

**Weeraketiya Pradeshiya Sabha
Hambanthota District**

1. Financial Statements

1.1 Presentation of Financial Statement

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 15 June 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 31 August 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 Weeraketiya 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 accounting policies adopted with regard to matters such as accounting institutions, reporting period, investments and interest on investments, current assets and liabilities as well as accounting of revenue and expenditure etc., had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies are observed in audit.

- (a) The total sum of Rs.3,231,698 paid for 12 work during the year had been accounted twice. As a result, the creditors' balance and the accumulated fund balance had been understated and overstated respectively by a similar amount.
- (b) Twenty three projects had been implemented under the programme named "Door to door, Village to Village" during the previous year. In this connection, the debtors' and creditors' balances had been overstated by Rs.1,348,875 in the financial statements at end of the year under review.
- (c) The value of two jobs carried out under the national programme of strengthening the Pradeshiya Sabha amounting to Rs.1,315,770 had been omitted in the revenue and expenditure of the year under review.

- (d) Debtors' and Creditors' balances each amounting to Rs.13,095,446 had occurred in respect of jobs that had not been approved under the "Door to door, Village to village" programme of the year under review. As a result, the revenue and expenditure of the year had been overstated by similar amounts.
- (e) The value of lands at Walasmulla Koholana Galagawahena and Dangaha Koratuwa amounting to Rs.200,000 had been accounted twice.
- (f) The contributions of Rs.35,304 payable to the Local Government Pensions Fund for three quarters of the year under review had been omitted in the financial statements.

1.3.3 Unreconciled Control Accounts

Differences totalling Rs.47,769,924 were observed between the balances of 7 items of accounts included in the financial statement and the balances shown in the related books and schedules.

1.3.4 Accounts Receivable

A sum of Rs.115,000 had been paid to the Southern Local Government Department in 2009 for a foreign educational tour. Of this, Rs.65,000 was due to the Sabha. Action had not been taken to recover this even during the year under review.

1.3.5 Accounts Payable

Salaries payable amounting to Rs.120,100 and the contributions payable to the Employees' Trust Fund amounting to Rs.41,893 continued to be brought forward in the financial statements had not been settled.

1.3.6 Lack of Evidence for Audit

Evidence such as updated registers of lands and buildings relating to 5 lands and buildings totalling Rs.97,859,260, detailed schedule and age analysis of outstanding rent totalling Rs.1,734,123, detailed schedules of deposits totalling Rs.9,627,185 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 -----
(a) Decision of the Cabinet of Ministers No.15 Misc (051) of 21 May 2015.	An expenditure of Rs.139,905 had been incurred on the Local Government Sports Festival from the funds of the Sabha, contravening the said decision of the Cabinet of Ministers.
(b) Financial Regulations of the Republic of Sri Lanka 571 (3)	Action had not been taken to settle the balances of lapsed deposits amounting to Rs.514,254.
(c) Paragraph 5.4.4 of the 2006 Government Procurement Procedure	An advance of 50 per cent amounting to Rs.260,472 had been granted by the Sabha to repair a becko machine, contravening the said provisions.

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 Rs.5,509,595 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.5,168,404. Accordingly, an increase amounting to Rs.341,191 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 of the Sabha exceeding the self-generated revenue had been observed in the past two years as well as the year under review.
- (b) The Sabha cannot cover its recurrent expenditure from its revenue anyhow, if not for the revenue aid it obtains.
- (c) An increase in expenditure of Rs.6,660,296 had been observed during the year under review too, as compared with those of the past 2 years. However, the Sabha had not paid attention to control the expenditure.

2.3 Revenue Administration

2.3.1 Rates and Taxes

The outstanding balances as at end of the year showed an extensive value of Rs.4,366,674 as a result of recovering 11 per cent of the arrears as at commencement of the year under review and 48 per cent alone of the amount billed for the year. However, action had not been taken in terms of Section 158 (1)(a) of the Pradeshiya Sabha Act No.15 of 1987 to recover the outstanding rates and taxes.

2.3.2 Lease Rent

The following matters are observed.

- (a) Twenty two per cent only of the outstanding balances as at commencement of the year under review had been recovered during the year resulting in an increase in outstanding balances upto Rs.1,734,123 as at end of the year. Action had not been taken in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987 to recover the outstanding rent.
- (b) The agreements of 49 stalls at the junction where 5 roads meet, Walasmulla Public Market and Muduna and the Walasmulla Super Trade Complex had not been updated in terms of paragraph 05 of the Southern Commissioner of Local Government No. දපසා/පසාකො/2010/01 date 27 December 2010.

2.3.3 Court Fines and Stamp Fees

Court fines amounting to Rs.394,765 and stamp fees amounting to Rs.4,785,129 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

A provision of Rs.5,000,000 had been made in the annual budget for construction of roads. But, the entire provision had been saved as a result of not obtaining the capital revenue, as expected.

3.2 Management Inefficiencies

The following matters are observed.

3.2.1 Non-investment of surplus cash

A monthly average of surplus cash amounting to Rs.6,195,847 existed in the General Fund Account of the Pradeshiya Sabha during the year under review. However, the Sabha had not paid attention to earn an interest revenue by investing it in short term investments.

3.2.2 Staff Management

There were 20 excesses and 13 vacancies relating to staff as at end of the year under review. The Sabha had not taken action to regularize the excess staff as well as to fill the vacancies.

3.3 Contract Administration

3.3.1 Development of Bye-Roads

The following matters are observed.

- (a) An additional expenditure of Rs.1,589,100 had been incurred as a result of not taking action to construct and develop roads according to proper plan and due to utilisation of machinery and vehicles obtained on hire instead of using the machinery and vehicles belonging to the Sabha.
- (b) A sum of Rs.84,000 had been paid to an outsider for supply of tractors and tippers, without calling for quotations, contravening the provisions in 1988 Pradeshiya Sabha (Finance and Administration) Rule 177.

3.3.2 Construction of a Vehicle Park

Two vehicle parks had been constructed at the new and old office premises. While doing so, action could have been taken to make use of the amano sheets, galvanized tubes, box bar etc., which had been dismantled from the fair buildings of Weeraketiya and Walasmulla and handed over to the Sabha. Instead, these items had been newly purchased by spending Rs.677,650.

4. Good Governance and Accountability

4.1 Budgetary Control

There were total savings in 5 items of expenditure of Rs.70,768,343 included in the budget for the year under review and targets amounting to Rs.62,965,738 had not been achieved with regard to 2 items of revenue. Meanwhile, 30 per cent of the self generated revenue had not been set aside for capital expenditure. Due to these reasons, the budget had not been utilized as an efficient instrument of management control.

4.2 Internal Audit

Adequate internal audit had not been carried out at the Sabha as required by the circular of the Southern Commissioner of Local Government No. දපපා/යහ/01/න.ව.ලේ dated 24 February 2014. Action had not been taken in terms of Government Financial Regulations 134(2) and (3) for preparation of the audit programme and with regard to internal audit reports.

4.3 Audit and Management Committees

Action had not been taken to establish an Audit and Management Committee even by end of the year under review 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 Assets**

The road roller purchased by spending Rs.6,645,000 in 2008 remained idle since May 2012.

(b) **Assets not acquired**

Action had not been taken to acquire the legal ownership of 8 lands and 25 crematoriums used by the Sabha.

4.5 Unsettled Liabilities

The total of unsettled liabilities as at 31 December 2015 amounted to Rs.39,628,497. Balances of Rs.1,264,510 exceeding 3 years and the balances of Rs.74,268 exceeding 5 years had been included in this.

5. Systems and Controls

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

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