

**Devinuwara Pradeshiya Sabha  
Matara 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 the Audit on 24 March 2017 and the financial statements (amended) for the preceding year had been presented to the Audit on 15 March 2016 and the Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 26 July 2017.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Devinuwara Pradeshiya Sabha as at 31 December 2016 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

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**1.3.1 Accounting Deficiencies**

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The following accounting deficiencies were observed during the course of audit.

- (a) Expenditure of Rs. 200,500 spent in the previous year for improvement of fixed assets had not been capitalized under fixed assets.
- (b) Creditor balances with relating to the amount payable for constructing of side wall by Rs. 2,050,416 and capital expenditure for the year under review by Rs. 91,060 were overstated.
- (c) The 10 per cent retention amount aggregating Rs. 143,652 paid to 02 contracts under Maga Naguma work proposals and one work for one village had not been adjusted in accounts.
- (d) Retention amount payable as at the end of the year under review in 06 contracts of Rs. 408,653 and; industrial creditor balances and the net amount of capital expenditure of Rs. 94,648 had been understated in the financial statements.
- (e) The expenditure of Rs. 4,834,837 incurred during the year under review for 03 constructions had not been capitalized.

- (f) The expenditure of Rs. 228,973 incurred in the year under review to procure Roller shutter doors to fix in pavilion had been capitalized under furniture and equipment.
- (g) Book balances of Rs. 154,498 as at the end of the year under review in 02 libraries had been understated in the financial statements.

### **1.3.2 Unreconciled Control Accounts**

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Differences of Rs. 14,001,340 were observed between the balances of 15 items of account shown in the financial statements and the balances appearing in the subsidiary registers / schedules relating thereto.

### **1.3.3 Suspense Account**

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Steps had not been taken even during the year under review for the settlement of the balance of the Suspense Account amounting to Rs. 821,995 brought forward in the accounts from periods prior to the year 2007.

### **1.3.4 Accounts Receivables and Payables**

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The following observations were made.

- (a) Eighteen balances over 03 years period of Rs. 5,857,995 had been included in arrears sundry income balance aggregating Rs. 69,089,334 as at the end of the year under review.
- (b) Eleven balances over 03 years period of Rs. 1,809,064 had been included in industrial creditor balance aggregating Rs. 22,298,561 as at the end of the year under review.
- (c) Twenty-seven creditor balances over 03 years period of Rs. 2,430,998 had been included in sundry creditor balance aggregating Rs. 3,917,436 as at the end of the year under review.
- (d) A balance over 03 years period of Rs. 518,606 had been included in unpaid salary and wages balance aggregating Rs. 927,876 as at the end of the year under review.
- (e) Liabilities of Rs. 1,719,331 payable for contracts in Maga Naguma project had not been settled over 02 years.

### **1.3.5 Lack of Documentary Evidence Required for Audit**

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In view of the failure of produce the evidence such as properly maintained register of fixed assets and inventory register in respect of fixed assets totaling Rs. 170,063,358, the detailed schedules in respect of industrial debtor balance amounting to Rs. 17,324,742, payable refundable deposit balance of Rs. 7,082,374 and debtor (general) balance of Rs. 2,700,902, the schedules and

subsidiary registers in respect of industrial creditors balance amounting to Rs. 22,298,561, schedules and Registers of Deposits in respect of prepayments amounting to Rs. 381,006 and the construction file of a road for Rs. 495,168 could not be satisfactorily examined in audit.

### **1.3.6 Non-compliance with Laws, Rules and Regulations**

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- (a) Monthly reports with relating to no pay and half day no pay leave of 12 officers/employees engaged in Sabha service had not been presented to audit in terms of paragraph 21:11 and 22:04 of chapter xi of Establishment Code of the Republic of Sri Lanka.
- (b) Two cheques aggregating Rs. 207,570 had been issued even the sufficient cash balance were not available in the cash book contrary to 261 (3) of Financial Regulations of the Republic of Sri Lanka.

## **02. 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 2016 amounted to Rs. 31,055,043, as compared with the excess of recurrent expenditure over revenue amounting to Rs. 19,474,448 for the preceding year. Accordingly, the financial results for the year under review indicated an improvement of Rs. 11,580,595.

### **2.2 Analytical Financial Review**

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The following observations were made.

- (a) It was observed that total recurrent expenditure was almost 65 per cent from the total recurrent revenue of the year under review.
- (b) The recurrent expenditure had been increased more than the self-generated revenue by significant amounts in the three years and it was shown situation where recurrent expenditure could not be recovered at any mean from self-generated revenue.

### **2.3 Working Capital Management**

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Even though the current and quick ratios were 1: 2, it was observed that a liquidity position were in low level due to the existence of unrecovered balances older than 03 years amounting to Rs. 5,857,994 and 4,240,062 respectively in the debtor and creditor balances.

## **2.4 Revenue Administration**

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### **2.4.1 Rates and Taxes**

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The following observations were made.

#### **(a) Rates**

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While there was opening arrears balance amounting to Rs. 3,590,863, and a sum of Rs. 5,542,412 had to be recovered including the billings of Rs. 1,951,549 of the year. The arrears balance as at the end of the year was Rs. 4,119,123 due to the total recoveries was Rs. 1,423,289.

#### **(b) Acreage Tax**

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While there was opening arrears balance amounting to Rs. 62,425, and the billings of Rs. 5,753 of the year. The arrears as at the end of the year were Rs. 67,141 due to the total recoveries during the year was only Rs. 1,037.

### **2.4.2 Lease Rent**

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While there was opening lease rent arrears balance amounting to Rs. 7,704,649, and a sum of Rs. 11,463,545 had to be recovered including the billings of Rs. 3,758,896 of the year. The arrears balance as at the end of the year was higher as Rs. 8,622,267 due to the total recoveries was Rs. 2,841,278.

### **2.4.3 Other Revenue**

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The sum of Rs. 221,234 recoverable for hiring the JCB Machine during the year 2014 had not been recovered as at the end of the year under review.

### **2.4.4 Courts Fines and Stamp Duty**

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Courts fines amounting to Rs. 923,063 and the Stamp Duty amounting to Rs. 38,095,185 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at the end of the year under review.

## **03. Operating Review**

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### **3.1 Performance**

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#### **3.1.1 Implementing Progress in Capital Work Proposals**

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Even though the estimated capital expenditure for the year 2016 amounted to Rs. 184,810,000 the actual capital expenditure amounted to Rs. 31,723,953 thus it was 17 per cent from the estimated

expenditure. Though estimates had been prepared to complete 06 contracts of Rs. 16,700,000 by providing Sabha fund, only one contract of Rs. 2,238,495 had been started during the year. The work of that contract had also been completed as at the end of the year under review.

### **3.2 Management Inefficiencies**

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Following observations are made in this regard.

- (a) Twelve work proposals for Rs. 6,000,000 had been approved during the year under review under National Program of Pradeshiya Sabha strengthening, and only 6 contracts of Rs. 3,817,482 had been commenced during the year. A sum of Rs. 2,182,518 had not been received to Sabha from Ministry of Provincial and Local Government due to non-implementing of remaining 07 work proposals.
- (b) Actions had not been taken to fill 04 vacancies in secondary and primary posts as well as to streamline 11 excess cadre positions.
- (c) Steps had not been taken to settle VAT balance of Rs. 1,479,593 and Nation Building Tax balance of Rs. 174,500 carrying forward from before the last year.
- (d) Running charts had not been maintained properly for 06 assets and insurance cover had not been obtained for the year 2016 with relating to 03 vehicles. Though insurance cover had been obtained for Motor Grader by spending a sum of Rs. 1,211,621 it was not used for effective activity.

### **3.3 Operating Inefficiencies**

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Out of the amount of Rs. 9,131,650 received to Sabha in the year 2014 for the implementation of 19 work proposals under Maga Naguma Rural Development Project, a sum of Rs. 1,719,331 had been kept in a current account without making payments of Rs. 493,067 payable on completed contracts and 10 per cent retention money of Rs. 429,249 payable on 09 work proposals.

#### **3.3.1 Non Reimbursement of Interest on Property Loan**

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The difference of Rs.1,011,498 in the Bank interest on the property loans of 15 officers due for reimbursement from the Commissioner of Local Government with relating to the period from the year 2006 to year 2013 and the year 2015 had not been obtained as reimbursement even as at 31 December 2016.

### **3.4 Idle and Underutilized Assets**

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- (a) Six lands belonging to Sabha had not been utilized for effective activity.
- (b) Two assets belonging to Sabha at a cost of Rs. 1,017,473 were remained idle and 06 more assets of Rs. 54,504,382 were remained in underutilized.

### **3.5 Solid Waste Management**

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The following observations were made.

- (a) Environment license had not been obtained by the Sabha for the lands using for solid waste management as per the Circular No.1533/16 dated on 25 January 2008 issued in accordance with the National Environment Act No. 47 of 1980 amended with Acts Nos. 53 of 2000 and 56 of 1988.
- (b) Though a land extent of 04 acres had been acquired by spending a sum of Rs. 2,700,000 from Sabha fund on 11 December 2014 by the Sabha for waste management, land had not been used and proper actions had not been implemented to protect the land.
- (c) The crumble garbage collected by the Sabha has been dumped into a private land without making any payment, and a sum of Rs. 20,585,784 had been spent during the year under review to collect garbage.

## **04. Accountability and Good Governance**

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### **4.1 Budgetary Control**

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It was observed that the budget of the year under review had not been made use of as an effective instrument of management control. The budgeted limits of 03 expenditure items had been exceeded by Rs. 522,611 and, savings aggregating Rs. 19,096,721 in 05 expenditure votes and non-achieving targets aggregating Rs. 14,800,898 in 04 revenue votes had been remained.

### **4.2 Internal Audit**

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The following observations were made.

An adequate internal audit had not been carried out as specified in the Financial Regulations 133 and 134 of the Financial Regulations of the Republic of Sri Lanka and the Circular No. SPLA/G/01/MCC dated 24 February 2014 of the Commissioner of Local Government of the Southern Province. However, a sum of Rs. 421,668 had been paid to the Internal Audit Officer as salaries and allowances in the year under review.

### **4.3 Audit and Management Committee**

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Action in terms of the provisions in the Management Audit Circular No.DMA/2009(i) dated 09 June 2009 had not been taken even by the end of the year under review for the establishment of the Audit and Management Committee.

**5. Systems and Controls**

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Special attention of the Sabha should be drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Budgetary Control