

Rajgama 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 25 August 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 17 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 Rajgama 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 revenue for the year under review had been understated as a result of not showing the interest of 05 fixed deposits accounts.
- (b) The contributions of Rs.13,443,513 payable to the Local Government Pensions Fund as at 31 December of the year under review had not been brought to account and as such the expenditure and the balances payable had been understated.
- (c) The balance of the Fixed Assets and the Revenue Contributions to Capital Outlay Account should be equal to each other. A difference of Rs.3,401,225 was observed between these two.
- (d) The Revenue Aid and the Capital Aid had been understated by Rs.342,276 and Rs.50,397 respectively in the Revenue and Expenditure Account for the year ended 31 December. Meanwhile, the expenditure on supplies and equipment had been overstated by Rs.23,496. As a result, the profit had been understated by Rs.416,169.
- (e) The loan balances payable to the Local Loans and Development Fund as at 31 December of the year under review had been overstated by Rs.41,318 and as a result the current liabilities had been overstated by a similar amount.
- (f) The value of investments in fixed deposits as at and of the year under review had been understated by Rs.1,098,555.

- (g) The value of water works stock of the year under review had been shown as Rs.234,633. However, such a stock had not been entered in the stock and it was not physically available. As a result, the current assets had been overstated.
- (h) The stock gifted by the Ayurveda Pharmaceuticals Corporation during the year under review amounted to Rs.342,276. This had not been debited to the Ayurveda Stock Account and as such the current assets had been understated by a similar amount.

1.3.2 Unreconciled Control Accounts

The following matters were observed.

- (a) A total difference of Rs.62,988,304 was observed between the balances of 12 items of accounts aggregating Rs.76,603,320 as per financial statements and the balances shown in the related subsidiary registers.
- (b) A difference of Rs.783,704 existed between the balances of ledger accounts shown in the General Ledger Account relating to 04 items of accounts and the balances as per financial statements.

1.3.3 Suspense Account

The debit balance of Rs.288,833 of the Suspense Account as at end of the year under review had not been settled.

1.3.4 Accounts Receivable and Payable

The following matters were observed.

- (a) The value of 05 balances of accounts receivable aggregating Rs.10,053,912 continued to be brought forward in the financial statements for a long time. This had not been settled, by identifying them.
- (b) Four debtor balances of arrears of work debtors exceeding 02 years amounting to Rs.1,873,405 had been included as at end of the year under review.
- (c) The value of 02 balances of accounts aggregating Rs.571,597 continued to be brought forward since 2001 without any change. These had not been settled.
- (d) Action had not been taken even by end of the year under review to settle the general creditors balance and the other creditors balance aggregating Rs.629,665 which continued to be brought forward from the previous year without any change.
- (e) Action had not been taken even by the year under review to settle the creditors balance of Rs.2,462,916 of 10 jobs which had exceeded 03 years as at end of the year under review.

1.3.5 Lack of Evidence for Audit

Updated register of fixed assets and schedules for fixed assets totalling Rs.42,898,310, board of survey reports, registers and schedules for stocks totalling Rs.6,808,936, register of debtors for debtors amounting to Rs.11,224,945, register of creditors age analysis and confirmation of balances for creditors amounting to Rs.13,711,478, schedules and register of deposits for sundry depositors of Rs.7,483,404, updated register of advances for advances amounting to Rs.525,390, fixed deposit certificates for fixed deposits amounting to Rs.1,987,033 and detailed schedules for cash with officers amounting to Rs.516,670 had not been furnished. 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.

References to Laws, Rules, Regulations etc.,

Non - compliance

(a) Financial Regulations of the Republic of Sri Lanka

(i) Financial Regulation 395(c)

The bank reconciliation statement of a month should be prepared before fifteenth of the following month. However, the bank reconciliation statement of the General Account for the month of December 2016 had not been prepared up to 30 August 2017.

(ii) Financial Regulation 570

Action had not been taken regarding 05 types of deposits amounting to Rs.196,439 which continued to be brought forward for over 03 years.

2. Financial Review

2.1 Financial Results

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.22,038,224 as against the excess of recurrent expenditure over revenue of the preceding year amounting to Rs.13,893,961. An improvement in financial results amounting to Rs.36,202,185 had been observed during the year under review as compared with the preceding year.

2.2 Working Capital Management

A comparison of the previous year's position with the position of the year under review showed that the current ratio and the quick ratio were not in a satisfactory level.

2.3 Revenue Administration

2.3.1 Rates and Taxes

Out of the rates and taxes of Rs.11,331,510 recoverable as at end of the year under review, a sum of Rs.770,202 or 07 percent only had been recovered. The Sabha had not paid attention to prepare proper procedures for implementation for recovery of arrears in terms of Section 158 (i) (a) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.2 Lease Rent

The arrears as at commencement of the year under review amounted to Rs.676,534 and the billings for the year amounted to Rs.105,600 of which 14 percent only had been recovered during the year. Action had not been taken in terms of Section 159(a) of the Pradeshiya Sabha Act No. 15 of 1987 to recover the arrears of Rs.674,044.

2.3.3 Trade Tax

The trade tax arrears as at commencement of the year under review amounted to Rs.200,880 and the billings for the year amounted to Rs.90,460. Only 38 percent of these had been recovered during the year. Proper methods had not been formulated to recover arrears of trade tax in terms of Section 152(4) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.4 Court Fines and Stamp Fees

The court fines of Rs.7,178,722 and the stamp fees of Rs.31,560,641 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2016.

3. Operating Review

3.1 Assets not Acquired

Action had not been taken even by end of the year under review to acquire ownership of 11 vehicles used by the Sabha.

3.2 Management Inefficiencies

The following matters were observed.

- (a) Salaries and allowances amounting to Rs.1,317,744 had been paid during the year 2016 to 06 employees recruited on substitute basis by the Sabha contrary to the Management Services Circular No. 28 of 10 April 2006.
- (b) Duties of Management Assistants had been assigned to 11 employees recruited as labourers of the Sabha.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) The agreements entered into for 22 stalls of the Sabha had not been prepared in accordance with the Circular No. 433/පළාත/2010/01 dated 27 December 2010 of the Commissioner of Local Government, Southern Province. All the agreements had not been updated every 03 years. Further, the period had not been mentioned in the agreements of 03 stalls.
- (b) Approval had been granted to a private company to sell 0.7740 hectares of an extensive land in blocks. The Sabha had not received 1% of the revenue earned from the sale of the land in terms of Section 154(1) of the Pradeshiya Sabha Act No.15 of 1987.

3.4 Contract Administration

The following matters were observed in connection with the work executed by the Sabha during 2016.

- (a) A sum of Rs.100,000 had been approved under the Southern Province Development Plan of the member's provision for constructing a portion of the building for Rajgama Aang Handiya "Sarana" Death Donation Society. The space between the foundation and the wall appeared to be empty as the walls had been constructed about 2 inches away from the foundation. Accordingly, the strength of the building had become questionable in audit.
- (b) A sum of Rs.446,030 had been spent to renovate the Malawenna Makalanduwa Road. But, stones had come out of the surface of the road even before completion of one year of renovation. About 6 square feet of the road had cracks in two places.

3.5 Delay in Projects

Thirteen projects approved under the improvement of infrastructure facilities programme in local authorities and 14 projects approved under the National Programme of Strengthening of Pradeshiya Sabhas had not been executed during the year under review.

3.6 Idle/Under Utilized Assets

The following matters were observed.

- (a) Six vehicles had been allowed to get corroded in a land belonging to the Sabha for over 03 years without action being taken to repair and make use of / dispose of in terms of provisions in the Treasury Circular No.02/2015 of 10 July 2015.
- (b) Two air conditioners purchased before 2012 remained inoperative for over 02 years. Action had not been taken to repair / dispose of them.
- (c) The security camera system installed in 2014 by spending Rs.103,200 from the funds of the Sabha remained inoperative for over 02 years.

3.7 Solid Waste Material Management

The following matters were revealed with regard to the Solid Waste Material Management.

- (a) The Sabha had commenced a Solid Waste Material Management Project in Monrowiyaththa land with the aid of the Central Environmental Authority and the Pilisaru Project. As a result, the compost production of the Sabha had been suspended for over 03 years and the machinery valued at Rs.599,000 used in this connection were lying idle in the vehicle park of the Sabha.
- (b) Thirty five garbage containers given by the Department of Local Government for distribution in the area remained at the vehicle park of the Sabha for about one year.

4. Good Governance and Accountability

4.1 Budgetary Control

Savings aggregating Rs.20,818,575 in 06 items of expenditure, an adverse variance of Rs.236,341 in 2 other items of expenditure and revenue not achieved amounting to Rs.23,143,034 in 06 items of revenue had been observed with regard to the budget for the year under review. Thus, it was observed that the budget had not been utilized as an efficient instrument of management control.

4.2 Internal Audit

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. දළපා/යහ/01/න.ව.මළ of 24 February 2014, adequate internal audit had not been carried out.

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

4.4 Unresolved Audit Paragraphs

Although it had been agreed to rectify deficiencies pointed out in paragraph 2.2.2 (b) to (h) of the previous year's report of the Auditor General, necessary rectifications had not been made even by end of the year under review.

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 Deficiency in the System
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(a) Fixed Assets	(i) A register of fixed assets had not been maintained in such a manner so as to show details of assets according to categories. (ii) Annual board of survey had not been conducted for land and buildings.
(b) Control over Vehicles	(i) A register of vehicles with details had not been maintained. (ii) Consumption of fuel by vehicles of the Sabha had not been tested. (iii) Certain vehicles were lying corroded as they had not been utilized for any work. (iv) Action had not been taken to acquire ownership of vehicles used by the Sabha.
(c) Revenue Administration	(i) The arrears of revenue were extensive every year as proper procedures had not been formulated and implemented to recover arrears of revenue. (ii) Action had not been taken to recover stamp fees in an updated manner.

- (d) Accounting and Maintenance of Registers
- (i) Action had not been taken to inquire into, make necessary adjustments and to settle the balances of accounts which continued to be brought forward from previous years.
 - (ii) The differences between the balances shown in the financial statements and the related schedules had not been identified, necessary adjustments made and the accounts rectified.
 - (iii) A register had not been maintained so as to enter details of payment of loan instalments made to the Local Loans and Development Fund.
 - (iv) The Sabha had not maintained the following registers even by end of the year under review.
 - Register of loans
 - Register of creditors
 - Register of debtors
 - Register of donations
 - Register of fixed assets for computers, accessories and software.
 - (v) Action had not been taken to examine the suspense account balance, to make necessary adjustments and to rectify accounts.
- (e) Staff Management
- (i) Action had not been taken to regularize the excess staff of 25 in excess of the approved cadre.
 - (ii) The duties to be performed by an officer of the secondary level had been carried out by a labourer.
- (f) Budgetary Control
- (i) The entire provision made in the annual budget for an item of expenditure and significant amount in 06 other items of expenditure had been saved.

- (ii) Expenditure had been incurred in 2 items of expenditure exceeding the approved limit.
- (iii) The target stipulated for 06 items of revenue had not been achieved.
- (iv) Action had not been taken to revise the budget by taking follow up action regarding expenditure and revenue.