

Dikwella Pradeshiya Sabha
Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been presented to the Audit on 07 April 2017 and the financial statements for the preceding year had been presented to the Audit on 11 November 2016 and the Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 21 August 2017.

2.1 Qualified Opinion

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 Dikwella 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

1.3.1. Accounting Deficiencies

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

- (a) A sum of Rs. 583,472 received for the year under review under Pradeshiya Sabha strengthen program had been omitted from accounts.
- (b) Capital grants of Rs. 1,022,982 received for the previous year had been shown in the financial statements as capital grants for the year under review.
- (c) The reimbursement of arrears salary of Rs. 1,379,276 for the previous years had been accounted under revenue grants for the year under review.
- (d) Loan balance of Rs. 5,086,387 in Domestic Loan Development Fund and annual interest expenditure of Rs. 971,125 had been understated in the balance sheet.
- (e) The constructions of Rs. 4,746,628 completed during the previous year and year under review; and the expenditure of Rs. 691,000 incurred for excavator machine had not been capitalized.
- (f) Rates revenue of Rs. 1,089,027, receivable capital grants of Rs. 97,723 and stamp fees revenue of Rs. 12,008,640 for the year under review had been understated in financial statements.

- (g) Creditor provision had not been made with relating to the contribution of Rs. 2,300,069 payable to Local Government Pension Fund.
- (h) A difference of Rs. 758,376 was shown between the balance of fixed assets account and balance of contribution from capital income account which should be set off each other.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs. 222,472,250 were observed between the balances of 08 items of account shown in the financial statements and the balances appearing in the subsidiary registers / schedules relating thereto.

1.3.3 Accounts Receivables and Payables

The following observations were made.

- (a) Balances over 03 years period of Rs. 16,939,388 had been included in sundry debtor balance aggregating Rs. 41,173,456 as at the end of the year under review.
- (b) Balances over 03 years period of Rs. 94,962,950 had been included in industrial creditor balance aggregating Rs. 125,166,400 as at the end of the year under review.
- (c) Balances of similar deposits and security bond deposit as at the end of the year under review was aggregating Rs. 2,182,304 and a balance of Rs. 2,075,304 which was over 03 years had been included in those balances.

1.3.4 Lack of Documentary Evidence for Audit

In view of the failure to produce evidence such as title deeds and land and building registers prepared and updated properly in respect of land and building totaling Rs. 98,822,776, properly updated debtor and creditor registers with relating to industrial debtor and creditor balances aggregating Rs. 166,339,858, properly updated usage registers with relating to library books of Rs. 3,967,460 and revenue registers for arrears sundry income of Rs. 155,250,788 could not be satisfactorily examined in audit.

1.3.5 Non-compliance with Laws, Rules and Regulations

According to the paragraph 396 (d) of Financial Regulation of the Republic of Sri Lanka, actions had not been taken with relating to 09 cheques aggregating Rs. 594,346 which was issued but not presented for payments over 06 months period.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs. 21,068,210 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year was Rs. 20,227,667. Accordingly, the financial result for the year under review is indicated an improvement of Rs. 840,543.

2.2 Analytical Financial Review

The following observations were made.

- (a) It was observed that the total recurrent expenditure represented more than 74 per cent of the total recurrent revenue of the year under review.
- (a) The recurrent expenditure had been increased more than the Self-generated Revenue by significant amounts in the year under review as well as the previous two years and it was shown situation where recurrent expenditure could not be recovered at any mean from Self-generated Revenue if not receiving revenue grants.

2.3 Working Capital Management

Even though the current and quick ratios were 1:1.7, it was observed that a liquidity position according to the current ratio does not exist due to the existence of unrecovered balances older than 03 years amounting to Rs. 16,939,388 and 84,962,950 respectively in the debtor and creditor balances.

2.4 Revenue Administration

2.4.1 Rates

While there was opening arrears balance amounting to Rs. 2,599,147, and a sum of Rs. 6,080,845 had to be recovered including the billings of Rs. 3,481,698 of the year. The arrears balance as at the end of the year was higher as Rs. 3,285,531 due to the total recoveries was Rs. 2,795,314.

2.4.2 Lease Rent

While there was opening lease arrears balance amounting to Rs. 1,783,182, and a sum of Rs. 4,368,095 had to be recovered including the billings of Rs. 2,584,913 of the year. The arrears as at the end of the year were Rs. 1,696,781 due to the total recoveries was Rs. 2,671,314.

2.4.3 Other Revenue

According to the paragraph 149 of Pradeshiya Sabha Act, though tax could be collected annually up to 01 per cent from hotels registered in Tourism Development Authority of Sri Lanka, tax had not been collected from 07 hotels registered in the area of the authority of the Sabha through properly calculated income statements. The loss of income to Sabha only from 03 hotels was Rs. 1,535,860.

2.4.4 Courts Fines and Stamp Duty

Courts fines amounting to Rs. 1,268,890 and the Stamp Duty amounting to Rs. 45,360,160 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.

3. Operating Review

3.1 Performance

3.1.1 Implementing Progress in Capital Work Proposals

According to the budget, the estimated capital expenditure was Rs. 33,550,000 and the actual capital expenditure was Rs. 42,287,093. Capital expenditure incurred under General Administration Program had been exceeded by 60 per cent from the estimated expenditure. The performance in balance 03 programs was ranging from 0.1 per cent to 28.9 per cent.

3.2 Management Inefficiencies

3.2.1 Human Resources Management

Following observations are made in this regard.

- (a) Actions had not been taken to fill 04 secondary and primary vacancies as well as to streamline excess recruitments made in 16 tertiary, secondary and primary posts.
- (b) An expenditure of Rs. 3,162,778 had been incurred from Sabha fund in the year 2016 for salary and allowances, contribution to Employee Provident Fund and contribution to Employee Trust Fund of 12 auxiliary employees recruited without complying with the directions in Public Administration Circular No. 25/2014 dated on 12 November 2014.

3.3 Idle and Underutilized Assets

The following observations were made.

- (a) Two vehicles at a cost of Rs. 2,425,000 and another vehicle without mentioning the value belonging to Sabha had been kept idle from the year 2014 and the Roller received as donation had only been utilized for 3.5 machine hours during the year under review.
- (b) Five lands belonging to Sabha had not been utilized for any useful activity.

3.4 Uneconomic Transactions

The following observations were made.

- (a) A sum of Rs. 929,633 had been paid to Sabha health workers as commission for collecting of garbage from the year 2012 to 2016.
- (b) Legal fees of Rs. 427,500 had to be paid with regarding the Court cause on constructing a crematorium without the authority which was continue from the year 2010 to the year 2016 without coming into a settlement.

3.5 Contract Administration

The following observations were made.

- (a) According to the budget estimate of the year, though it was planned to implement 44 work proposals of Rs. 26,500,000 by the Sabha under sundry provisions, 03 contracts of Rs. 4,500,000 had only been implemented during the year.
- (b) Eight contracts of Rs. 4,650,855 had been implemented by the Sabha from Sabha Funds which the provision had not been made under the budget, and the expenditure of those 08 contracts had been Rs. 5,167,617.

3.6 Solid Waste Management

The following observations were made.

- (a) A sum of Rs. 5,780,572 had been spent during the year under review for salaries and allowances, fuel and vehicle maintenance of solid waste management and the revenue of Rs. 1,590,050 had been generated from collecting of garbage.
- (b) No any revenue had been generated from bio gas unit established by spending a sum of Rs. 1,010,712 under Pilisar project and it was idle at the time of inspection. Therefore the amount spent on this was a fruitless expenditure.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the budget had not been made use of as an effective instrument of financial management control due to the savings aggregating Rs. 4,760,394 in 04 expenditure votes, adverse variation of Rs. 3,697,826 in further 04 expenditure votes included in the budget for the year under review, non-achieving targets aggregating Rs. 596,923 in a revenue vote.

4.2 Internal Audit

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. 448,176 had been paid to the Internal Audit Officer as salaries and allowances in the year under review.

4.3 Audit and Management Committee

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

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

- (a) Accounting
- (b) Assets Management
- (c) Revenue Collection
- (d) Budgetary Control