

Tangalla Pradeshiya Sabha

Hambantota District

1. Financial Statements

1.1 Presentation of Financial Statements

While Financial Statements for the year 2017 had been submitted to Audit on 29 March 2018, the Auditor General's Report relating to the year under review was sent to the Chairman on 09 August 2018.

1.2 Disclaimer of Opinion

In view of importance of matters referred to in paragraphs 1.3.1, 1.3.2 and 1.3.4, it was not possible for me to obtain adequate and appropriate evidence to be based for an audit opinion. Due to that, I do not express an opinion on these financial statements.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

(a) While grand total of assets shown in the statement of financial position was Rs.318,344,331, total of liabilities and equity was Rs. 326,572,933. Accordingly, a difference of Rs. 8,228,602 was observed. In this connection, following matters were observed.

- I. Opening and closing balances of the Accumulated Fund and Deficits Account had been understated in the financial statements by Rs. 3,535,925 and Rs. 8,228,603 respectively.
- II. Surplus of the year had been adjusted less in a sum of Rs. 8,210 in the Accumulated Fund.
- III. The balance in the Repairs and Maintenance of Capital Assets (104) Expenditure Account in a sum of Rs. 9,000 and the balance in the Charges for Services Account in a sum of Rs. 11,000 in the General Ledger had been understated in the Revenue and Expenditure Account.

(b) Machinery and Equipment, Furniture and Fixtures costing Rs. 803,021 purchased and received as donations during the year under review and expenditure incurred amounting to Rs. 1,694,176 for construction works at Hummana Centre had not been capitalized.

(c) In accounting Creditors for the construction work of drainage system of the access road to Mahawelagoda Paddy fields had been overstated in a sum of Rs. 999,140 while Expense Creditors balance of the year under review had been understated in a sum of 101,121.

- (d) Expenditure incurred amounting to Rs. 172,271 for acquisition of capital assets had been accounted as recurrent expenditure.
- (e) Security Deposits amounting to Rs. 50,000 made for the ensuing year had been accounted as a Creditors balance of the year under review. Due to that, Creditors balance had been overstated to that extent.
- (f) Stamp Fees revenue receivable for the year under review from Tangalla Land Registry and Stamp Fees receivable for the final seven months of the year 2017 from Hambanthota Land Registry had not been estimated and accounted.

3.2 Non-reconciled Accounts

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 Total of disparities observed between balances in 04 items of accounts included in the financial statements and balances shown in the relevant books and schedules was Rs. 11,770,804.

1.3.3 Accounts Payable

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 While a sum of Rs. 8,347,092 was payable on behalf of Sundry Creditors and Works Creditors as at the end of the year under review, a sum of Rs. 387,800 was payable on behalf of three creditors during a period ranging from 1 to 2 years.

1.3.4 Lack of necessary written Evidence for Audit

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 Nine items of accounts totaling Rs. 204,166,909 could not be satisfactorily vouched in audit due to non-submission of required information for audit

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

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 Instances of non-compliance with laws, rules, regulations and management decisions are shown below.

| Reference to laws, rules, regulations<br>and Management decisions              | Value | Non-compliance   |
|--|-------|--|
| -----  | ----- | -----  |
|  | Rs    |  |
| 1988 Pradeshiya Sabha (Financial and Administrative) Rules<br>(a) i. Rule 5(8) |       | When Road Roller had been parked at a place outside the Pradeshiya Sabha premises it had met with an accident. |

|  |  |
|--|--|
| <p>ii. Rule 150</p> <p>(b) Financial Regulations of the Sri Lanka Democratic Socialist Republic 103(1)(b), 104(1) (3) (4) and 110. 1,510,250</p> <p>(c) Public Administration Circulars</p> <p style="padding-left: 20px;">i. Circular 30/2008 dated 31 December 2008</p> <p style="padding-left: 20px;">ii. Circular No. 30/2016 dated 29 December 2016</p> <p>(d) Treasury Circular No. IAI/2002/02 dated 28 November 2002</p> | <p>Summary Cash Book had not been prepared for the year under review.</p> <p>Action had not been taken with regard to accident took place to Vibrating Road Roller and destruction of tickets at Hummana Environmental Centre.</p> <p>Two officers of the Sabha has been granted distress loans exceeding the maximum loan limit fixed for an officer</p> <p>Fuel consumption of 11 vehicles belong to the Sabha had not been tested even as at 31 October 2017.</p> <p>A Register of Fixed Assets had not been maintained with regard to computer components and software belongs to the Sabha.</p> |
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2. Financial Review

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2.1 Financial Results

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2017 amounted to Rs. 10,778,674 while the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 26,344,124.

2.2 Financial Control

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The main cash book for the year under review had not been prepared in terms of Rule 155 of Pradeshiya Sabha (Financial and Administrative) Rules of 1988. Due to that, it was not possible to establish the accuracy of 08 bank current accounts totaling to Rs. 13,635,329.

2.3 Revenue Administration

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2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

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Information as furnished, relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue are shown below.

| Sources of Revenue | 2017                  |                    |                       |                   | 2016                  |                    |                       |                   |
|--------------------|-----------------------|--------------------|-----------------------|-------------------|-----------------------|--------------------|-----------------------|-------------------|
|                    | Estimated Revenue Rs. | Revenue Billed Rs. | Revenue Collected Rs. | Total Arrears Rs. | Estimated Revenue Rs. | Revenue Billed Rs. | Revenue Collected Rs. | Total Arrears Rs. |
| i Rates and Taxes  | 8,095,500             | 6,219,053          | 6,310,576             | 275,361           | 11,115,000            | 6,816,354          | 6,815,386             | 142,284           |
| ii Rent            | 11,967,900            | 8,865,155          | 9,416,195             | 1,461,184         | 13,348,000            | 5,457,478          | 5,319,704             | 2,175,964         |
| iii License Fees   | 2,446,700             | 4,097,079          | 4,097,079             | -                 | 3,561,000             | 2,167,301          | 2,199,161             | -                 |
| Iv Other Revenue   | 19,554,500            | 16,055,937         | 13,514,765            | 75,187,020        | 34,643,000            | 34,299,461         | 48,955,964            | 72,466,733        |
| Total              | 42,064,600            | 5,237,224          | 33,338,615            | 76,923,565        | 62,667,000            | 48,740,594         | 63,290,215            | 74,784,981        |

### 2.3.2 Performance in Revenue Collection

While total Revenue Billed during the year under review had been Rs. 35,237,224 out of that including arrears of revenue, a sum of Rs. 33,338,615 had been collected. Total arrears amounting to Rs. 74,784,981 as at the end of the preceding year had been increased to Rs. 76,923,565 at the end of the year under review.

### 2.3.3 Rates and Taxes

#### (a) Rates

Works relating to assessment and recovery of Rates in terms of Section 134 (1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been completed even as at the end of the year under review.

#### (b) Acreage Tax

Action in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover arrears of Acreage Tax amounting to Rs. 150,471 at the end of the year under review,

### 2.3.4 Rent

Action in terms of Section 159(1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover arrears of rent amounting to Rs. 1,443,524 at the end of the year under review.

### 2.3.5 Other Revenue

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Business Tax  
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While the total of outstanding Business Tax at the end of the year under review amounted to Rs. 124,890, out of that a sum of Rs. 40,950 had been balance of arrears relevant to the year 2014.

### 2.3.6 Court Fines and Stamp Fees

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Court Fines amounting to Rs. 4,691,736 and Stamp Fees amounting to Rs. 70,369,719 had been outstanding from the Southern Provincial Council and other authorities as at the end of the year under review.

## 3. Operating Review

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Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public thoroughfares, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabha Act No. 15 of 1987 are shown below.

#### (a) Action Plan

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- i. Action Plan prepared for the year under review had not been prepared so as to facilitate identification of physical and financial performance.
- ii. Although a provision of Rs. 1,000,000 had been made in the budget for the year under review for fixing Identification and Access Boards of the area of authority, it had not been included in the Action Plan.

#### (b) Lack of Provision

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Provision had not been made in the budget for 11 works to be performed by the Sabha according to the annual action plan prepared.

#### (a) Works not performed

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Five works to be implemented through Sabha funds during the year under review for which a total provision of Rs. 2,160,000 made through the budget and 04 works to be implemented through capital grants for a total provision of Rs.6,100,000 was made, had not been performed during the year under review.

#### (c) Solid Waste Management

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- i. A Protective Fence had not been erected around the Garbage Disposal Ground.

- ii. Although the garbage generated in the area had been collected having incurred a heavy expenditure, production of compost had not been commenced using the garbage.
- (d) Action had not been taken to obtain environmental recommendations for the Solid Waste Recycling Project even up to 25 may 2018.

### **3.2 Management Inefficiencies**

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#### **3.2.1 Maintenance of Street lamps**

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Action had not been taken in terms of provisions in the Circular No. PE/01/01 dated 17 August 2010 to get the approval from the Ceylon Electricity Board for the number of street lamps fixed in the area if authority of the Sabha. Due to that, reimbursement of charges had not been received for 2028 street lamps out of 2345 street lamps maintained from Sabha funds.

#### **3.2.2 Purchase of a Management Information System**

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Out of the advance of Rs. 229,250 paid during the year 2016 for the purchase of a management system for stores stocks, vehicles, daily mail and sundry revenue, only the daily mail management system valued at Rs.145,000 only had been obtained. Action had not been taken up to 30 April 2018 to recover the sum of Rs. 84,250 paid for the works for which services were not obtained.

### **3.3 Human Resources Management**

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Following matters were observed.

- (a) There was an excess of 53 persons relevant to 24 posts and 08 vacancies of persons relevant to 04 posts as at 31 December of the year under review.
- (b) Seven officers in service of the Sabha had been engaged on other duties, without being engaged on duties relevant to their posts.
- (c) A sum of Rs. 85,520 had been paid as incentive allowance, at the rate of Rs. 50 to the driver and Rs. 40 to the cleaner for the total time worked in excess 04 hours per day, for operating the motor grader, without proper approval.

### **3.4 Assets Management**

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#### **3.4.1 Assets not vested**

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Action had not been taken even up to the end of the year under review to vest the legal ownership of 51 land and buildings used by the Sabha.

### **3.4.2 Idle Assets**

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Action had not been taken even up to the end of the year under review for disposal of a cab vehicle in idle condition at the premises of the Sabha since the year 2005.

### **3.4.3 Vehicles Utilization**

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#### (a) Non-transferring the ownership of vehicles

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Action had not been taken even as at 31 October 2017 to transfer the legal ownership of 06 vehicles received to the Sabha from various institutions.

#### (b) Vehicle Accidents

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Action had not been taken to recover the sum of Rs.24,037 not indemnified by the insurance body with regard to the accident took place to the vibrating metal roller from the responsible party.

### **3.5 Contracts Administration**

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(a) A sample of 150 interconnected block stones fixed on 11 roads constructed from Sabha Funds during the years 2016 and 2017 were furnished for quality test on 09 December 2017. According to the laboratory results, it had been observed that, out of 150 block stones 130 were not up to the specified standard. Accordingly, the sum of Rs. 8,396,237 paid for construction of these rods is observed as a futile expenditure.

#### (b) Payments for Works not performed

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When making payments for construction of seven roads, a sum of Rs. 429,515 had been paid for work more than actual performance.

(c) In terms of Rule 101 of Pradeshiya Sabha (Financial and Administrative Rules of 1988, Sabha approval should be obtained before incurring expenditure. However, when making a payment of Rs. 3,683,552 for contraction of 5 roads, approval of the Finance and Planning Committee had not been obtained.

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

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### **4.1 Budgetary Control**

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Material variances were observed between the budget and the actual revenue and expenditure for the year under review as shown below.

- (a) The entire provisions totaling Rs. 1,185,000 made available for 35 sundr expenditure items had remained unspent at the end of the year.
- (b) While the total unfavorable variance of seven revenue items had been Rs.125,585,825, that value was in a range from 11 percent to 97 percent.
- (c) While the total unfavorable variance of 06 expenditure items had been Rs. 13,618,542 that value was in a range from 10 percent to 63 percent.

## 4.2 Audit and Management Committees

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Although 04 Audit and Management Committees meetings per annum at should be conducted in terms of Management Audit Circular No. DMA/2009(1) dated 09 June 2009, only 02 meetings had been conducted for the year under review.

## 5. Systems and Controls

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Deficiencies observed in audit were brought to the attention of the Council from time to time. Special attention should be made in respect of following areas of systems and controls.

| System                       | Deficiency   |
|------------------------------|--|
| -----                        | -----  |
| (A) Accounting               | I. Instances of omissions of account balances, under/over statements in accounting.<br>II. Instances of errors in balancing accounts.<br>III. Non-preparation of Summary Cash Book and Main Cash Book. |
| (b) Revenue Administration   | I. Failure to impose and recover new rates.<br>II. Non-recovery of arrears of revenue.<br>III. Lack of attention for identification of new revenue generating sources                                  |
| (C) Vehicles Control         | I. Failure to carry out fuel consumption tests of Vehicles.<br>II. Failure to vest ownership of vehicles.  |
| (d) Contracts Administration | I. Lack of clear work details and source of quotations in preparation of estimates<br>II. Lack of adequate supervision in performing works.<br>III. Making payments for works not performed            |
| (e) Budgetary Control        | I. Material variances between the budget and the actual revenue and expenditure.<br>II. Failure to take action to reach budgeted targets.  |