

**Thissamaharama 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 4 April 2016 and the financial statements for the preceding year had been presented on 11 June 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 and 1.3.6 of this report, the financial statements give a true and fair view of the financial position of the Thissamaharama 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 Policies

The financial policies adopted in preparing the financial statements had not been disclosed.

1.3.2 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The value of 12 works aggregating Rs.22,378,309 carried out under the “Door to Door, Village to Village Programme had been omitted in the financial statements.
- (b) The interest aggregating Rs.42,464,452 payable for the loans obtained from the Local Loans and Development Fund in 2004 and 2005 had not been accounted for.
- (c) Capital expenditure totalling Rs.1,161,289 had been omitted in the year’s expenditure and the closing balances of creditors.
- (d) The court fines of Rs.197,754 receivable for the month of December of the year under review had not been accounted for.
- (e) Action had not been taken to delete from the accounts the cost of assets totalling Rs.296,782 to be disposed of, by auctioning, as per recommendations of the board of survey report of 2014.
- (f) The values of a tractor, a trailer and a pajero vehicle belonging to the Sabha had not been assessed and accounted for.

1.3.3 Unreconciled Control Accounts

Differences totalling Rs.1,973,998 were observed between the balances of items of 8 accounts included in the financial statements and the related balances appearing in the schedules.

1.3.4 Accounts Receivable

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- (a) Action had not been taken during the year under review to recover the arrears of revenue of vehicles amounting to Rs.147,600 and the arrears of revenue of the fair tax amounting to Rs. 51,870 pertaining to the previous years.
 - (b) Action had not been taken to recover the loan balance of Rs.13,950 for the year 2008 and the loan balances of Rs.118,098 of the previous year pertaining to suspension of service.

1.3.5 Accounts Payable

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- (a) Action had not been taken even during the year under review to pay at least a portion of the loans of Rs.40,647,702 obtained from the Local Loans and Development Fund during 2004 and 2005 and the interest of Rs.42,464,452 due thereon.
 - (b) Action had not been taken even during the year under review to remit to the Commissioner General of Inland Revenue the Value Added Tax and the Nation Building Tax totalling Rs.408,822 which continued to be brought forward in the financial statements for many years.

1.3.6 Lack of Evidence for Audit

Title deeds/ vesting orders of a land valued at Rs.2,500,000 and 17 lands the value of which had not been stated, schedules of opening balances of advances totalling Rs.208,649, age analysis of debtors' balances totalling Rs.17,639,881 and the reasons for occurrence of debit balances of sundry deposits totalling Rs.177,857 had not been furnished and as such these could not be satisfactorily examined in audit.

1.3.7 Non-compliance with Laws, Rules, Regulations etc.

The following instances of non-compliance with laws, rules and regulations were 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. | A sum of Rs.214,330 had been spent on behalf of the Hambantota Distric Local Government Sports Festival and a sum of Rs.80,00 had been spent on behalf of the annual tour of the officers of the Sabha, contravening the decision of the Cabinet of Ministers. |
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- (b) Financial Regulations of the Republic of Sri Lanka 571(3) Action had not been taken in accordance with the said regulation regarding 449 lapsed deposit balances amounting to Rs.1,552,063.

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.7,033,766 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.9,608,934. Accordingly, a deterioration amounting to Rs.2,575,168 is shown in the financial results of the year under review.

2.2 Analytical Financial Review

The following matters are observed.

- (a) Significant increase in recurrent expenditure, exceeding the self-generated revenue of the Sabha had been observed during the past 2 years and the year under review.
- (b) There was no ability, whatsoever, to cover the recurrent expenditure of the Sabha, if not for the revenue aid it receives.
- (c) A decrease in Accumulated Fund amounting to Rs.10,712,754 is shown during the year under review as compared with that of the previous year. The debit balances of the said account amounted to Rs.11,304,323 as at end of the year.

2.3 Revenue Administration

2.3.1 Rates and Taxes

The balances of rates and taxes as at end of the year under review amounted to Rs.3,632,574. The balance of Rs.710,535 recoverable from 20 units of taxes for a long time had also been included in this. The arrears of balances had reached its height as action had not been taken in terms of Section 158(a)(1) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.2 Lease Rent

The following matters are observed.

(a) **Lease of Week end Fair**

- (i) Action had not been taken to call for tenders for the week end fairs of Pannegamuwa and Debarawewa in order to give them on lease during the year under review in terms of 1988 Pradeshiya Sabha (Finance and Administration) Rule 177.

- (ii) It was observed that the Sabha could have saved the 22 per cent commission of Rs.709,027 paid in 2014 and the sum of Rs.875,309 paid in 2015 on behalf of lessees if it had taken action to call for tenders to offer these week end fairs on lease.

(b) Stall Rent

The following matters are observed.

- (i) Action had not been taken by the Sabha to newly assess 258 stalls situated in 10 places. Instead, the rent recovered was on the basis of assessment rates of the year 2007.
- (ii) Action had not been taken in terms of Section 159(1) of the Pradeshiya Sabha Act. No.15 of 1987 to recover the arrears of Rs.109,868 due from the lessee of the stall in front of the Debarawewa Public Market.

(c) House Rent

Proper action had not been taken to recover the arrears of Rs.91,011 as at end of the yaer under review on behalf of houses belonging to the Sabha.

2.3.3 Court Fines and Stamp Fees

Court fines amounting to Rs.510,672 and stamp fees amounting to Rs.7,933,910 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2015.

3. Operating Review

3.1 Evaluation of Performance

Two out of 26 roads to be developed through the annual budget proposals of 2015 only had been developed. Action had not even been taken to commence the development activities of the remaining 2 roads.

3.2 Management Inefficiencies

The government works and supplies should be economically and efficiently fulfilled according to the Financial Regulation 780 (1). However, the Tipper vehicles and the Becko machine of the Sabha had not been utilized for the construction work carried out by the Sabha. Instead, the said vehicles and machinery had been obtained on hire. As a result, an expenditure of Rs.1,376,375 had been incurred from the funds of the Sabha.

3.3 **Operating Inefficiencies**

The following observations are made.

(a) **Purchase of Air Regulators and a CCTV Camera System**

The amount paid for purchasing Air Regulators and a CCTV camera system were Rs.1,403,850 and Rs.148,650 respectively. But, a written agreement had not been entered into with regard to supply of services thereto in terms of Section 173 of the Pradeshiya Sabha Act No.15 of 1987. An air regulator supplied and installed was not of the type required as per quotations called for.

(b) **Installing a new engine to the Cab No LE-7462**

A new machine had been installed by spending Rs.330,000 without calling for quotations and without obtaining the approval of the Department of Motor Traffic by furnishing the registered details of the vehicle, contravening 1988 Pradeshiya Sabha (Finance and Administration) Rule 177.

(c) **Southern Province Development Plan**

The members' provision of Rs.50,000 received for purchase of pre school equipment under the Provincial Development Plan of 2014 had not been utilized for the said purpose. Instead, a sum of Rs.38,125 had been spent to get photographs of the pre school children.

3.4 **Contract Administration**

The following matters are observed.

(a) A sum of Rs.21,100 had been paid, at the rate of Rs.2,110 per unit, to purchase and instal 10 lanterns with all its accessories. According to the quotation on which payments had been made for each unit, CFL bulbs could have been supplied and fixed. However, ordinary bulbs had been supplied and fixed.

(b) **Installation of an electricity system at the Thissamaharama Public Library and Thissamaharama Ayurveda Building**

A sum of Rs.12,660 and a sum of Rs.16,880 respectively had been paid to supply and instal 06 and 08 lanterns respectively with all its accessories at the rate of Rs.2,110 per unit as per instructions relating to the electricity system of the two buildings concerned. CFL bulbs could have been supplied and installed. as per payments made for Quotations per unit. However, ordinary bulbs had been supplied and fixed.

3.5 **Transactions without Authority**

The following matters are observed.

(a) The sum of Rs.1,000,000 received on 26 December 2014 under the Strengthening of Pradeshiya Sabha Programme had been spent on matters not included in paragraph 3 of the circular of the Secretary to the Ministry of Local Government and Provincial Councils No.1/2014 of 05 May 2014.

- (c) A sum of Rs.432,410 had been spent to purchase tyres and to repair vehicles by utilizing the money obtained for Strengthening of Pradeshiya Sabha Programme, contravening paragraph 2.8 of the circular of the Secretary to the Ministry of Public Administration No.1/2015 of 28 April 2015.

4. Good Governance and Accountability

4.1 Budgetary Control

The entire provision of Rs.649,000 made for 21 items of expenditure included in the budget for the year under review had been saved and the expenditure on another item of expenditure had exceeded its limit by Rs.2,677,493 while the targets fixed for 2 revenue items had not been reached by a total sum of Rs.19,219,976. As such, it was observed that the budget had not been utilized as an effective instrument of management control.

4.2 Internal Audit

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

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(i) of 09 June 2009.

4.4 Assets Management

The following matters are observed.

(a) Idle and under utilized Assets

Action had not been taken to make use of or to dispose of the textile weaving equipment, 2 motor boats, equipment relating to physical exercises, and machines producing inter block stones remaining idle for a long time.

(b) Implementation of Recommendations of the Board of Survey

Action had not been taken in items of 1988 Pradeshiya Sabha (Finance and Administration) Rule 204, even by 17 May 2016, with regard to the shortages of 590 units of goods of 176 varieties pointed out by the Board of Survey 2015.

(c) Assets given to Outsiders

Action had not been taken, even by 17 May 2016, to get the ploughing machine given to the Katuwana Pradeshiya Sabha many years ago.

4.5 Unsettled Liabilities

The total value of unsettled liabilities of the Sabha as at 31 December 2015 amounted to Rs.10,958,799. Of these, a sum of Rs.3,435,317 belonged to previous years.

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) Contract Administration
- (e) Assets Management