

Yakkalamulla 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 04 April 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 18 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 Yakkalamulla 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) The value of vibration raller and the water bouser and the interest income of Rs.12,274 had not been brought to accounts.
- (b) Entertainment tax revenue of Rs.22,965 received in the year under review had not been accounted under creditors.

1.3.3 Unreconciled Control Accounts

There were dificiencies totaling Rs.3,679,969 between the balances of 5 items of accounts totalling Rs.9,237,230 shown in the financial statements and the balances shown in the relevant subsidiary books and records.

1.3.4 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken to settle the value of 12 accounts receivable balances totalling Rs.9,007,995 as at the end of the year under review.

- (b) A proper procedure had not been prepared and implemented to settle a sum of Rs.1,348,993 payable to the Local Government Pensions Fund and a stamp fees of Rs.295,642 payable to the Department of Inland Revenue as at 31 December of the year under review.

1.3.5 **Lack of Evidence for Audit**

Due to non-availability 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 and Office Equipment totalling Rs.108,507,307, the updated loan register and the age analysis thereon in respect of the balance of Local Loans and Development Fund totalling Rs.7,428,862, they could not be satisfactorily verified in audit.

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

Reference to Laws, Rules, Regulation etc.

Non-compliance

Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 371 (2) (b)

Advances had been granted in 5 instances in excess of Rs.20,000 limit.

(ii) Financial Regulation 570, 571 (1) (2)

Action had not been taken to settle 4 types of deposit balances totalling Rs.278,751 elapsed for more than 2 years as at the end of the year under review.

(iii) Financial Regulation 1645 and 1646

Daily running charts and monthly performance summaries in respect of 17 Motor vehicles belonged to the Sabha in the year under review were not made available audit.

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.2,773,831 as compared with the revenue over recurrent expenditure of the preceding year amounted to Rs.7,831,630. As compared with the preceding year a deterioration of Rs.5,057,779 in the financial results for the year under review had indicated.

2.2 Analytical Financial Review

The following matters were observed.

- (a) The recurrent expenditure as compared with the recurrent revenue in the year under review had increased by 14 per cent in comparing with the preceding year and the recurrent expenditure as compared with the recurrent revenue had indicated as high value as 93 per cent.
- (b) According to the programs, expenditure over income in 3 programs had appeared when compared the revenue with expenditure of the year under review.
- (c) Even though the actual capital revenue of the year under review amounted to Rs.10,255,677 the actual capital expenditure amounted to Rs.6,612,795 and as such, the capital revenue over capital expenditure amounted to Rs.3,642,882. According to the Budget of the year under review capital revenue and capital expenditure had been estimated as Rs.11,510,000 and Rs.12,650,000 respectively. However, the manner how funds would be raised to meet the capital expenditure of Rs.1,140,000 to be incurred over the capital revenue had not been explained.
- (d) A summary of revenue grants self-operating revenue and recurrent expenditure of the Sabha during 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	40,521,826	25,128,776	15,393,050	37,747,995	22,354,945
2014	37,513,140	22,229,120	15,284,020	29,681,510	14,397,490
2013	23,065,696	11,367,317	11,698,379	22,387,772	10,689,393

The following observations are made in this regard.

- (i) Recurrent expenditure had continuously increased considerably and the recurrent expenditure had increased rapidly exceeding the self-operating revenue.
- (ii) Without obtaining the capital grants, recurrent expenditure could not be covered from the revenue of the Sabha in any way.
- (iii) 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 system.

2.3 **Working Capital Management**

As compared the current year's position with the previous year's position current and Liquid ratios had been not at a satisfactory level.

2.4 **Revenue Administration**

2.4.1 **Acreage Taxes**

Out of the acreage taxes totaling Rs.215,444 recoverable for the year under review and the previous year's only a minimum value of about 15 per cent had been recovered during 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.

2.4.2 **Rates**

Attention of the Sabha had not been paid to recover rates, being identified the developed areas in terms of section 134(1) and (2) of the Pradeshiya Sabha Act No.15 of 1987.

2.4.3 **Lease Rentals**

Action in terms of Section 159(a) of the Pradeshiya Sabha Act No.15 of 1987 to recover business tax of Rs.178,150 recoverable relating to the year under review and the previous years and the industries tax amounting to Rs.49,000.

2.4.4 **Court Fines and Stamp Fees**

Stamp fees of Rs.7,894,290 and the Court fines of Rs.261,750 were receivable from the Chief Secretary of the Provincial Council and other Authorities respectively as at 31 December 2015.

3. **Operating Review**

3.1 **Management Inefficiencies**

The following matters were observed.

- (a) The employees loan balance as at the end of the year under review amounted to Rs.1,136,592. Even though it included loan balances of Rs.41,289 due from 11 employees who had gone on transfer, action had not been taken to recover those loan balances.
- (b) One post of a Community Development Officer, 9 posts of Pre-school motrons, one post of Development Officer had been excessively recruited and there were Vacancies of a librarian and 4 posts of Primary grades. Action had not been taken to regularize excess posts and to fill these vacancies.

- (c) Action had not been taken to recover the loss of 664 books costing Rs.63,151 in the Library maintained by the Sabha.
- (d) Without remitting the stamp duty of Rs.295,642 brought forward to the Commissioner General of Inland Revenue, it had been retained in the General Fund of the Sabha.

3.2 Purchase of a Transformer

A transformer had been purchased by the Sabha on 31 December 2014 from a private company for a sum of Rs.999,990. The following observations are made in that regard.

- (i) Although it was stated in the newspaper advertisement for the purchase of transformer, a new machine with 10Kv-25Kv capacity, manufactured in Japan was required; purchase had been made by the Sabha with a capacity of 8Kv-10Kv manufactured in England.
- (ii) In affecting the purchase, the recommendation of the Technical Evaluation Committee had not been obtained and the specification of the machine required for the crematorium where the transformer was expected to be operated had not been obtained through an electrical engineer.
- (iii) The Sabha had sustained a loss of Rs.304,990 as purchase had been made without considering the capacity of the plant, country of manufacture, plant type, the value etc and irrespective of the institution which quoted the lowest quotation.

4. Good Governance and Accountability

4.1 Budgetary Control

- (a) A backward position was shown in the utilization of budgeted provisions to achieve each objective of the Sabha. As such it was observed in audit that it was likely to cause harm to the Sabha as well as to the general public living within the area of authority.
- (b) Due to such reasons that savings totaling Rs.10,673,324 in 7 expenditure objects inducted in the annual budget for the year under review, expenditure totaling Rs.7,187,614 in another 2 expenditure objects incurred in excess of the Limit, existence of targeted revenue of Rs.3,952,615 in 6 revenue items, which had not been reached and non-provision of 30 per cent from the self-operating revenue for capital expenditure, 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 provisions in the Financial Regulations 133 and 134 of the Republic of Sri Lanka and the circular no. දපපා/යන/01/න.ව.ලේ dated 24 February 2014. However a sum of Rs.392,624 had been paid as salaries and allowances to the Female Development officer who had been appointed for internal audit by the Sabha in the year under review.

4.3 **Audit and Management Committee**

Action had not been taken to set up audit and management committee in the year under review 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 Public Finance Circular No.2/2015 dated 10 July 2015 had not been taken in respect of 4 wheeler mini-tractor.

(b) **Unacquired assets**

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.

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) Motor Vehicles Control
- (f) Human Resources Management