

## **Lahugala Pradeshiya Sabha**

### **Ampara District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

The financial statements for the year 2016 had been presented to audit on 31 March 2017 and the financial statements for the preceding year had been presented on 05 April 2016. The Report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 16 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 Lahugala Pradeshiya Sabha as at 31 December 2016 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Policies**

The accounting policies adopted in the presentation of financial statements had not been furnished along with the financial statements.

###### **1.3.2 Accounting Deficiencies**

The following accounting deficiencies are observed.

- (a) As per the Boards of Survey Reports, it was revealed that the 1,537 library books of the Sabha were misplaced. Nevertheless, action had not been taken to assess the value of those books and eliminate from the accounts.
- (b) Action had not been taken to assess the value of the books of the Public Library, Panama which were destroyed due to the floods arised in the month of December 2014.
- (c) The revenue directly deposited to the bank by the revenue inspector amounting to Rs.18,435 had not been brought to account.
- (d) The balance of the accumulated fund account as at the end of the year under review, in the general ledger amounted to Rs.142,379,662 but the value of the balance sheet had been Rs.144,866,662. As such, the value had been overstated by Rs.2,487,000.

- (e) Even though, there was no balance in the revenue contribution to capital outlay account as at the end of the year under review as per the general ledger, the balance was shown as Rs.23,565,941 in the balance sheet. As such equity of the balance sheet had been overstated by similar amount.
- (f) As per the general ledger the balance of the cash in hand account as at the end of the year under review amounted to Rs.1,528,086. Nevertheless, the cash in hand had been shown as Rs.1,938,960 in the balance sheet and as such the current liabilities had been overstated by Rs.410,874.
- (g) The values of the cab vehicle, crew cab vehicle and the tipper belonging to the Sabha valued at Rs.17,141,884 had not been shown and as such the fixed assets had been understated by similar amount.
- (h) The values of the tractor and trailer belonging to the Sabha of which the value could not be identified had not been assessed and brought to account.
- (i) Even though, the opening balance of the Bank of Ceylon current account as per the cash book amounted to Rs.294,368 the value of the account was shown as Rs.2,794,368 overstating by Rs.2,500,000.
- (j) The trade licence fees amounting to Rs.27,000 receivable for the year 2016 from the telecommunication transmission towers installed in the authoritative area of the Sabha had not been brought to account.
- (k) According to the particulars made available in audit as at 31 December 2016 no any investment was made available in the Sabha. Nevertheless, a sum of Rs.1,174,478 had been shown as investments in the balance sheet and as such the current assets had been overstated by similar amount.

### 1.3.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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 The following non-compliances with laws, rules, regulations and management decisions were observed.

<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Non-compliance</b>
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(a) Pradeshiya Sabha Rules 180	The officers who performed duties relating to collection of revenue, stores control and issuing cheques had not furnished security.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.  
Financial Regulation 396 (d) Action had not been taken on 09 cheques issued and lapsed over 06 months valued at Rs.18,254.
- Financial Regulation 371 Action had not been taken to settle 10 advances valued at Rs.86,066 issued during the period from 1988 to 2012 even by 31 December 2016.
- Financial Regulation 389 (b) A cheque had been handed over without being proved the identification of the payee.
- Financial Regulation 571 Action had not been taken on 07 lapsed Deposits over 02 years as at 31 December of the year under review amounting to Rs.637,363.
- Financial Regulation 1647 (e) A Register of Motor Vehicles in respect of 21 motor vehicles of the Sabha had not been maintained.
- Financial Regulation 1646 The Monthly Performance Summaries and the Daily Running Charts in respect of 21 motor vehicles had not been furnished to the Auditor General.
- (c) Treasury Circulars  
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Treasury Circular No.842 of 19 December 1978 Even though, there were fixed assets valued at Rs.162,535,506 belonging to the Sabha, a Register of Fixed Assets including above assets had not been maintained.
- Treasury Circular No. IAI/2002/02 dated 28 November 2002. Even though, there were 09 computers belonging to the Sabha, a separate register had not been maintained by the Sabha in respect of Computers and Computer Accessories.
- (d) Public Administration Circular No.30/2016 dated 29 December 2016. A fuel consumption test for any of the vehicle of the Sabha had not been carried out.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the operations of the Pradeshiya Sabha for the year ended 31 December 2016 had resulted in an excess of recurrent expenditure over recurrent revenue amounted to Rs.647,966 as against the excess of revenue over recurrent expenditure for the preceding year amounting to Rs.3,490,626. Accordingly, a decline of Rs.4,138,592 was observed in the financial results.

### 2.2 Analytical Financial Review

In analyzing of recurrent revenue for the year under review as compared with that for the preceding year, a decrease in a range from 26 per cent to 1,593 per cent was shown with regard to the revenue sources such as lease rent, license fees and service charges, and other grants and a decrease in a range from 33 per cent to 77 per cent was shown with regard to the revenue sources such as fines and warrant charges and other revenue.

In analyzing recurrent expenditure for the year under review as compared with that for the preceding year an increase in a range of 13 per cent to 311 per cent was shown with regard to the expenditure items such as salaries and allowances, supplies and equipment repairs to capital assets, and grants and a decrease in a range from 07 per cent to 54 per cent was shown with regard to the expenditure items such as travelling, transport, and pension payments.

### 2.3 Revenue Administration

#### 2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information with regard to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review as furnished by the Chairman appears below.

<b>Item of Revenue</b>	<b>Estimated Revenue for the year 2016</b>	<b>Actual Revenue for the year 2016</b>	<b>Accumulated arrears as at 31 December 2016</b>
	Rs.	Rs.	Rs.
Lease Rent	750,000	912,292	200
Licence Fees	205,000	138,500	26,783
Service Charges	295,000	40,906	-
Warrant Charges and Fines	2,505,000	897,577	-
Other Revenue	625,000	226,155	-

### **2.3.2 Performance in Collection of Revenue**

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The following matters were observed.

- (a) An initial fee of Rs.160,000 at the rate of Rs.20,000 per tower at least had not been recovered for 08 telecommunication towers out of 09 towers installed in the authoritative area of the Sabha in terms of the Gazette Notification No.1597/8 dated 19 April 2009.
- (b) Action had not been taken to recover trade licence fees amounting to Rs.27,000 recoverable for the year 2016 for those 09 telecommunication towers.
- (c) Necessary action had not been taken to recover Rs.26,563 receivable as arrears of trade licence fees.

### **3. Operating Review**

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#### **3.1 Management Inefficiencies**

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The following matters were observed.

- (a) One thousand five hundred and thirty seven library books were misplaced by the end of December 2014 in the libraries belonging to the Sabha. The value of 1,040, books for which the value could be identified out of those books amounted to Rs.947,645. But action had not been taken to identify the responsible officers thereon.
- (b) Action had not been taken up to now, with regard to 933 books which had been recommended for disposal by the Boards of Surveys since 11 years ago.
- (c) The water bowser sent for repairs to a garage in the year 2010 had not been returned to the Sabha, but no action whatsoever had been taken thereon.
- (d) Action had not been taken to recover staff loans recoverable from 04 employees from the beginning of the year under review amounting to Rs.14,200.
- (e) Stamp fees recovered from the year 2010 amounting to Rs.85,103 which had to be remitted to the Department of Inland Revenue had been retained up to now without being remitted.
- (f) Action had not been taken to vesting the ownership of 16 motor vehicles utilized by the Sabha. Even though, a concessionary period had been given in the year 2016 to transfer the ownership, the course of action for vesting of the ownership had not been carried out during that period. Therefore, a fine at the rate of Rs.100 per day for delay for each vehicle could be charged and as such it would have been paid a fine of Rs.584,000 per year in vesting of the ownership of these motor vehicles.

### **3.2 Management Inefficiencies**

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The following matters were observed.

- (a) Revenue licences and insurance certificates had been obtained only for 05 motor vehicles out of 14 motor vehicles which were in running condition belonging to the Sabha while the revenue licences and insurance certificates had not been obtained for other motor vehicles.
- (b) No action whatsoever had been taken by the Sabha up to now in respect of the unusable articles under General 49 format according to the Boards of Survey Reports for the years 2013, 2014 and 2015.
- (c) Even though seven motor vehicles of the Sabha had remained in the repairable condition, those vehicles had been parked in the Sabha premises without being repaired up to now.
- (d) Even though, the work of the Trading Complex, Lahugala constructed by incurring a sum of Rs.4.2 million under Puraneguma Project had been completed by 22 December 2016, it had not been declared open up to now. Action had not been taken by the Sabha for proper vesting of the ownership of the land on which situated above building.

### **3.3 Contract Administration**

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In awarding contracts for the Community Based Organizations as per the Procurement Guidelines, the total number of contracts executed by a Society during a specified period should not be exceeded 03 contracts and the total value of the contracts should not be exceeded Rs.02 million. Nevertheless, the Sabha had awarded 08 projects amounting to Rs.13,962,593 to same Society during the year under review.

## **4. Accountability and Good Governance**

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### **4.1 Budgetary Control**

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Variances ranging from 07 per cent to 172 per cent were observed between the budgeted expenditure and the actual expenditure in the year under review thus indicating that the Budget had not been made use of as an effective instrument of management control.

### **4.2 Annual Procurement Plan**

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An Annual Procurement Plan for the year 2016 had not been prepared by the Sabha in terms of the National Budget Circular No.128 issued on 24 March 2006.

## 5. Systems and Controls

Special attention of the Sabha is needed in respect of the following areas of systems and controls.

<b>System</b>	<b>Area needed attention</b>
(a) Revenue Administration	i Recovery of arrears of revenue. ii Imposing of by-laws. iii Identification of revenue sources.
(b) Budgetary Control	- Preparation of the Budget Properly.
(c) Stores Administration	- Storing of articles in a manner to check accuracy quickly.
(d) Assets Control	- Vesting of ownership of fixed assets.
(e) Accounting	- Accounting of assets