

## **Baddegama Pradeshiya Sabha**

### **Galle District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 06 March 2015 while Financial Statements relating to the preceding year had been submitted on 04 April 2014. The Auditor General's Report relating to the year under review was issued to the Secretary to the Sabha on 21 July 2015.

##### **1.2 Opinion**

In my opinion except for the effect on the matters described in paragraph 1.3 of this report financial statements give a true and fair view of the financial position of the Baddegama Pradeshiya Sabha as at 31 December 2014 and its financial performance and cash flow for the year then ended in accordance with Public Sector Accounting Standards of Sri Lanka.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Deficiencies**

Following observations are made.

- (a) When making provisions for expenditure amounting to Rs.1,533,417 on account of Works relevant to the preceding year, it had been shown as expenditure for the year under review without being debiting that expenditure to the Accumulated Fund. Due to that, Capital Expenditure had been overstated in the financial statements in a sum of Rs.1,533,417.
  
- (b) When making provision for Capital Grants Receivable amounting to Rs.1,933,417 on account of Works relevant to the preceding year, it had been shown as revenue for the year under review without being credited that revenue to the Accumulated Fund. Due to that, Capital Grants had been overstated in the financial statements in a sum of Rs.1,933,417.

- (c) Capital Grants amounting to Rs.18,089,647 received on account of Works relevant to the preceding year, it had been shown as revenue for the year under review. Due to that, Capital Grants had been overstated in the financial statements in a sum of Rs.18,089,647.
- (d) Although the Work Debtors relevant to the year under review was Rs.3,418,075, provision had been made only for Rs.3,098,757. Due to that Capital Grants and Debtors had been understated by Rs.319,318 in the financial statements.
- (e) Although the Work Creditors balance as at 31 December of the year under review was Rs.3,824,541, it had been show as Rs.3,534,576 in the financial statements. Due to that Capital Expenditure and Creditors had been understated by Rs.289,965 in the financial statements.
- (f) Provision had not been made for Audit Fees and Stamp Fees for the year under review.
- (g) Although the balance of Pension Contribution Payable to the Pension Department on behalf of retired Local Government Employees as at 31 December of the year under review was Rs.6,059,609, it had been shown as Rs.3,892,161 in the financial statements, causing an understatement of Creditors in a sum of Rs.2,167,448.
- (h) Fixed Assets valued at Rs.131,100 purchased during the year under review and the preceding year had not been capitalized.
- (i) Although the Courts Fines revenue for the year under review was Rs.2,096,141, it had been shown as Rs.1,546,774 in the financial statements. Due to that, revenue for the year under review had been understated in a sum of Rs.549,367.

- (j) When making provisions amounting to Rs.5,247,410 for the Stamp Fees Receivable relevant to the preceding year, it had been shown as revenue for the year under review, without being credited to the Accumulated Fund. Due to that, revenue for the year under review had been overstated in a sum of Rs.5,247,410 in the financial statements.
- (k) A sum of Rs.295,253 paid for Works during the year under review had been shown as advance payments. Due to that, Capital Expenditure had been understated in a sum of Rs.295,253.
- (l) Discount allowed amounting to Rs.47,674 on account of recovery of Rates during the year under review had been debited to Surplus and Deficit Account without being debited to Grants, Contributions and subsidies Account. Due to that, Expenditure for the year under review had been understated in a sum of Rs.47,674 in the financial Statements.
- (m) Inventory Items valued at Rs.47,168 had been shown under Machinery and Equipment. Due to that, Fixed Assets had been overstated in a sum of Rs.47,168 in the financial Statements.

### **1.3.2 Suspense Account**

The debit balance of Rs. 5,581,230 in the Suspense Account as at 31 December of the year under review had been debited to the Accumulated Fund Account without action being taken to identify and make the necessary adjustments.

### **1.3.3 Lack of Evidence for Audit**

Evidences such as Title Deeds, Plans, up dated Register of Fixed Assets, Schedules, properly maintained Creditors and Debtors Registers, Age Analysis and Confirmations of Balances connected with transactions totalling Rs. 140,828,273 shown in the financial statements were not furnished to audit.

### **1.3.4 Non compliances of Rules and Regulations**

#### **Expenditure incurred for Functions**

In terms of Section 132(a) of the Pradeshiya Sabha Act No. 15 Of 1987 total expenditure to be incurred for a function relating to a matter connected with common interest should not exceed Rs. One thousand per annum and in the event of exceeding that prior sanction of the Minister in Charge of the subject should be obtained. However, a sum of Rs.141,301 had been spent out of the Sabha Fund for the foundation stone laying function held on 19 November 2014, relevant to Town Hall and Office, Bus Stand, Children's Garden and the Spice Garden connected with formation of Baddegama City, without obtaining such sanction from the Minister in Charge of the subject.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of The Sabha for the year ended 31 December 2014 amounted to Rs.8,034,220 as against the decline of revenue over recurrent expenditure for the preceding year amounted to Rs.3,278,506.

### **2.2 Revenue Administration**

#### **2.2.1 Arrears of Revenue**

Action had not been taken to recover Rates amounting to Rs. 3,959,374, Acreage Tax amounting to Rs. 24,631 and Lease Rent amounting to Rs. 352,235 for the year under review and previous years in terms of Sections 158(1)(a) and 159(1) of the Pradeshiya Sabha Act No.15 of 1987.

#### **2.2.2 Court Fines and Stamp fees**

Courts Fines amounting to Rs. 784,875 and Stamp Fees amounting to Rs. 5,600,130 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31December 2014.

### **3. Operational Review**

#### **3.1 Management inefficiencies**

Although Declarations of Assets and Liabilities should be furnished i by all Sabha Members including the Chairman in terms of the Declaration of Assets and Liabilities Act No. 01 of 1975 as amended by Act No. 74 of 1988, Declarations of Assets and Liabilities had not been furnished for the year 2014 by the Chairman and 09 Members for the year 2014. Similarly, Declarations of Assets and Liabilities had not been submitted for the year 2013 too, by the Chairman and 14 Members.

#### **3.2 Operating inefficiencies**

Following observations are made.

- (a) An Advance Balance of R.72,775 which was being brought forward over a period of three years and a Pre-payment Balance of Rs.17,077 had been debited to the Accumulated Fund and adjusted in the accounts without being identified.
- (b) Action in terms of provisions in Financial Regulations 570 and 571(1)(2) of the Republic of Sri Lanka had not been taken to revenue, with regard to time lapsed deposits amounting to Rs. 2,794,009. Similarly, when maintaining the Deposit Ledgers in terms of Financial Regulation 565(4), balance of each category of accounts in the ledger and make up of those amounts had not been brought forward when opening a new Deposit Ledgers for each financial year.
- (c) Advances amounting to Rs.49,500 granted to officers in 10 instances by the Sabha had not been settled even as at 25 February 2015.
- (d) A sum of Rs.44,000 had been got reimbursed from the Sabha Fund on submission of bills for 330.83 liters of fuel purchased on payment of cash by the Chairman during the period from 16 December 2014 to 31 December 2014, without action being taken to obtain fuel through fuel orders after identification of fuel requirement for the Cab Vehicle No. PF – 7408 belongs to the Sabha.

- (e) Although the amount born for the property loans obtained by the officers of the Sabha should be reimbursed to the Sabha in terms of Clause 11.5.2 of the Circular No. 08/2005 dated 31 March 2005 of the Secretary to the Ministry of Public Administration and Home Affairs, a sum of Rs. 902,776 was due to the Sabha from the Department of Local Government as at 24 February 2015, date of audit, due to failure in taking action in terms of those provisions.

### **3.3 Improper Transactions**

Although it has been stated that the Members Allowance cannot be paid to the Chairman, Vice Chairman and Members of a Pradeshiya Sabha who did not participate in the Sabha meetings or Committee meetings held during the relevant month, except on the basis of being on leave under medical grounds, according to the Special Gazette notification No.1413/ 15 dated 05 October 2005 of the Republic of Sri Lanka, issued in terms of powers vested in the Chief Minister vide Section 184 of the Pradeshiya Sabha Act No.15 of 1987, contrary to the requirements in the Gazette , a sum of Rs.51,500 had been paid to Members who had not participated in the Sabha Meetings and Committee meetings who had not furnished medical certificates during the year 2014.

### **3.4 Shortage of Galvanized Pipes (G.I. Pipes)**

The Ministry of Local Government and Provincial Councils had provided 664 Galvanized Pipes of size 1 ¼” to the Pradeshiya Sabha during November 2014.

Following matters were observed at the audit inspection carried out on 02 April 2015.

- (a) The receipt of 664 Galvanized Pipes to the Sabha had not been recorded in the Register of Inventory. On verbal requests of Chairmen, out of those pipes, 232 pipes to the Yakkalamulla Pradeshiya Sabha and 104 Pipes to the Nagoda Pradeshiya Sabha had been provided.
- (b) At the physical inspection it was confirmed that 70 Pipes in Baddegama Pradeshiya Sabha, 198 Pipes in Yakkalamulla Pradeshiya Sabha and none of the Pipes at Nagoda Pradeshiya Sabha were available.
- (c) Accordingly there was a shortage of 396 Galvanized Pipes of size 1 ¼” out of 664 Pipes. Value of shortage amounted to Rs.438,372.

**4. Accountability and Good Governance**

**Budgetary Control**

It was observed that there were variances between the estimated revenue and the actual and that there were savings in certain items of expenditure. Accordingly, it was observed that the Budget had not been made use of as an effective tool of management.

**5. Systems and Controls**

Special attention of the Sabha is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Revenue Administration
- (d.) Assets Management