Rs.29,074,508, Inventory in respect of other inventory items totaling Rs.157,716, registers in respect of stamp fees and court fines totaling Rs.2,258,021 and the receipt cash book for Library members cash collections, they could not be satisfactorily examined in audit.

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

The following instances of non-compliance with Laws, Rules and Regulations are observed in audit.

Reference to Laws, Rules, Regulation etc.

Non-compliance

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

(i) Financial Regulations 570 and 571(1)(2)

Action had not been taken in respect of 22 deposit balances totaling Rs.827,787 the period of which was elapsed.

(ii) Financial Regulations 1645 and 1646

Daily running charts and monthly performance summaries relating to 07 motor vehicles were not made available for audit.

(b) Public Administration Circular No.41/90 of 10 October 1990

Fuel consumption of 07 motor vehicles had not been tested.

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 amounted to Rs.3,990,442 as against the revenue in excess of the recurrent expenditure for the preceding year amounted to Rs.1,129,676. Accordingly a deterioration of Rs.5,120,118 in the financial result of the year under review was indicated as compared with the preceding year.

2.2 **Analytical Financial Review**

The following matters were observed.

- (a) An expenditure of Rs.4,017,464 had been incurred from the fund of the Sabha for the payment of salaries and allowances of employees recruited by the council.
- (b) The Recurrent expenditure as compared with the recurrent revenue in the year under review had been as high value as 124 per cent.
- (c) A detailed summary of revenue grants, self-operating revenue and recurrent expenditure of the year under review and the preceding 2 years is given below.

Year	Total recurrent 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	16,817,179	12,644,127	4,173,052	20,807,621	16,634,569
2014	18,863,903	13,958,683	4,905,220	17,734,228	12,829,008
2013	11,887,489	7,459,564	4,427,925	11,507,780	7,079,855

The following observations are made in this regard.

- (i) Revenue grants and self-operating revenue of the year under review had been deteriorated by Rs.1,314,556 and Rs.732,168 respectively, as compared with the preceding year.
- (ii) Although the recurrent expenditure had continuously increased by considerable values, attention of the Sabha had not been paid to control such expenditure.

- (iii) It was indicated that recurrent expenditure had represented 3 times in excess of the self-generating revenue in the preceding year and 4 times in the year under review.
 - (iv) There was recurrent expenditure of Rs.3,990,442 exceeding the total recurrent revenue of the year under review. Without getting revenue grants the recurrent expenditure could not be covered by the revenue of the Sabha in the previous 2 years in any way.
 - (v) It is the view of audit that attention of the Sabha has to be drawn to increase the revenue as per the matters referred to in paragraphs (i) to (iv) above and to formulate a formal methodology therefor and to implement it, otherwise there would be a problematic unless situation on going concern of the Sabha as a result of weak financial management.
- (d) Even though the actual capital revenue in year under review amounted to Rs.11,528,037 the actual capital expenditure amounted to Rs.2,223,156 thus being savings of Rs.9,304,881. It was observed in audit that the savings money not utilized for the development activities of the area of authority had a determinant to the general public.

2.3 **Revenue Administration**

2.3.1 **Acreage Tax**

As action had not been taken to recover the arrears of acreage tax in terms of section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987 the outstand balance of Rs.43,885 had existed as at the end of the year under review relating to the previous year.

2.3.2 **Business Tax**

As action had not been taken to recover the arrears, the business tax balance as at end of the year in arrear, amounted to Rs.160,050.

2.3.3 **Court Fines and Stamp Fees**

Stamp fees of Rs.1,971,585 and Court fines of Rs.286,436 were due from the Chief Secretary of the Provincial Council and Other Authorities as at 31 December 2015.

3. **Operating Review**

3.1 **Delays in Projects**

A security post and a project office had been set up by a land in incurring an expenditure of Rs.913,423 received as a donation for the commencement of a waste management project. At a field inspection carried out observed that the buildings had been destroyed and certain equipment had been misplaced. A sum of Rs.39,700 had been spent for this project during the year under

review from the Fund of the Sabha. The construction activities of the buildings belonged to this project had been completed in the year 2014, but, the waste management project had not been commenced even by 01 December 2016.

3.2 **Irregular Transactions**

Being not complied with Chapter xiv of the Establishments Code of the Republic of Sri Lanka, the payment of commuted travelling allowance had been doubled to a Technology officer and a Revenue Overseer of the Sabha and as such an over payment of Rs.66,826 had been made during the year under review.

3.3 **Contract Administration**

The following observations are made.

(a) **Development of Kapalla Ela Ihala Road, Habarakada West.**

An expenditure of Rs.1,951,190 had been incurred for the development of Kapalla Ela, Ihala Road, Habarakada West by laying pre-processed rubble under the Provincial Specific Development grants (Estate Road Development Project)

- (i) Although a sum of Rs.1,582,460 had been paid under work item No.06 according to the compression quality report, required compression level was not available and the chip stone had come through in certain processes.
- (ii) Although a sum of Rs .255,374 had been paid for concrete curbs besides the processed rubble, certain places had broken and rubble of the concrete had come through.

(b) **Development of Kithuldola Road.**

An expenditure of Rs.475,876 had been incurred for concreting Thalangalla, Kithuldola road under the Provincial Specific Development grants. Although, 3 samples were made available for inspection the compression strength of any one of those samples was not existed. However, disregarding that matter, retention money had been released.

(c) **Crematorium**

An agreement had been entered into on 25 October 2012 for the construction of a crematorium at an estimated value of Rs.4,280,000 and such construction work had been completed and handed over to the Department of Local Government on 07 January 2013. The possession of it had been vested to the Public on 06 December 2013. The following defects were observed even before a lapse of 3 years in the crematorium.

- (i) Even though request had been made in several instances to the contracting company asking for rectification of defects identified after vesting to the public, action had not been taken to rectify those defects.

(ii) Due to seeping water between the side roof, build round the building and the walls of the building, timber used for the roof and the front poly carbonate roof which had been thatched had dilapidated.

(iii) As water was seeping through the concrete slab of the building walls were got wet, the main electricity circuit had also become inoperative.

3.4 **Management Inefficiencies**

The following matters were observed.

(a) **Human Resource Management**

There were 11 vacancies in the posts of approved cadre plan, but action had not been taken to fill those vacancies and to regularize the excess cadre of 3 posts.

(b) **Staff Loans**

Action had not been taken to recover loan balances of Rs.93,087 from 11 employees who had served in the Sabha, even in the year under review.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Due to existence of savings of the entire provision in 2 expenditure objects totaling Rs.239,200 included in the budget for the year under review and savings totaling Rs.30,336,367 in another 5 expenditure objects, expenditure of Rs.291,033 in another expenditure object exceeding the provision, targeted revenue totaling Rs.25,118,834 in 6 revenue items which had not been reached, the budget had not been made use of as an effective instrument of financial management.

4.2 **Internal Audit**

An internal audit had not been carried out in terms of financial regulations 133 and 134 of the Republic of Sri Lanka and circular No.දපසා/යන/01/ න.ව.ලේ dated 24 February 2014 of the Commissioner of Local Government. (Southern Province)

4.3 **Audit and Management Committee**

Action had not been taken 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) Action had not been taken to transfer the ownership of 5 motor vehicles used by the Sabha even by the end of the year under review.

- (b) The annual Board of Survey had not been conducted for the year under review in terms of Financial Regulation 756 of the Republic of Sri Lanka even by 31 December 2016.

4.5 **Unsettled Liabilities**

Action had not been taken to settle the arrears of contributions amounting to Rs.1,885,813 payable to the Local Government Pension Fund which had been brought forward in the financial statements even by the end of the year under review.

4.6 **Unresolved Audit Paragraph**

Even though it was agreed to rectify the deficiencies stated in sub paragraphs (a) to (j) of paragraph 2.2.1 of the Auditor General report for the previous year 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) Contracts Control
- (e) Human Resources Management
- (f) Motor Vehicles Control