

**Katuwana Pradeshiya Sabha  
Hambantota District**

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**1 Financial Statements**

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**1.1 Presentation of Financial Statements**

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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 on 30 March 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 26 August 2016.

**1.2 Opinion**

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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 Katuwana 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**

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**1.3.1 Accounting Policies**

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

**1.3.2 Accounting Deficiencies**

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The following accounting deficiencies are observed.

- (a) The value of 2 work carried out under the Provincial Specific Development grant totalling Rs.1,472,791 had been omitted in the financial statements.
- (b) A sum of Rs.42,869 had been overstated in the accounts with regard to the amount payable on behalf of 2 work of the year under review.
- (c) Eight balances of debtors totalling Rs.58,621 and fuel given on credit amounting to Rs.102,850 had been omitted in the financial statements of the year under review.
- (d) Assets totalling Rs.16,650,644 had not been capitalized. Meanwhile, the value of 04 land had not been assessed and included in the accounts.

### **1.3.3 Unreconciled Control Accounts**

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An adverse variance of Rs.354,395 was observed between the balances of 8 items of accounts included on the financial statements and the related balances shown in the books and schedules.

### **1.3.4 Accounts Receivable**

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- (i) Action had not been taken even during the year under review to settle the street light aid receivable amounting to Rs.607,693, income from water amounting to Rs.4,366,901, interest on properties amounting to Rs.97,763 and unsettled advances amounting to Rs.10,000 which continued to be brought forward in the accounts for many years.
  - (ii) Action had not been taken in terms of paragraph 4.3 of the letter No.PED/RED/2015/08/General (i) of 09 October 2015 of the Director General of Public Finance with regard to loans totalling Rs.204,085 remaining recoverable from 14 employees for many years.

### **1.3.5 Accounts Payable**

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Action had not been taken even during the year under review with regard to balances of work creditors totalling Rs.10,642,889 relating to 2 prior years and the balances of expenditure creditors of the years 2012 and 2014 totalling Rs.1,033,158.

### **1.3.6 Lack of Evidence for Audit**

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Age analysis and confirmation of balances relating to balances of debtors totalling Rs.6,241,976 and title deeds and evidence confirming entitlement of land totalling Rs.1,049,750 had not been furnished and as such these could not be examined and confirmed in audit.

### 1.3.7 Non-Compliance with Laws, Rules, Regulations etc.,

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Instances of non-compliance with laws, rules and regulation shown below were observed in audit.

<b>Reference to Laws, Rules, Regulations etc.,</b>	<b>Non-compliance</b>
(a) Decision of the Cabinet of Ministers No.15/Miscellaneous (051) of 21 May 2015.	An expenditure of Rs.184,784 had been incurred on behalf of the Provincial sports festival of the Hambantota District, contravening the decision of the Cabinet of Ministers referred to.
(b) Financial Regulation of the Republic of Sri Lanka 571 (3)	Action had not been taken to settle the lapsed balances of deposits amounting to Rs.591,910.

## 2. Financial Review

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### 2.1 Financial Results

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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.4,556,232 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.4,772,301. Accordingly, the financial results of the year under review shows a deterioration of Rs.216,069.

### 2.2 Analytical Financial Review

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The following matters are observed.

- (a) There had been an increase in recurrent expenditure over self production revenue during the past two years as well as the year under review.
- (b) The Sabha cannot cover its recurrent expenditure if not for the revenue aid it receives. But, the Sabha had not drawn its attention towards reducing its expenditure.

## **2.3 Revenue Administration**

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### **2.3.1 Rates and Taxes**

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According to Section 134(1) of the Pradeshiya Sabha Act No.15 of 1987, the area pertaining to rates and taxes should be identified, named and assessment reports obtained accordingly so as to recover rates and taxes. However, action had not been taken in this regard during the year under review too.

### **2.3.2 Lease Rent**

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The following matters are observed.

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 stall rent of Rs.1,875,076 as at end of the year under review.

### **2.3.3 Lease of stalls No.21 to No.25 of first floor of the Middeniya Shopping Complex Building and the Rest Room of the Second Floor**

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The following observations are made.

- (a) The second floor had been given on lease without following the government procurement procedure referred to in Rule 177 of the 1988 Pradeshiya Sabha (Financial and Administration) Rules Code.
- (b) Although 4 years had elapsed since the grant of lease, action had not been taken to enter into an agreement with the lessee in terms of Section 173 of the Pradeshiya Sabha Act No.15 of 1987, even by 30 April 2016.
- (c) The key money of Rs.200,000 had not been recovered upto 30 April 2016 with regard to the Stall No.25 in terms of Paragraph No.04 of the Circular of the Commissioner of Local Government No.දපපා/පපාකො/2010/01 dated 27 December 2010.
- (d) The monthly assessment rent of second floor and the stall had been recovered less by Rs.10,000 and Rs.400 respectively for 25 months resulting in a loss of revenue of Rs.300,000 to the Sabha.

### **2.3.4 Revenue from Machinery**

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A sum of Rs.955,026 was due as hire charges of machinery of the Sabha. The sum of Rs. 652,387 relating to the previous year and the sum of Rs.16,400 relating to 2013 had been included in this.

### **2.3.5 Court fines and Stamp Fees**

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Court fines amounting to Rs.453,306 and stamp fees amounting to Rs.5,015,470 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**

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A sum of Rs.1,050,000 had been provided in the budget under 3 items of expenditure for capital expenditure. However, the provision had not been utilized during the year and as such the entire provision had been saved by end of the year.

### **3.2 Management Inefficiencies**

#### **Non-investment of Excess Cash**

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Average excess cash amounting to Rs.1,217,299, Rs.903,390 and Rs.2,969,406 respectively were in existence in the Water Account, Fair Account and Operating Account during the year under review. However, the Sabha had not paid attention to earn additional revenue by investing those amounts.

### **3.3 Contract Administration**

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The following observations are made.

#### **3.3.1 Construction of Middeniya Fair**

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The following observations were made at an on the spot inspection carried out with regard to the construction of Middeniya Fair by spending Rs.27,489,444.

- (i) A drain pipe had been fixed by spending Rs.771,948. However, adequate supportive iron rods had not been made use of. As such the drain pipe had become bent and slanted.
- (ii) The floor of the building had cracked at certain places. Meanwhile, it was observed that there were cracks on the walls partitioned using block stones at an expense of Rs.381,997.
- (iii) A sum of Rs.50,000 had been paid by stating that a plastic water tank with a capacity of 2,000 litres had been supplied and installed with all accessories and supportives. However, a water tank was had not been installed at the premises of the fair.

- (iv) A sum of Rs.121,526 had been paid for laying of grass which could have been performed by community participation. Seven items of work aggregating Rs.1,017,000 which could have been performed by community participation had not been fulfilled even by 20 October 2015.
- (v) The construction work of the fair had been completed and handed over by the month of September 2014. But, it had not been made use of, even by 29 April 2016 and the fair had been conducted in a private land and on either side of the main road.

### **3.3.2 Construct of fence in the vicinity of Ritigahayaya Wewa and beautification of the garden therein**

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 The following matters were revealed at an inspection carried out regarding this work fulfilled at an expenditure totalling Rs.1,262,036.

- (i) A sum of Rs.35,000 had been paid to supply and install 2 garbage containers. But, the garbage containers had not been supplied and installed.
- (ii) A sum of Rs.35,402 had been paid to produce an iron fence with a length of 26.82 metres. However, 10 iron posts alone had been fixed and the iron fence had not been produced.
- (iii) Sixteen chairs of 4 sets of a round table and 4 concrete chairs installed in the flower garden by spending Rs.32,000 had been broken.
- (iv) Five per cent of community participation obtainable at an estimated expenditure had not been obtained.

## **4 Good Governance and Accountability**

### **4.1 Budgetary Control**

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 The entire provision of Rs.1,352,000 made for 31 items of expenditure amounting to Rs.1,352,000, expenditure exceeding the limit two other items of expenditure amounting to Rs.9,104,393 and the targets not achieved in respect of 2 items of revenue amounting to Rs.5,731,714 were observed in the budget for the year under review showing that the budget had not been utilized as an effective instrument of management control.

### **4.2 Implementation of Audit and Management Committees**

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 An Audit and Management Committee had not been established even by end of the year under review as required by the Management Audit Circular No.DMA/2009 (i) of 09 June 2009.

#### **4.3 Assets Management**

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Although recommendations had been made to recover the value of 159 items of goods belonging to 45 varieties identified as shortages at the board of survey conducted in 2014, action had not been taken in this regard even by 29 April 2016.

#### **4.4 Unsettled Liabilities**

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The total value of unsettled liabilities of the Sabha as at 31 December 2015 amounted to Rs.21,099,124 and it included the liabilities of Rs.11,676,046 of the previous year.

#### **5. Systems and Controls**

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Special attention of the Sabha is needed in respect of the following areas of control.

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