

**Nagoda 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 28 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 14 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 Nagoda 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

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The contributions of Rs.2,360,670 payable to the Local Government Pensions Fund as at 31 December of the year under review had not been brought to account. As a result, the expenditure of the year and the current liabilities had been understated.
- (b) The value of the stock of compost fertilizer of the Sabha as at 31 December 2016 had not been computed and brought to account resulting in an understatement of current assets.

1.3.2 Unreconciled Control Accounts

The variances between the balances of 10 items of accounts included in the financial statements aggregating Rs.35,988,097 and the related subsidiary registers and records aggregated Rs.9,533,109.

1.3.3 Suspense Account

Action had not been taken even during the year under review to identify, adjust and to settle the credit balances totalling Rs.18,314 which continued to be brought forward since 2008.

1.3.4 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken to settle the balances of 07 accounts receivable amounting to Rs.23,374,779 as at end of the year under review.
- (b) Action had not been taken even during the year under review to identify, recover, make adjustments and to settle the balances of arrears of revenue aggregating Rs.16,070,719 which continued to be brought forward for a long time.
- (c) Stamp duty payable aggregating Rs.1,084,926 and the value added tax deposit of Rs.1,968,246 existing since 2011 and 2012 respectively had been retained in the general deposit account of the Sabha without being remitted to the Department of Inland Revenue.
- (d) The balances of creditors exceeding 10 years as at 31 December of the year under review aggregated Rs.3,308,578.

1.3.5 Lack of Evidence for Audit

Updated register of fixed assets aggregating Rs.85,338,093 prepared according to the category of assets and the schedules and properly updated register of deposits relating to the refundable deposits of Rs.9,898,199 had not been furnished and as such these could not be satisfactorily examined in audit.

1.3.6 Non – Compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations etc.,

Non - Compliance

(a) Financial Regulations of the Republic of Sri Lanka

(i) Financial Regulation 396 (d)

Action had not been taken with regard to 33 cheques totally valued at Rs.72,005 which had not been presented for payments for over 06 months.

(ii) Financial Regulations 1645 and 1646

Daily running charts and monthly performance summaries of 10 vehicles of the Sabha for the year under review had not been furnished to audit.

2. Financial Review

2.1 Financial Results

The following matters were observed.

- (a) 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.4,944,750 as compared with excess of revenue over recurrent expenditure of the preceding year amounting to Rs.2,444,034. An improvement of Rs.2,500,716 in financial results of the year under is shown as compared with the preceding year.
- (b) It was observed that the capital expenditure incurred during the year review had exceeded the capital revenue by Rs.1,473,262.

2.2 Revenue Administration

2.2.1 Acreage Tax

The balance of arrears of acreage tax as at end of the year under review amounted to Rs.230,434 as a result of not taking action to recover the arrears of acreage tax in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987.

2.2.2 Lease Rent and House Rent

The arrears had further increased by Rs.287,850 by end of the year under review as a result of not taking action in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987.

2.2.3 Fair Tax

Proper procedures had not been formulated and implemented to recover the arrears of Rs.1,586,700 as at end of the year under review.

2.2.4 Court Fines and Stamp Fees

Stamp fees of Rs.7,345,150 and court fines of Rs.1,840,928 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2016.

3. Financial Review

3.1 Performance

The land within the authoritative area of the Sabha as per budget for the year 2016 was 17,471 hectares whereas the budgeted revenue from acreage tax amounted to Rs.115,000. Accordingly, it was observed that the revenue from acreage tax had been estimated without considering the extent of land within the authoritative area of the Sabha.

3.2 Management Inefficiencies

The following matters were observed.

Staff Management

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- (a) The Sabha had recruited 10 employees on casual, temporary and contract basis and had paid Rs.1,611,900 as salaries and allowances during the year 2016 contravening the Management Services Circular No. 28 of 10 April 2006.
- (b) The approved cadre of pre school teachers was 03. However, 09 persons had been recruited and confirmed in posts. In addition, 06 more persons had been recruited on contract basis and it was observed that the excess cadre was 12.

(c) **Lease of Stalls of the Sabha**

(i) Old stall at Mapalagama

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- It was observed that 04 old stalls at Mapalagama junction had been given on lease since 1971 without agreements been signed.
 - The Sabha could not earn any revenue from old stall No.01 at Mapalagama as it had not been occupied.

(ii) Thalgaswala Stalls

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- It was observed that there were no valid agreements for 05 stalls at Thalgaswala.
 - The stalls No.02 and 05 had been given on lease contravening the Circular No. දළපා/පළාතො/2010/01 dated 27 December 2010 of the Commissioner of Local Government.

(iii) Mapalagama Trade Complex

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- The Sabha had been deprived of stall rent from stall No.06 at the Mapalagama trade complex which had not been given on lease since March 2012.
 - Valid lease agreements were not in existence for stall No.02 of the upper floor and stall No.05 of the ground floor.

3.3 Operating Inefficiencies

Delay in Projects

Ten jobs estimated at Rs.3,700,000 under the Strengthening of Pradeshiya Sabha Programme and 02 jobs estimated at Rs.1,250,000 under the Capital Programme of Upliftment of Infrastructure Facilities during the year under review had been abandoned without being executed.

3.4 Idle/Under Utilized Assets

Action had not been taken in terms of Public Finance Circular No.02/2015 of 10 July 2015 to dispose of, a becko loader machine, a bowser, a garbage trailer and 02 trailers of the Sabha which remained unused.

3.5 Solid Waste Material Management

The following matters were observed.

- (a) Necessary action had not been taken to recycle the non-degradable and the degradable garbage collected by the Sabha. Instead, it had been buried under the soil in a land at Uptopwaththa.
- (b) The non degradable garbage collected by the Sabha had been heaped in a place away from the division without being classified. Meanwhile, water had got collected in plastic vessels and tyres and the Sabha had not taken action to remove them allowing room for health and social problems to arise.

4. Good Governance and Accountability

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual revenue and expenditure showing that the budget had not been used as an effective instrument of management control.

4.2 Unresolved and Unreplied Audit Queries

Although it had been agreed to rectify shortcomings pointed out in paragraphs (b) and (c) of Paragraph 2.2.1 and paragraph 2.2.3 of the Auditor General's report of the previous year, it had not been rectified during the year under review.

4.3 Internal Audit

The Sabha had employed 03 officers from time to time to carry out work relating to internal audit. Adequate internal audit had not been carried out in terms of Financial Regulations 133 and 134 and the circular No.දපපා/යන/01/න.ව.ලේ of 24 February 2014 of the Commissioner of Local Government (Southern Province).

4.4 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 provisions in the Management Audit Circular No. DMA/2009(i) of 09 June 2009.

5. Systems and Controls

The 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 control.

System	Main deficiencies in the System
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(a) Control over Vehicles	(i) Action had not been taken to dispose of, or to repair idle vehicles. (ii) Daily running charts of 10 vehicles had not been furnished for audit. (iii) Action had not been taken to obtain revenue licences for certain vehicles.
(b) Maintenance of Registers	(i) Registers such as updated register of fixed assets and register of fixed assets for computers had not been maintained. (ii) The register of refundable deposits had not been updated and maintained.
(c) Collection of Revenue	(i) Action had not been taken to identify developed areas and to recover rates and taxes accordingly. (ii) Proper procedures had not been followed to recover arrears of revenue. (iii) Action had not been taken to recover stamp fees and court fines in an updated manner.

- (iv) Action had not been taken to update the stall lease agreements.
 - (v) The Sabha had not paid attention with regard to new revenue earning programmes.
- (d) Staff Management
 - (i) Action had not been taken to fill the vacancies and to regularize excess staff.
 - (ii) Action had not been taken to recover loan balances of officers who had worked in the Sabha.
 - (iii) Field labourers had been employed for work that should have been performed by senior officers.
- (e) Accounting
 - (i) Action had not been taken to identify, make necessary adjustments and to settle balances of accounts which continued to be brought forward from previous years.
 - (ii) Attention had not been paid to identify differences between the balances appearing in the financial statements and the related schedules.
 - (iii) Action had not been taken regarding 33 cheques issued, but, not presented for payments.
 - (iv) Action had not been taken to identify balances of deposits which had exceeded 2 years.
- (f) Budgetary Control
 - Adverse variances ranging from 8 to 24 per cent had been observed in 05 items of revenue.