

Tangalle 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 04 April 2016 and the financial statements for the preceding year had been presented on 24 June 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 30 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 1.3.6 of this report, the financial statements give a true and fair view of the financial position of the Tangalle 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 in preparing the financial statements had not been disclosed.

1.3.2 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The balance of supplies and equipment and the stamp fees receivable had been understated by Rs.1,287,188 and Rs. 63,401,237 respectively.
- (b) The opening balance of the Accumulated Fund and the Deficit Account had been understated by Rs.8,441,775 and the closing balance had been overstated by Rs.4,460,000 while the adjustments for Creditors' Deficit Provision had been overstated by Rs.4,000,000.
- (c) The opening balance of 2 bank accounts and the balance of the General Bank Account had been understated in the Balance Sheet by Rs.669,367 and Rs.6,919,180 respectively.
- (d) The arrears of salaries totalling Rs.1,815,607 receivable on behalf of two previous years and the revenue from Hummana Centre amounting to Rs.452,150 had not been accounted for.
- (e) The value of Waadigala land amounting to Rs.300,000 received as donation on 16 July 2015 had been omitted in the financial statements.

- (f) The expenditure totaling Rs.4,845,519 incurred on construction of buildings and for the purchase of machinery and equipment had not been capitalized.
- (g) The aid on behalf of work received during the year under review in respect of the previous year had been overstated by Rs.4,294,654. Meanwhile, receivables on behalf of 2 work totalling Rs.1,851,380 had been omitted in the revenue for the year and the debtors' balances.

1.3.3 **Unreconciled Control Accounts**

Differences totalling Rs.15,067,655 were observed between the 03 items of accounts included in the financial statements and the related books and schedules.

1.3.4 **Accounts Receivable**

Turnover Tax and Fair tax of the previous year totalling Rs.713,658 had not been recovered even during the year under review.

1.3.5 **Accounts Payable**

Payables totalling Rs.11,354,177 on behalf of work carried out during the previous year had not been settled even by end of the year under review.

1.3.6 **Lack of evidence for Audit**

Schedules relating to land and buildings totalling Rs.91,159,469, updated register of fixed assets and verification reports, machinery totalling Rs.3,753,090, motor vehicles and carts totalling Rs.79,381,293, furniture and fittings totalling Rs.5,282,007 and the schedules and updated registers of the electricity stores totalling Rs.216,195, debtors' balances totalling Rs.38,482,462 and the detailed schedules of creditors balances totalling Rs.3,966,981, deposits of the Sabha totalling Rs.354,350 and the age analysis, subsidiary registers and schedules of Street Lamp Debtors Balances totalling Rs.419,521 had not been furnished. As such, these could not be satisfactorily examined in audit.

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

The following Instances of non-compliance with laws, rules, regulations are observed in audit.

Reference to Laws, Rules, Regulations etc.,

Non-compliance

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|---|--|
| (a) Decision of the Cabinet of Ministers No.15/Misc(051) of 21 May 2015 | An expenditure of Rs.166,450 had been incurred from the funds of the Sabha for the Local Government Sports Festival, contravening the said decision of the Cabinet of Ministers. |
| (b) Financial Regulation of the Republic of Sri Lanka 571(3) | Action had not been taken in terms of the said regulation with regard to 317 lapsed deposit balances totalling Rs.1,030,706. |

- (c) Paragraph 4.3 (a) of the letter of the Director of Public Finance No.PED/RED/2015/08 General(i) of 09 October 2015. Action had not been taken to recover the loan balances totalling Rs.323,600 recoverable from 5 employees who had been transferred from the services of the Sabha.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.10,335,236 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.30,067,942. Accordingly, the financial results of the year under review shows a deterioration of Rs.19,732,706.

2.2 **Analytical Financial Review**

The following matters are observed.

- (a) The total recurrent expenditure for the year under review had exceeded the the total recurrent revenue by 83 per cent. Decrease in the total recurrent revenue for the year under review amounted to Rs.12,459,935 and an increase in the total recurrent expenditure amounting to Rs.7,272,772 were observed.
- (b) The self generated revenue of the Sabha had decreased by Rs.24,779,320 as compared with that of the previous year and the rapid increase in the recurrent expenditure of the Sabha showed a significant increase.
- (c) If not for the revenue aid it receives, the Sabha has no ability to meet its recurrent expenditure from the revenue of the Sabha and it was observed that a proper procedure should be prepared and implemented in this regard.

2.3 **Revenue Administration**

2.3.1 **Rates and Taxes**

Action had not been taken to identify properties within the authoritative area of the Sabha so as to assess and recover tax from them in terms of Section 134(1) of the Pradeshiya Sabha Act No, 15 of 1987.

2.3.2 **Acreage Tax**

A low percentage of 8 per cent of the total arrears of acreage tax of Rs.127,075 at commencement of the year under review had been recovered. Action had not been taken to recover arrears of revenue in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.3 **Lease Rent**

The following matters are observed.

(a) **Lease of Stalls**

- (i) The rent due from 68 stalls as at 31 December 2015 amounted to Rs.1,128,340. But, action had not been taken to recover the said balances of arrears in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987.
- (ii) Agreements relating to 24 stalls had not been updated every 03 years in terms of paragraph 05 of of the circular No.දපපා/පපාකො/2010/01 which came into effect on 01 January 2011.

(b) **Fair Tax**

As a result of non recovery of Fair Tax in an updated manner, the arrears of revenue as at 31 December 2015 amounted to Rs.760,830 of which a balance of Rs.672,709 related to the previous years.

2.3.4 **Trade Licence Fees**

The Sabha had not recovered the trade licence fees and the turnover tax as stipulated in terms of Sections 149,150,151 and 152 of the Pradeshiya Sabha Act No.15 of 1987. As such, the arrears of balances of trae licence fees and the turnover tax as at 31 December 2015 amounted to Rs.31,860 and Rs.149,020 respectively.

2.3.5 **Court Fines and Stamp Fees**

Court fines amounting to Rs.752,302 and stamp fees amounting to Rs.22,905,198 were recoverable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2015.

3. **Financial Review**

3.1 **Evaluation of Performance**

Strengthening of Pradeshiya Sabha National Programme -2015

The Sabha had prepared projects for implementation from July 2015 to December. But, out of the rupees one million given for the month of July, a sum of Rs.191,602 only had been spent even by the month of November 2015. As a result, the Sabha had been deprived of Rs.5 million which could have been received for the rest of the 5 months.

3.2 **Management Inefficiencies**

Goods totalling Rs.2,318,950 had been purchased on 03 instances by obtaining 03 quotations alone contravening Section 2.14.1 of the Government Procurement Procedure and the Addition No.28 to the Procurement Procedure dated 4 July 2014.

3.2 **Operating Inefficiencies**

The following matters are observed.

(a) **Retention of money in the Register of Deposits**

The sum of Rs.162,000 received from 2 institutions during the year 2013 had been retained in the Deposit Account without being used for the required purpose.

(b) **Southern Province Development Plant**

The sum of Rs.50,000 given for purchasing equipment for pre school children under the Southern Province Development Plan 2014 of the members' provision, a sum of Rs.49,500 had been used for obtaining photographs of the pre school children.

3.4 **Staff Administration**

It was observed that there were 06 vacancies in 04 posts and 36 excesses in 08 posts of the approved cadre of the Sabha. Action had not been taken, even by end of the year under review, to fill the vacancies or to regularize the excesses.

3.5 **Transactions without Authority**

The following matters are observed.

(a) Goods had been purchased by spending Rs.3,353,062 from the funds of the Sabha and handed over to 13 voluntary organizations without the prior written approval of the Minister, contravening Section 132(Ⓜ) of the Pradeshiya Sabha Act No.15 of 1987.

(b) A sum of Rs. 180,000 had been paid as allowances for 12 months from the funds of the Sabha by re-employing a retired government officer without the approval of the Southern Province Public Service Commission.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

The entire provision of Rs.852,000 made for 20 items of expenditure and the total sum of Rs.5,822,943 of 03 other items of expenditure had been saved whilst the expenditure of 03 other items of expenditure had exceeded its limit by Rs.42,354,151. As such, the budget had not been utilized as an efficient instrument of management control.

4.2 **Internal Audit**

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

4.3 **Implementation of 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 **Assets Management**

Shortages of 230 units of 52 varieties of goods had been revealed by the Board of Survey report of the year under review. But, no action, whatsoever, had been taken in this connection.

4.5 **Unsettled Liabilities**

The unsettled liabilities of the Sabha as at 31 December 2015 aggregated Rs.15,458,618.Of this, Rs.11,354,177 belonged to the previous year and Rs.505,978 belonged to the years prior to 2013. Action had not been taken to settle the said arrears even by end of the year under review.

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) Financial Control
- (d) Revenue Administration
- (e) Assets Management
- (f) Staff Administration
- (g) Control over Vehicles