

## **Balapitiya Pradeshiya Sabha**

### **Galle District**

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#### **1 Financial Statements**

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

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The financial statements for the year 2016 had been presented to audit on 27 March 2017 and the financial statements for the preceding year had been presented on 30 March 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**

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

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###### **1.3.1 Accounting Deficiencies**

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The following accounting deficiencies were observed in audit.

- (a) Ten advertisement boards purchased for Rs.78,000 for the garbage management project had not been brought to account under fixed assets. As a result, the fixed assets had been understated.
- (b) The sum of Rs. 6,904,942 payable to the local government pensions fund as at end of the year had not been brought to account resulting in an understatement of current liabilities.

###### **1.3.2 Unreconciled Control Accounts**

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Differences aggregating Rs. 9,853,657 were observed between the balances of 12 items of accounts appearing in the financial statements aggregating Rs.46,248,459 and the balances appearing in the related subsidiary registers.

### 1.3.3 Accounts Receivable and Payable

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The following matters were observed.

- (a) Balances receivable on behalf of 05 accounts receivable as at end of the year under review amounted to Rs.86,082,612. The arreaes of balances of stamp fees of 2008 aggregating Rs. 5,375,414 included in it had not been settled.
- (b) The balances of 07 accounts payable as at end of the year under review aggregated Rs.22,153,167. Of these balances, the stamp fees aggregating Rs. 181,170 payable to the staff for the period 2013 – 2015 had not been settled.

### 1.3.4 Lack of Evidence for Audit

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A register of fixed assets and schedules prepared according to the type of assets in an updated manner with regard to land and buildings, machines and machinery, motor vehicles and carts and furniture and buildings aggregating Rs. 16,143,377 and age analysis of refundable deposits aggregating Rs. 13,571,279 had not been furnished and as such these could not be satisfactorily examined in audit.

### 1.3.5 Non – compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non – compliance with laws, rules and regulations were observed in audit.

#### Reference to Laws, Rules Regulations etc.,

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#### Non – compliance

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- (a) Section 132 of the Pradeshiya Sabha Act No. 15 of 1987

A sum of Rs. 300,000 had been paid from the funds of the Sabha for a tour of the employees of the Pradeshiya Sabha and their families which does not come under the purview of the Sabha.

- (b) Financial Regulations of the Republic of Sri Lanka
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- (i) F.R.261(3)
- (ii) F.RR 570 and 571 (1)(2)

Fourteen cheques valued at Rs.867,561 had been drawn while there were no balances in the cash book.

Action had not been taken with regard to the balances of 354 deposits aggregating Rs. 8,324,999 which had exceeded a period of 02 years.

## 2. **Financial Review**

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### 2.1 **Financial Results**

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According to the financial statements presented to audit, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs. 44,118,884 as compared with the excess of revenue over recurrent expenditure of the preceeding year amounting to Rs.28,466,919 showing an improvement in financial results amounting to Rs. 15,651,965 as compared with the preceeding year.

### 2.2 **Working Capital Management**

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A comparison of the previous years' position with the position of the year under review shows that the current ratio and the quick ratio were normal whereas a sum of Rs. 5,375,414 exceeding 08 years included in the balances receivable shows that the liquidity position does not appear to be in accordance with the ratios shown.

### 2.3 **Revenue Administration**

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#### 2.3.1 **Rates and Taxes**

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Out of the arrears of Rs. 11,446,255 and the sum of Rs. 4,030,732 due on bills as at commencement of the year, 27 per cent only had been recovered during the year and as a result the balance of arrears of rates and taxes as at end of the year showed a higher value of Rs. 11,284,215.

#### 2.3.2 **Lease Rent**

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Out of the arrears of Rs. 1,147,907 and the sum of the Rs.159,600 due on bills as at commencement of the year, 12 per cent alone had been recovered during the year and as a result the balances of lease rent as at end of the year under review showed a higher value of Rs. 1,417,839.

#### 2.3.3 **Court Fines and Stamp Fees**

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Stamp fees of Rs. 71,854,145 and court fines of Rs. 1,608,633 were receivable from the Chief Secretary of the Provincial Council and other officers as at 31 December 2016.

### 3. **Operating Review**

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#### 3.1 **Management Inefficiencies**

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##### (a) **Staff Management**

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The following matters were observed in this connection

- (i) An expenditure of Rs. 1,853,125 had been incurred from the funds of the Sabha during the year under review for paying salaries and allowances of substitutes recruited by the Sabha on substitute and contract basis
- (ii) Action had not been taken to fill 08 vacancies in the approved cadre and to regularize the excess cadre.
- (iii) Officers and employees of the Sabha continued to be in service for 15 to 20 years as a result of not adopting a proper transfer procedure.

##### (b) **Employees' loans**

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Action had not been taken to recover the employees' loans aggregating Rs. 102,764.

#### 3.2 **Operating Inefficiencies**

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An average monthly balance of Rs. 3,089,767 existed in 04 bank current accounts maintained by the Sabha. But, the Sabha had not paid attention to invest the surplus money and earn extra revenue.

#### 3.3 **Solid Waste Material Management**

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Activities relating to solid waste material management had been carried out to cover up 60 per cent of the authoritative area of the Sabha. But, the garbage had not been classified and collected. The garbage collected had been disposed of, in an area where the madhu ganga branches off causing health hazards to the public. An environmental licence had not been obtained for the land where garbage had been disposed of.

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

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##### 4.1 **Budgetary Control**

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Savings aggregating Rs. 18,903,213 in 07 items of expenditure, adverse variance of Rs. 56,985 in another item of expenditure and revenue not achieved aggregating Rs. 8,806,746 in 5 items of revenue had been observed with regard to the budget of the year under review showing that the budget had not been used as an effective instrument of management control.

##### 4.2 **Internal Audit**

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Although an internal audit officer had been appointed in terms of Financial Regulations 133 and 134 and the circular of the Commissioner of Local Government (Southern Province) No. දළභා/යහ/01/න.ව.ලේ. of 24 February 2014, adequate internal audit had not been carried out.

#### 5. **Systems and Controls**

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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 deficiency in the system -----
(a) Fixed Assets	(i) The register of fixed assets had not been maintained so as to show the categories of assets  (ii) A survey of land and buildings of the Sabha had not been conducted  (iii) A register including the information such as the community centre, crematoriums and public places of the Sabha had not been maintained.
(b) Personnel Management	Action had not been taken to fill the vacancies and to regularize the excess cadre.

- (c) Revenue Administration
  - (i) Proper procedures had not been adopted for recovery of revenue.
  - (ii) Action had not been taken in accordance with the provision in the act to recover arrears of rates and taxes and the rent.
  - (iii) Garbage tax had not been recovered from places where it could be levied
  - (iv) Action had not been taken to invest surplus cash and to earn extra revenue.
- (d) Accounting and Maintenance of Registers
  - (i) Action had not been taken to settle the previous year's brought forward balances.
  - (ii) Differences between the balances appearing in the financial statements and the relevant schedules had not been rectified
  - (iii) There were instances of understatements and overstatements in the balances of accounts.
- (e) Management Weaknesses
  - (i) Action had not been taken to recover arrears of loans
  - (ii) Members of the staff had been engaged in service for 15 to 20 years without being transferred