

Hakmana 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 29 March 2017 and the financial statements for the preceding year had been presented to the Audit on 22 July 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.

1.2 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 Hakmana 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) Receivables of Rs. 508,506 for the year under review under Pradeshiya Sabha Strengthening Programme had not been accounted.
- (b) Construction expenditure of Rs. 2,720,782 and fixed assets procured by spending a sum of Rs. 332,121 in the year under review had not been capitalized.
- (c) Value of 05 computer and accessories received to Sabha as grants had not been accounted under fixed assets.
- (d) Under provision had been made in the year under review as debtors and creditors with relating to 03 contracts for Rs. 1,822,370 and debtors and creditors provision of Rs. 1,106,399 had not been made with relating to another 07 contracts.
- (e) The value of the multi-purpose building constructed in the year 2013 by spending a sum of Rs. 1,188,192 and the land had not been accounted as Sabha assets.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs. 2,595,614 were observed between the balances of 14 items of account shown in the financial statements totaling Rs. 10,991,744 and the balances appearing in the subsidiary registers / schedules relating thereto.

1.3.3 Suspense Account

Actions had not been taken even in the year under review to adjust and settle accounts by identifying debit balance of Rs. 873,211 in suspense account which was continuously carrying forward in accounts without taking steps to settle.

1.3.4 Accounts Receivables and Payables

The following observations were made.

- (a) A balance over 03 years period of Rs. 49,990 had been included in industrial debtor balances aggregating Rs. 6,990,621 as at the end of the year under review.
- (b) Ninety two balances over 03 years period of Rs. 5,125,991 had been included in industrial creditor balances aggregating Rs. 14,073,427 as at the end of the year under review.
- (c) Two hundred and forty balances over 03 years period of Rs. 2,746,771 had been included in tender deposits, mix deposits and similar deposits balances aggregating Rs. 6,744,350 as at the end of the year under review.
- (d) Actions had not been taken even in the year under review to settle 07 refundable deposit balances aggregating Rs. 608,228 which was continuously carrying forward from previous years without settling.

1.3.5 Lack of Documentary Evidence for Audit

In view of the failure to produce evidence such as the Register of Fixed Assets and the Reports of the Annual Boards of Survey prepared and updated properly in respect of assets totaling Rs. 195,790,360, the properly updated Registers of Sundry Debtors and Creditors aggregating Rs. 6,990,621 and 14,073,427 respectively, the updated loan register and the confirmation of balances in respect of loan balance of the Local Loans Development Fund aggregating Rs.2,385,235, the detailed schedules in respect of deposit balances totaling Rs.1,455,041, could not be satisfactorily examined in audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

According to the Financial Regulation of the Republic of Sri Lanka 571, actions had not been taken with relating to tender deposits and mixed deposits payables aggregating Rs. 2,077,689 which was remaining over 03 years period.

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 2016 amounted to Rs. 7,636,949, as compared with the excess of recurrent expenditure over revenue amounting to Rs. 1,177,140 for the preceding year. Accordingly, the financial results for the year under review indicated an improvement of Rs. 6,459,809.

2.2 Analytical Financial Review

The following observations were made.

- (a) The total recurrent expenditure represented more than 84 per cent of 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 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.

2.3 Revenue Administration

2.3.1 Rates and Taxes

(a) Rates

While there was opening arrears amounting to Rs. 432,920, and a sum of Rs. 1,434,591 had to be recovered including the billings of Rs. 1,001,671 of the year. The arrears as at the end of the year were Rs. 748,219 due to the total recoveries was Rs. 686,372.

(b) Acreage Tax

While there was opening arrears amounting to Rs. 46,560, and billings was Rs. 7,790. The arrears as at the end of the year were Rs. 49,230 due to the total recoveries during the year was Rs. 5,120.

2.3.2 Lease Rent

While there was opening arrears amounting to Rs. 226,129, and a sum of Rs. 2,499,202 had to be recovered including the billings of Rs. 2,273,073 of the year. The arrears as at the end of the year were Rs. 367,232 due to the total recoveries was Rs. 2,131,970.

2.3.3 Courts Fines and Stamp Duty

Courts fines amounting to Rs. 665,037 and the Stamp Duty amounting to Rs. 9,246,695 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

According to the budget estimate of the year, though it was planned to implement 32 work proposals of Rs. 5,600,000 under sundry provisions by the Sabha, no any work proposal had been implemented. However 06 contracts aggregating Rs. 5,997,175 which was not included in the budget estimate had been implemented during the year under sundry provisions.

3.2 Management Inefficiencies

3.2.1 Human Resources Management

Actions had not been taken to fill 05 vacancies in secondary and primary posts and streamline 13 excess staff in every posts of the Sabha cadre.

3.2.2 Staff Loan

Staff loan balance of Rs. 4,435,909 were remained as at the end of the year under review and that was included 03 balances of Rs. 240,190 remained without recovering instalment and interest over 03 years period.

3.3 Operating Inefficiencies

A sum of Rs. 4,686,382 with relating to 76 voucher request for retention deposit of 10 per cent received to Sabha from the year 2013 under Maganaguma project had not been paid to contractors even as at 20 June 2017.

3.4 Transactions of Contentious Nature

An amount of Rs. 4,636,078 received for the payment of retention money relating to 94 contracts commenced under Maganaguma Projects in Hakmana Pradeshiya Sabha from the year 2012 to

the end of the year 2015 had been used for the payment of salaries and allowances of the employees recruited by the Sabha without using for the intended purpose.

3.5 Idle and Underutilized Assets

The following observations were made.

- (a) Though 05 vehicles valued at Rs. 470,000 were remained idle, actions had not been taken to use for running by getting them repaired or to dispose.
- (b) Body building sets received as donations were remained idle from the year 2011 and cement blocks machine at a cost of Rs. 130,862 were remained idle from the year 2010.

3.6 Solid Waste Management

Even though the land had been procured by making a payment of Rs.1,000,000 from Sabha funds in the year 2012 to construct organic fertilizer manufacturing yard in view of solid waste management, that work had not been commenced. Actions had not been taken to lay soil by disposing collected garbage in to a land without grading. Even though a sum of Rs. 7,388,651 for the year under review and a sum of Rs. 25,247,827 for the previous 05 years had been spent for waste management, no any revenue could have been generated.

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. 5,037,007 in 06 expenditure votes budgeted in the year under review and non-achieving targets aggregating Rs. 2,123,510 in 04 revenue votes.

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. 439,720 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