

Chilaw Pradeshiya Sabha

Puttalam District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2016 had been submitted to Audit on 31 March 2017 while Financial Statements relating to the preceding year had been submitted on 31 March 2016. The Auditor General's Report relating to the year 2016 was sent to the Secretary of the Sabha on 28 July 2017.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Chilaw Pradeshiya 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 matters were observed.

- (a) Even though interests of investments in the year 2014 had been brought to accounts, investments interests in the year 2014 had been eliminated by journal entries due to a mistake. As such, the Investment Account and the Accumulated Fund Account had been understated by Rs.228,322.
- (b) As two machines valued at Rs.634,050 had been eliminated from the accounts, Revenue Contribution to Capital Outlay Account and the Machinery Account had been understated by that amount.
- (c) Equipment valued at Rs.252,850 had been eliminated from the accounts through a journal entry and it had been again eliminated from the accounts through a journal entry as Rs.224,150.

1.3.2 Non-reconciled Control Accounts

According to the financial statements, a non-reconciliation in a sum of Rs.15,318,820 was observed between the balance as per the Control Account and the balance as per the financial statements relating to 08 items of accounts.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a) A sum of Rs.5,776,723 was due from the Office of the Commissioner of Local Government in respect of the salary reimbursements relating to the year 2015.
- (b) A sum of Rs.551,227 was due from the Ministry of Local Government and Provincial Council in respect of 03 industries relating to the year 2015.
- (c) Action had not been taken to recover the employees loans totalling Rs.352,077 that remained outstanding since the period before the year 2012 and the years 2013,2014 and 2015.
- (d) Action had not been taken to settle 50 creditors balances totalling Rs.4,763,700 which had been shown in the accounts since year 2014.

1.3.4 Lack of Evidence for Audit

As the schedules, age analysis, board of survey reports and the relevant details had not been furnished to audit, 03 items of account valued at Rs.146,934,195 could not be satisfactorily vouched in audit.

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

Following non-compliances were observed.

| Reference to Laws, Rules, Regulations and Management Decisions | Non-compliance |
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| (a) <u>Pradeshiya Sabha Rules (financial and administration) of 1988</u> | |
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| (i) Rule No. 59 | |
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A survey had not been conducted on the industries within the area of authority of the Sabha and a list of such industries had not been prepared at the beginning of each year. All the lands and the buildings of the Sabha had not been surveyed.

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| (ii) Rule No.218 | |
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| (b) Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government. | |
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The rent recovered for the 10 trade stalls belonging to the Kakkapalliya Sub-office and the room in which the post office is situated, had not been revised after the year 2000.

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| (c) Treasury Circular No.IAI/2002/02 dated 28 November 2002. | |
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A Register of Fixed Assets had not been maintained in respect of the computers and computer accessories of the Sabha as specified in the circular.

1.3.6 Transactions not Supported by an Adequate Authority

In order to equalize the balances according to the accounts and the registers through five journal entries, outstanding revenue of Rs.1,096,335 had been debited to the Accumulated Fund without proper approval.

02. Financial Review

2.1 Financial Results

According to the Financial Statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 had been Rs.50,149,812 as compared with corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.48,250,727.

2.2 Analytical Financial Review

Increase in the four items of revenue by Rs.7,211,263 had mainly attributed to the increase in the financial results by Rs.1,899,085.

2.3 Revenue Administration

2.3.1 Performance of the Collection of Revenue

Thirty two per cent of Rates and Taxes income,75 per cent of Acreage Tax income and 11 per cent of lease rental income recoverable by the end of the year under review had not been recovered.

2.3.2 Lease Rental

The following matters were observed.

- (a) Thirty four properties belonging to the Sabha had not been given on lease during the year under review and the revenue deprived based on the minimum bid value amounted to Rs.892,216.
- (b) A sum of Rs.488,434 remained outstanding from the meat stall rental by the end of the year under review of which, a sum of Rs.416,397 represented the rentals recoverable relating to the year 2011 and the preceding years.

2.3.3 Court Fines and Stamp Fees

The following matters were observed.

- (a) Court Fines receivable from the Chief Secretary amounted to Rs.33,851,207 by the end of the year under review, of which a sum of Rs.16,671,661 related to the period from 2009-2015.
- (b) Stamp Fees receivable from the Chief Secretary amounted to Rs.86,592,284 by the end of the year under review ,of which a sum of Rs.57,592,284 related to the years 2014 and 2015.

3. Operating Review

3.1 Performance

Thirty one industries, the estimated value of which amounted to Rs.5,950,000 and included in the Action Plan for the year 2016 had not been executed during the year under review.

3.2 Management Inefficiencies

Following matters were observed.

- (a) Action had not been taken to obtain to the Sabha, the deeds relating to 05 plots of lands containing 07 Roods and 21.43 Perches in extent reserved for the common amenities out of the plots of lands sold within the area of authority of the Sabha.
- (b) Fines totalling to Rs.648,968 recovered in approving building plans had been credited to a savings account in the name of Building Development Fund. The attention of the Sabha had not been drawn on investing this money in an investment which generates more benefits.

3.3 Human Resources Management

According to the approved and actual cadre as at 31 December 2016, the excess cadre of the Secondary and Primary grades totalled 10.

04. Accountability and Good Governance

4.1 Budgetary Control

The capital expenditure had increased by 225 per cent exceeding the budgeted expenditure and the Rates, rental income and other revenue had decreased by 12.4 per cent, 19.2 per cent and 13.7 per cent respectively.

4.2 Internal Audit

Audit activities included in the Internal Audit Plan, 2016 had not been completed and 08 reports only had been issued during the year.

05. Systems and Controls

Special attention is drawn on the following areas of systems and controls.

| Areas of Systems and Controls | Observations |
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| (a) Creditors | Failure in taking action to settle the creditors balances older than 2 years shown in the financial statements. |
| (b) Collection of Revenue | Failure in taking action to collect the revenue receivable by the Sabha from various sources and failure in leasing out 34 properties which could have been leased out. |
| (c) Employees Loans | Failure in taking action to recover the outstanding employee loans. |