

Hambantota Pradeshiya Sabha
Hambantota District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2016 and the financial statements for the preceding year had been presented 31 December 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 26 September 2016.

1.2 Opinion

In my opinion, except for the effects of the matters shown in paragraphs 1.3.2, 1.3.3 and 1.3.5 of this report, the financial statements give a true and fair view of the financial position of the Hambantota 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 Policies

The accounting policies adopted for preparation of accounts had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The revenue received for the Galie rowser for the previous year amounting to Rs.510,000 had not been credited to the Revenue Receivable Account. As such, it continued to be shown as balances receivable in the financial results as at end of the year.
- (b) The sum of Rs.1,192,271 received for a construction had not been included in the balances of the Work Debtors Account of the previous year. This had been credited to the Miscellaneous Revenue Account instead of being adjusted in the Accumulated Fund.

- (c) Stamp fees revenue of the two previous year amounting to Rs.4,183,555 had been accounted for, as revenue of the year under review and the stamp fees revenue of two months of the year under review had been overstated in the accounts by Rs.29,500.
- (d) The retention money of Rs.535,996 receivable by the Sabha on behalf of constructing a vehicle park centre in the close proximity of the Dry Zone Botanical Gardens during the year 2013 had not been accounted for.
- (e) The value of 9 work carried out by spending Rs.2,049,788 under the 2015 Provincial Specific Grant had been omitted in the revenue and expenditure of the year under review.
- (f) The value of contract deposits payable as at 31 December 2015 had been overstated in the financial statements by Rs.2,913,587.

1.3.3 Unreconciled Control Accounts

Differences totalling Rs.13,463,162 were observed between the balances of 9 items of accounts included in the financial statements and the balances shown in the related books and schedules.

1.3.4 Accounts Payable

The Sabha had collected Stamp Fees, Nation Building Tax and Value Added Tax totalling Rs.1,299,728. These had not been reunited to the Commissioner General of Inland Revenue even by end of the year under review.

1.3.5 Lack of Evidence for Audit

Register of assets and detailed schedules relating to land and buildings totalling Rs.20,835,940, arrears of rates and taxes totalling Rs.3,102,218, arrears of trade licences, arrears of stall rent, schedules and age analysis of arrears of work debtors and arrears of interest on property loans, registers, schedules and age analysis relating to arrears of stamp fees revenue and advances totalling Rs.5,760,320 and schedules and age analysis of general supply creditors and sundry creditors totalling Rs.1,225,552 had not been furnished. As such, these could not be satisfactorily examined in audit.

1.3.5 Non-Compliance with Laws, Rules, Regulations etc.,

The following instances of non – compliance with laws, rules and regulations were observed in audit.

References to Laws, Rules, Regulations etc.,	Non-compliance
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(a) Decision of the Cabinet of Ministers No.15/විවිධ(051) of 21 May 2015	A sum of Rs.110,695 had been spent from the funds of the Sabha for the local government sports festival of the Hambantota District contravening the said decision of the Cabinet of Ministers.
(b) Section 12.3 of Chapter XIV of the Establishments Code of the Republic of Sri Lanka	Four filed officers who obtain commuted travelling expenditure contravening the said provisions, had made use of the cab belonging to the Sabha and had incurred an expenditure of Rs.47,721 on fuel.
(c) Financial Regulations of the Republic of Sri Lanka	

(i) Financial Regulations 103,104,105 and 110	An expenditure of Rs.243,723 and Rs.28,950 respectively had been incurred on repairing the cab and the galie bowser which had met with accidents during the previous year and the year under review. But, action had not been taken in terms of the said regulations in this connection.
(ii) Financial Regulation 571 (3)	Action had not been taken in terms of the said regulation with regard to deposits totalling Rs.2,534,476 for the period 2007 to 2013.

1.3.7 Transactions without Authority

An expenditure of Rs.190,900 had been incurred from the funds of the Sabha to Supply two tin sheds to 2 community centres without obtaining prior written approval of the Minister in terms of Section 132 (a) of the Pradeshiya Sabha Act No.15 of 1987.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2015 amounted to Rs.6,205,097 as against the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.3,633,865. Accordingly, a deterioration of Rs.9,838,962 was observed in the financial results of the year under review.

2.2 Analytical Financial Review

The following matters are observed.

- (a) A decrease in self generated revenue had been observed during the year under reviewed as compared with that of the previous year. The recurrent expenditure of the Sabha had rapidly increased. The Sabha had not paid attention to control the expenditure and to maintain it on a minimized level.
- (b) The recurrent expenditure incurred had significantly increased than the self generated revenue during the past 2 years as well as the year under review and it was observed that the expenditure had increased twice the revenue of the year under review.

2.3 Revenue Administration

2.3.1 Rates and Taxes

The arrears of rates and taxes as at commencement of the year under review amounted to Rs.937,460 and it had increased to Rs.1,213,900 as at end of the year. The recovery of rates and taxes was at a low level. But, action had not been taken in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987 to recover the arrears of revenue.

2.3.2 Stall Rent

The following matters are observed.

- (a) The arrears of stall rent as at end of the year under review amounted to Rs.40,983. Of this, a sum of Rs.40,483 belonged to the previous year. Action had not been taken in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987 to recover the said arrears.
- (b) Rent had not been recovered on the basis of assessment reports with regard to 12 stalls of Thissapura on the Suriyawewa 100 ft road.

2.3.3 Licence Fees

The arrears of licence fees of Rs.736,929 as at commencement of the year under review had increased up to Rs.803,979 as at end of the year. But, action had not been taken in terms of Sections 149,150 and 152 of the Pradeshiya Sabha Act No.15 of 1987 to recover the said fees.

2.3.4 One per cent Tax

The Sabha had not taken action, whatsoever, to recover one per cent tax recoverable from a private institution registered at the Sri Lanka Tourist Development Board in terms of Section 149 of the Pradeshiya Sabha Act No.15 of 1987 for the period 20 September 2012 to 31 March 2014.

2.3.5 Court Fines and Stamp Fees

Court fines amounting to Rs.1,381,995 and stamp fees amounting to Rs.12,041,748 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2015.

3. Operating Review

3.1 Evaluation of performance

Capital revenue amounting to Rs.15,800,000 and capital expenditure amounting to Rs.17,500,000 had been estimated in the annual budget under the physical plans, highways, land and buildings programme. However, the manner in which the capital revenue could be earned and for which function the capital expenditure could be incurred had not been shown.

3.2 Management Inefficiencies

The government had given motor cycles on a concessionary basis and fuel allowances of Rs.3,000 per month for duties of the members. But, an expenditure of Rs.101,471 had been incurred on fuel by offering the cab belonging to the Sabha to 5 members, on 42 instances.

3.3 Consumption of fuel by the Cab No. PF 3363

The following matters are observed.

- (i) The capacity of the fuel tank was 80 litres. It was confirmed from the running charts that there was abnormal savings of fuel in the tank exceeding the said capacity during the period January to 30 April 2015 and it ranged from 88 to 136 litres.
- (ii) A sum of Rs.205,471 had been paid to purchase 1,777.3 litres of fuel exceeding the capacity of the fuel tank, without identifying the required quantity.
- (iii) According to the letter of the Assistant Commissioner of Local Government No.පපපා/ඒ/වගන්/පොදු of 11 March 2015, recommendations had been made to balance the rate of fuel at 9 Kilometres per litre. But, the fuel had been balanced at 8 Kilometres per litre, contravening the letter and as such a sum of Rs.36,385 had been paid for 383 litres of fuel.

3.4 **Operating Inefficiencies**

Purchase of Electrical Equipment

The Sabha had purchased 1600 CFL bulbs of 23 watts on 4 occasions by spending a total sum of Rs.512,000 during the year in order to maintain street lighting. Although there is a guaranteed period for CFL bulbs, additional cost had been incurred during the year under review by purchasing new ones instead of exchanging the old ones for new ones.

3.5 **Uneconomic Transactions**

A sum of Rs.150,140 had been paid on 2 instances for roof tractors of the Sabha in order to get protected from the rain. According to Section 3.4 of the 2006 procurement guidelines, the market price rate could be adopted for this type of function. However, instead of doing so, a sum of Rs.48,266 had been spent on newspaper advertisements from the funds of the Sabha to call for national competitive questions.

3.6 **Identified Losses**

A plastic water tank of 2,000 litres capacity had been purchased by spending Rs.30,000 for activities connected with the Solid Waste material Management Project. This had got misplaced on 24 November 2015 and the watcher of the project had accepted the responsibility. But, there was delay in recovering the said amount up to 17 May 2016.

3.7 **Contract Administration**

The following matters are observed.

(a) **Strengthening of the Pradeshiya Sabha Programme – 2015**

The first instalment of Rs.1,000,000 had been obtained on 17 June 2015 under the said Programme. Action had not been taken even by 14 January 2016 to make expenditure as stipulated. As a result, the Sabha had been deprived of Rs.5 million which could have been obtained for the year 2015 in terms of the circular

(b) **Strengthening of the Pradeshiya Sabha Programme – 2014**

Eight projects implemented under the said programme had been completed before 31 December 2014. In spite of this, the bills had not been furnished. As such, the Sabha had not received the total sum of Rs.3,973,017 even by 14 January 2016. The Secretary had informed the audit that out of this amount, a sum of Rs.1,267,480 had been reimbursed by 22 August 2016.

3.8 **Staff Management**

Eight vacancies were in existence in 5 approved posts as at end of the year under review and there were 5 employees in excess. Action had not been taken to fill the vacancies and to regularize the excess cadre.

4. Good Governance and Accountability

4.1 Budgetary Control

There were savings in 62 items of the entire provision totalling Rs.2,641,200 and expenditure exceeding the provision amounting to Rs.4,534,250 was observed in 29 other items of expenditure. Meanwhile, targets totalling Rs.43,201,479 had not been achieved in 2 items of revenue with reference to the budget of the year under review. As such, it was observed that the budget had not been utilized as an efficient instrument of Management control.

4.2 Internal Audit

An officer had not been appointed for the internal audit activities of the Pradeshiya Sabha in terms of the Circular of the Commissioner of Local Government of the Southern Province No. දපපා/යභ/01/න.ව.ලේ dated 24 February 2014.

4.3 Audit and Management Committees

Action had not been taken, even by end of the year under review, to establish an Audit and Management Committee in terms of the Management Audit Circular No.DMA/2009(1) dated 09 June 2009.

4.4 Unsettled Liabilities

The unsettled liabilities as at end of the year under review, as per balance sheet, aggregated Rs.2,526,265 and the correct balance of creditors as at that date amounted to Rs.8,514,759. Balances of the previous year amounting to Rs.5,234,244 had been included in those balances.

5. Systems and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contract Administration