

**Habaraduwa 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 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 Habaraduwa 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) Fixed assets valued at Rs.1,255,685 had not been brought to account.
- (b) The contributions of Rs.6,083,566 payable to the Local Government Pensions Fund as at end of the year under review had not been brought to account under creditors resulting in an understatement of liabilities.
- (c) Electrical equipment amounting to Rs.364,410 which had been removed from usage had been included in the closing stock. resulting in overstatement by a similar amount.

1.3.2 Unreconciled Control Accounts

Differences amounting to Rs.42,518,088 were observed between the balances of 06 items of accounts aggregating Rs.45,131,053 shown in the financial statements and the balances shown in the related subsidiary registers.

1.3.3 Suspense Account

Action had not been taken even during the year under review to identify the debit balances of the Suspense Account amounting to Rs. 601,430 which continued to be brought forward since 2008 and to make necessary adjustments to settle it.

1.3.4 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken even during the year under review to recover the balances of 06 accounts receivable aggregating Rs.1,383,940 which continued to be brought forward in the financial statements for many years without change.
- (b) Action had not been taken even during the year under review to settle 05 balances payable aggregating Rs.2,901,253 which continued to be brought forward in the financial statements since 2008 without change.

1.3.5 Lack of Evidence for Audit

An updated register of fixed assets prepared with particulars of classification of assets pertaining to fixed assets and proper schedules aggregating Rs.91,225,382, a register of electrical goods for the stock of electrical equipment amounting to Rs.767,252, a register of debtors and creditors for the sundry debtors of Rs.148,965 and the balance of creditors amounting to Rs.8,923,043, a register of deposits for the refundable deposits aggregating Rs.13,616,895 and the letters confirming balances of Rs.304,869 payable to the Local Loans Development Fund, as appearing in the financial statements 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 observe in audit.

Reference to Laws, Rules, Regulations etc.,	Non - compliance
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Financial Regulations of the Republic of Sri Lanka No. 570 and 57 (1)(2)

Action had not been taken with regard to 110 deposit balances aggregating Rs.1,826,957 which had exceeded a period of 02 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 Sabah for the year ended 31 December 2016 amounted to Rs.5,913,387 as against the excess of recurrent expenditure over revenue of the preceding year amounting to Rs.13,690,543. A comparison of the financial results of the year under review with the preceding year shows an increase of Rs.19,603,930 in financial results.

2.2 Revenue Administration

2.2.1 Rates and Taxes

Out of the rates and taxes billed for the year together with the receivables of the previous year aggregating Rs.13,140,698, 47 per cent only had been recovered during the year.

2.2.2 Acreage Tax

Out of the acreage tax billed for the year together with the receivables of the previous year amounting to Rs.11,020, a minimum amount of Rs.540 only had been recovered during the year. Action had not been taken in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No. 15 of 1987 to recover the arrears of rates and taxes and the acreage tax referred to in the above paragraphs of 2.2.1 and 2.2.2.

2.2.3 Court Fines and Stamp Fees

Stamp fees amounting to Rs.11,396,887 and court fines amounting to Rs.3,127,999 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2016.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) (i) Action had not been taken to recover the sum of Rs.636,907 due from 19 employees of the Sabha who had been on no pay leave for 606 days.
- (ii) Eleven persons including certain officers and employees of the Sabha continued to work for over 10 years as the annual change of station transfer method was not in existence.
- (b) It was revealed at the board of survey 2016 that 21 books had been lost and 59 books had not been returned by the readers at 02 libraries. But, action had not been taken to determine the value of these books and to recover the loss caused to the Sabha from those who were responsible .

3.2 Assets Management

The following matters were observed.

- (a) A huller machine purchased for Rs.245,000 on 21 March 2012 and another huller and a crusher obtained from the Pilisar Project, the values of which had not been computed, remained parked at the Ahangama Sub Office due to stoppage of the compost project on 07 December 2015.

- (b) Action had not been taken in terms of Public Finance Circular No.02/2015 of 10 July 2015 to dispose of, 07 vehicles remaining unused for a long time
- (c) Action had not been taken from 2008 to end of the year under review to acquire ownership of 06 vehicles of various institutions used by the Sabha totally costing Rs.34,872,063.

4. Good Governance and Accountability

4.1 Budgetary Control

Savings aggregating Rs.23,952,335 in 08 items of expenditure and non achievement of targets in 07 items of revenue aggregating Rs.72,552,097 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 financial 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.

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) Accounting	<ul style="list-style-type: none"> (i) Action had not been taken to settle the balances of taxes, advance accounts, suspense account and the creditors' account which continued to be brought forward for many years. (ii) The balances among bank accounts had not been settled.

(iii) Action had not been taken to recover the arrears of revenue.

(b) Control over Vehicles

Action had not been taken to test consumption of fuel by vehicles of the Sabha.