

**Pitabeddara 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 (amended) for the preceding year had been presented to the Audit on 09 April 2016 and the Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 15 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 Pitabeddara 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) The land value of Rs. 940,000 belonging to Sabha had not been capitalized.
- (b) The cost of Rs. 22,312 auctioned furniture equipment and fittings had not been transferred from cost accounts.
- (c) The value of Motor vehicles and Cart received to Sabha in the previous year had been understated by a sum of Rs. 7,341,499 in the financial statements.
- (d) The construction cost of the car park was overstated by Rs. 230,100 and the cost of Ayurveda building was understated by Rs. 81,524 which were included in the balance of land and building.
- (e) A sum of Rs. 1,225,940 returned to Pilisaru project due to non-constructing of compost yard had been accounted as capital expenditure.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs. 51,718,700 were observed between the balances of 09 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. 26,292,259 had been included in capital grant debtor balance aggregating Rs. 44,127,493 as at the end of the year under review.
- (b) Balances over 03 years period of Rs. 22,284,694 had been included in expenditure creditor balance aggregating Rs. 41,352,147 as at the end of the year under review.
- (c) Steps had not been taken even in the year under review to settle Value Add Tax account balance aggregating Rs. 624,939 which was continuously carrying forward from previous years without settling.
- (d) Payments of Rs. 7,086,710 had not been completed for 10 contracts even after the laps of two years which was completed construction during the year 2014 under Dorin Dorata Gamin Gamata National Program.

1.3.4 Lack of Documentary Evidence Required for Audit

In view of the failure to produce evidence such as prepared and properly updated register of fixed assets and title deeds in respect of the land and building totaling Rs. 46,619,524 and plant and machinery, motor vehicles and carts, and furniture and fittings totaling Rs. 70,438,349, the properly updated debtor, creditor registers and age analysis with relating to capital grants debtors and expenditure creditor balances aggregating Rs. 41,352,147, could not be satisfactorily examined in audit.

1.3.5 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 80 retention deposit balances payable of Rs. 893,450 which was remaining over 03 years period.

02. 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. 5,368,175, as compared with the excess of recurrent expenditure over revenue amounting to Rs. 6,205,713 for the preceding year. Accordingly, the financial results for the year under review indicated a deterioration of Rs. 837,538.

2.2 Analytical Financial Review

The following observations were made.

- (a) It was observed that the total recurrent expenditure represented more than 87 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 previous three 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 normal status was shown in current and quick ratios, it was observed that a liquidity position does not exist due to the existence of unrecovered balances older than 03 years amounting to Rs. 26,292,259 in the debtor balance.

2.4 Revenue Administration

2.4.1 Performance in Revenue Collection

2.4.2 Rates and Taxes

The following observations were made.

(a) Rates

Even though 10 Grama Niladari Division in the area of authority of the Sabha had been declared as developed areas by the Gazette No. 1824 dated 28 February 2010, rates recovery procedure had not been established even up to the end of the year under review.

(b) Acreage Tax

While there was opening arrears balance amounting to Rs. 229,533, and a sum of Rs. 261,624 had to be recovered including the billings of Rs. 32,091 of the year. The arrears balance as at the end of the year was Rs. 258,147 due to the total recoveries was Rs. 3477.

2.4.3 Lease Rent

While there was opening arrears balance amounting to Rs. 1,403,418, and a sum of Rs. 6,200,663 had to be recovered including the billings of Rs. 4,797,245 of the year. The arrears balance as at the end of the year was Rs. 1,203,444 due to the total recoveries during the year was

Rs. 4,997,219. Actions in terms of Section 159 (1) of the Pradeshiya Sabha Act had not been taken to recover the arrears amount.

2.4.4 Courts Fines and Stamp Duty

Courts fines amounting to Rs. 1,715,566 and the Stamp Duty amounting to Rs. 10,978,811 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at 31 December 2016.

03. Operating Review

3.1 Performance

The following observations were made.

- (a) Though the completion dates of two contracts of constructing market stall for Rs. 19,015,491 under sundry allocations had been lapsed over two years, relevant actions had not been taken to complete the work of those contracts even as at 25 May 2017.
- (b) The estimated capital expenditure for the year 2016 amounted to Rs. 53,675,000 whilst the actual capital expenditure amounted to Rs. 2,187,893. As such the progress of execution of the capital works were at a level less than 4 per cent.

3.2 Management Inefficiencies

3.2.1 Human Resources Management

Actions had not been taken to fill 04 secondary and primary vacancies as well as to streamline excess recruitments made in 11 tertiary and primary posts.

3.2.2 Payment of Legal Fees

A sum of Rs 1,394,500 had been paid to the same Lawyer with relating to 33 appearances in 02 causes filed against the Sabha from the year 2015, and proper procedure had not been made available in paying of Lawyer fees.

3.2.3 Interest on Property Loans

A difference of Rs. 234,515 representing the Bank interest on the property loans taken by the officers of the Sabha had not been reimbursed by the Commissioner of Local Government even by the end of the year under review.

3.3 Contracts Administration

Only 02 projects had been implemented by spending a sum of Rs. 600,000 from the advanced amount of Rs. 1,000,000 received from the allocation of Rs. 2,050,000 approved for 06 projects during the year 2016 under National Program of Pradeshiya Sabha Strengthening. The relevant allocations had not been received due to non-implementing of the balance 04 projects of Rs. 1,450,000.

3.4 Delay in Projects

A sum of Rs. 210,000 received under Members Allocations of Southern Provincial Development Plan for the program from the year 2013 to 2016 with relating to 05 contracts had not been implemented even up to 31 May 2017.

3.5 Solid Waste Management

The following observations were made.

- (a) Action had been taken to hand over crumble waste collected daily to 06 private fertilizer manufactures with free of charge.
- (b) Though land with the extend of 8.4266 hectares had been acquired on 22 April 2015 by paying a survey charge of Rs. 83,984 that land had not been utilized for dumping the garbage.
- (c) A sum of Rs. 1,225,940 which had been given under Pilisaru project had been taken back due to non-constructing of compost yard.

04. 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 making expenditure of Rs. 878,591 made by exceeding the limit of an item of expenditure, the savings aggregating Rs. 4,118,254 in 07 expenditure votes, non-achieved target revenue aggregating Rs. 1,409,345 in 03 items of revenue votes included in the budget for the year under review.

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, a sum of Rs. 421,185 had been paid to the Internal Audit Officer deployed by the Sabha 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) Budgetary Control
- (c) Revenue Collection
- (d) Assets Management