

**Elpitiya Pradeshiya Sabha
Galle 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 31 March 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 11 November 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Elpitiya Pradeshiya Sabha give a true and fair view of the financial position 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 Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The rates and taxes obtained for the year under review had been overstated in the accounts by Rs.29,252 and as such the outstanding balance of rates and taxes had been understated by a similar amount.
- (b) The sum of Rs.97,412 recoverable from a driver who had been found fault for the accident caused to a vehicle of the Sabha during the previous year had been brought to account as revenue of the year under review resulting in an overstatement of revenue for the year.

1.3.2 Unreconciled Control Accounts

A difference of Rs.5,341,692 was observed between the balances of 05 items of accounts aggregating Rs.23,399,856 as per financial statements and the balances shown in the subsidiary registers and reports.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken even during the year under to review to recover the revenue from hire charges of Rs.208,280 of the Becko Machine remaining as receivable for over 03 years.

- (b) A sum of Rs.15,298,351 was due from the Commissioner of Local Government on behalf of the development projects executed within the authoritative area of the Sabha by end of the year under review. This had not been recovered even during the year under review. Of this, a sum of Rs.6,624,192 belongs to the period prior to the preceding year.
- (c) A sum of Rs.1,401,309 was payable for 08 development projects of the year under review and for the project executed prior to the previous years executed within the authoritative area of the Sabha. Action had not been taken to settle this even by end of the year.

1.3.4 Lack of Evidence for Audit

A register of fixed assets containing details of updated classification of assets aggregating Rs.110,273,732, the details of land and the institution for which a compensation of Rs.684,000 had been granted and schedules of ayurvedic stocks and stock of stores totally valued at Rs.928,068 had not been furnished and as such these could not be satisfactorily verified in audit.

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliance with laws, rules and regulations were observed in audit.

Reference to Laws, Rules, Regulations etc.,	Non - compliance
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(a) 1988 Pradeshiya Sabha (Finance and Administration) Rule 218	The land and buildings of the Sabha had not been verified at least once a year.
(b) Circular No. දපපා/පපාකො 2010/01 of 27 December 2010	Action had not been taken to renew the lease agreements of 55 stalls and 30 pavement stalls. The agreements entered into had exceeded 20 years.
(c) Circular No.PE/02/01 of 17 August 2010 of the Ministry of Power and Energy	A register of street lamps had not been maintained and approval had not been obtained for new street lamps. As such, the sum of Rs.378,443 spent on maintenance of street lamps could not be reimbursed.

2. Financial Review

2.1 Financial Results

According to the financial statements presented for audit, the excess of revenue over recurrent expenditure for the year ended 31 December 2016 amounted to Rs.14,080,170 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.21,428,007. The financial results for the year under review had declined by Rs.7,347,837 as compared with the preceding year.

2.2 Working Capital Management

A comparison of the position of the previous year with the position of the year under review showed a satisfactory position regarding the current and the quick ratios. However, it was observed that the presence of capital aid receivable amounting to Rs.15,298,351 in the current assets and the arrears of debtors amounting to Rs.23,651,170 shows that the liquidity position was not in accordance with the ratios.

2.3 Revenue Administration

2.3.1 Rates and Taxes

The following matters were observed.

- (a) The rates and taxes recoverable for the year under review and the previous years aggregated to Rs.12,693,379 whereas the amount recovered during the year under review was at a low level of 21 percent. As a result, the arrears of rates and taxes of Rs.9,162,732 as at commencement of the year had increased up to Rs.10,048,619 by end of the year.
- (b) Out of the acreage tax totalling Rs.358,290 recoverable for the year under review and the previous years a sum of Rs.119,647 only representing a lower percentage of 33 had been recovered.

2.3.2 Rent of Stalls

The outstanding balance of rent of stalls amounting to Rs.1,255,893 as at commencement of the year under review had increased up to Rs.2,233,775 as at end of the year. The amount recovered during the year was Rs.1,227,203 only representing a low percentage of 35 of the amount receivable. Accordingly, it was observed in audit that action had not been taken in terms of Section 159(a) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.3 Court Fines and Stamp Fees

The Sabha had not adopted any methods, whatsoever, to recover the court fines of Rs.2,435,400 and the stamp fees of Rs.8,238,352 receivable as at 31 December 2016 from the Chief Secretary of the Provincial Council and other authorities.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) The average balance of three current accounts maintained by the Sabha during the entire year of 2016 aggregated Rs.7,010,708. Action had not been taken to invest the

surplus money and as such the interest revenue that could have been earned by the Sabha had been deprived of.

- (b) Action had not been taken to assess and enter in the register of assets the value 08 blocks of land received for common amenities during auctioneering of land within the authoritative area of the Sabha. Meanwhile, action had not been taken to physically confirm the ownership of those land.

3.2 Operating Inefficiencies

The total revenue collected by 02 sub offices amounted to Rs.416,756 although there were 03 revenue inspectors in the Sabha. The arrears of revenue as at end of the year amounted to Rs.23,651,170 as their duties had not been property fulfilled.

3.3 Solid Waste Material Management

The garbage collected in selected areas of the Sabha had been brought to the premises of the Sabha where it had been separated and the remnants had been disposed of, at a place called Igalkandawaththa belonging to the Sabha. Out of the sum of Rs.1,252,311 obtained from the Pilisaru Project, a sum of Rs.10 lakhs had been spent to construct a building at the place where garbage had been disposed of. But, it remained idle for over 03 years without being used for any purpose.

3.4 Assets Management

The following matters were observed.

- (a) **Idle/Under utilized Assets**

Action had not been taken in terms of the vehicle circular No. PED/ASD/02/VECH circular 2015 dated 10 July 2015 of the Ministry of Finance with regard to 03 vehicles of the Sabha which had been kept away without being used at present.

- (b) **Irregular usage of Vehicles not Acquired**

The Sabha had utilized 05 vehicles without taking action to acquire ownership even by and of the year under review.

4. Good Governance and Accountability

4.1 Budgetary Control

Savings amounting to Rs.13,709,267 in 08 items of expenditure, an adverse variance of Rs.775,896 in one item of expenditure and non achievement of targets amounting to Rs.2,220,414 relating to 04 items of revenue were observed in the budget for the year under

review showing that the budget had not been utilized as an efficient instrument of management control.

4.2 Internal Audit

Internal audit had not been carried out in terms of Financial Regulations 133 and 134 of the Republic of Sri Lanka and the Circular No. දපපා/යන/01/න.ව.ලේ of 24 February 2014 of the Commissioner of Local Government (Southern Province)

4.3 Implementation of Audit and Management Committees

Action had not been taken even by end of the year under review to establish Audit and Management Committees in terms of the Management Audit Circular No. DMA/2009(i) of 09 June 2009.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha by audit queries from time to time. Special attention is needed in respect of the following areas of systems and controls.

System	Main deficiencies in the System
(a) Fixed assets	(i) A register fixed assets had not been maintained in such a manner so as to intimate details according to the types of assets. (ii) Board of survey had not been carried out with regard to balances of fixed assets included in the financial statements. (iii) The value of land obtained for common amenities during auctioneering had not been assessed and entered in the register.
(b) Collection of Revenue	(i) Proper methods had not been framed and adopted to recover arrears of revenue. (ii) An age analysis of arrears of revenue had not been prepared.
(c) Staff Management	(i) Action had not been taken to regularize the excess cadre, excluding the approved cadre of the Pradheshiya Sabha and to fill vacancies in the posts.

- (ii) The Sabha was not in possession of a method to recover the balances of arrears of employees' loans which had continued for a long period.
- (d) Maintenance of Registers
 - (i) A register of losses and damages had not been maintained.
 - (ii) The register maintained had not been subjected to supervision by an executive officer.
- (e) Control over Vehicles
 - (i) The Sabha had not taken action to acquire ownership of 05 vehicles.
 - (ii) Consumption of fuel by vehicles of the Sabha had not been tested.
 - (iii) Action had not been taken to dispose of, vehicles that need disposal.
- (f) Budgetary Control
 - Action had not been taken to revise the budget by considering the budgeted estimates and the actual values.