

Hakmana Pradeshiya Sabha
Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 29 July 2015 while Financial Statements relating to the preceding year had been submitted on 09 June 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 29 September 2015.

1.2 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 Hakmana Pradeshiya Sabha at 31 December 2014 and its financial performance 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 matters are observed.

- (a) While a sum of Rs. 220,000 had been debited to General Cash account from the Staff Loans Cash Account and had been credited Cash Transfer Account during the year under- review, on 31 December 2014 that amount had been credited to Accumulated Fund Account after debiting the Cash Transfer Account. Accordingly, the balance of Accumulated Fund Account had been overstated by that amount.

- (b) The value of Land and Building amounting to Rs. 94,000,000 constructed by the Urban Development Authority under Hakmana City Development Project and transferred to the Sabha had not been capitalized under Fixed Assets.

- (c) Rates paid in advance amounting to Rs. 53,563 as at 31 December 2014 according to the Register of Rates, had not been shown as a credit balance in the Rates Control Account. Due to that, Rates outstanding as at that date had been understated by that amount.
- (d) The sum of Rs. 360,000 recovered for motor cycle loan installments when making reimbursement of Members Allowance relevant to the year under review had not been credited to Revenue Grants Account having debited the Salaries and Allowances expenditure.
- (e) There was difference of Rs. 6,515,804 between the amount debited monthly as Capital Expenditure to Expenditure Head 309 in the Main Ledger and the amount recorded under that Expenditure Head according to P.S. 14.
- (f) The value of Land and Buildings and other physical assets amounting to Rs. 6,104,315 belong to the Sabha on the basis of Capital Expenditure incurred by the Sabha during the year under review and past years had not been accounted under Fixed Assets.

1.3.2 Unreconciled Control Accounts

While the value of balances relevant to six items of accounts according to financial statements was. Rs. 54,455,220, according to subsidiary registers/schedules total value of those accounts had been Rs. 55,287,087 indicating a difference of Rs. 831,867.

1.3.3 Suspense Accounts

Debit balance of Rs. 873,211 in the Suspense Account as at the end of the year under review had been shown deducted from Current Liabilities in the Statement of Financial Position without being settled.

1.3.4 Accounts Receivable and Payable

Following matters are observed.

- (a) Value of Accounts Receivable which had exceeded more than a period of one year as at 31 December 2014 was Rs. 10,283,988.
- (b) Value of Accounts Payable which had exceeded more than period of one year as at 31 December 2014 was Rs. 16,899,732.
- (c) Although 12 account balances valued at Rs. 1,704,583 were continuously being brought forward during a number of past years, action had not been taken to identify and settle those.

1.3.5 Lack of Evidence for Audit

Schedules, updated and properly maintained registers etc. relating to Assets valued at Rs.72,101,970 and Liabilities valued at Rs. 4,637,067 shown in the financial statements had not been submitted to audit.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue for the year ended 31 December 2014 amounted to Rs. 5,453,698 as compared with the corresponding excess of recurrent expenditure over revenue for the preceding year amounted to Rs. 2,440,901. While self-generated and statutory revenue of the Sabha during the year under review was Rs. 18,094,441, a sum of Rs. 11,241,960 out of that had to be spent for staff salaries and allowances, overtime and other allowances. It had been 62 per cent of the revenue referred to above. Accordingly the balance left for the other recurrent expenditure amounting to Rs.12,350,723 of the Sabha except staff salaries and allowances and other allowances had been Rs. 6,852,481. Due to that, the Sabha had to face revenue deficit during the year under review.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Information as furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

| Item of Revenue | Estimated | Actual | Cumulative Arrears as at 31 December |
|----------------------|-----------|---------|---|
| ----- | ----- | ----- | ----- |
| | Rs.'000 | Rs.'000 | Rs.'000 |
| (i.) Rates and Taxes | 387 | 439 | 639 |
| (ii.) Rent | 6,377 | 5,029 | 557 |
| (iii.) Licence Fees | 1,905 | 890 | - |
| (iv.) Other Revenue | 10,820 | 11,734 | 6,385 |

2.2.2 Rates and Acreage Taxes

While Rates in arrears as at 01 January 2014 was Rs. 891, 430, billings and surcharges relevant to the Year had been Rs. 403,388. Although the Rates value receivable had been Rs.1,294,818 accordingly, the amount received together with fines had been Rs. 753,067. Rates Receivable as at 31 December 2014 had been Rs. 541,751. While the Acreage Tax in arrears as at 01 January 2014 was Rs. 88,960, , billings for the Year under review had been Rs.9,620. Accordingly, out of the Acreage Tax of Rs. 98,580 to be received as at 31 December 2014, amount received during the year had been Rs. 600 only. The value of Acreage Tax outstanding as at 31 December 2014 was Rs. 97,980.

2.2.3 Lease Rent

While Ground Rent in arrears as at 01 January 2014 amounted to Rs. 261,900, billings with fines relevant to the year had been Rs. 149,930. The amount received with fines during the year was Rs. 127,930. The value of Ground Rent outstanding as at 31 December 2014 was Rs. 283,900.

2.2.4 Court Fines and Stamp Fees

The amounts outstanding to be recovered from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014 are shown below.

| | Rs. |
|----------------|-----------|
| i. Court Fines | 245,921 |
| ii. Stamp Fees | 5,153,140 |

3. Operating Review

3.1 Roads Management

According to the Budget sanctioned by the Sabha for the year under review, the area of authority belongs to the Sabha is 48.86 square k.m., and the number of Grama Niladhari Division is 34. The number of roads belongs to Sabha indicating particulars relating to length of roads in kilo meters, nature of roads such as tarred, concrete and gravel etc. had not been included in the Budget.

Following observations are made in this connection.

- (a) Although roads belong to the Sabha in the area of authority of the Sabha should be published through the Gazette in terms of Section 24 of the Pradeshiya Sabha Act No. 15 of 1987, while 136 roads had been published in the Gazette during the year 1995, such action had not been take with regard to the roads constructed or vested in the Sabha after that.
- (b) Although a Roads Inventory Register indicating length, width, place of beginning and end , nature of those roads such as tarred, concrete blocks, gravel and street lines of each road in the area of authority of the Sabha should be maintained, that register had not been maintained recording those information properly and not updated.
- (c) Although a sum of Rs. 36,118,191 had been spent during the year 2014 for development of roads to extent of 7846 .1 meters as 01 tarred road, 54 roads laid with concrete blocks stones, 06 concrete roads and 04 earth or gravel roads, Road Inventory Register had not been updated and properly maintained.

3.2 Operational Inefficiencies

3.2.1 Latrine Subsidies

A sum of Rs. 960,000 had been provided to grant Latrine Subsidies to 164 beneficiaries under the Health Services Program in the Budget for the year 2014.

Following observations are made in this connection.

- (a) Basis relevant to selection of 164 beneficiaries was not clarified to audit.
- (b) Although the income of beneficiaries had been stated in the relevant applications for subsidies, a methodology had not been introduced that the income mentioned should be certified by the relevant Grama Niladhari. It was not confirmed to audit as to how such certificate regarding the income of the beneficiaries was obtained.
- (c) While it was revealed that Latrine Subsidies were paid by the Sabha in the previous years, a register containing records of those payments were not furnished to audit. Therefore it was not possible to ensure whether subsidies were paid once again to a beneficiary who has already been paid subsidy.
- (d) While Latrine Subsidies had been paid to beneficiaries at Rates of Rs. 5,000, Rs. 6,000, Rs. 8,000 and Rs. 10,000, a decision taken by the Sabha for payment of varying mounts was not furnished to audit.
- (e) According to the Budget presented for the year 2014, the budgeted recurrent revenue in the Health Services Program was Rs. 5,836,110, while recurrent expenditure had been Rs. 7,587,250. In spite of the fact that the deficit in the Program had been Rs. 1,751,140, reasons for providing a sum of Rs. 960,000 for Latrine Subsidies were not clarified to audit.
- (f) According to Section 132(a) of the Pradeshiya Sabha Act No. 15 Of 1987, if the expenditure to be incurred for Health Works exceeds Rs. 1,000 during an each year, prior written approval of the Minister should be obtained. However, a sum of Rs. 574,000 had been paid as Latrine Subsidies to 94 beneficiaries by the end of the year under review without such approval.

3.3 Idle/Under-utilized Assets

While it was revealed that the cost of construction of the Town Hall Building constructed by the Urban Development Authority and transferred to the Sabha during the year 2013 was Rs. 54,000,000, Assembly Hall Chairs and other necessary equipment as well had been provided during the same year.

Following observations are made in this connection.

- (a) Although Government Funds amounting to Rs. 54,000,000 had been spent for construction of the Town Hall, revenue to be derived to the Sabha for 02 years had been lost to the Sabha due to non-opening of the building for public use.
- (b) While 571 chairs and other equipment provided from the Ministry of Local Government and Provincial Councils had not been shown in the accounts, those assets had remained idle during the year 2014.

3.4 Human Resources Management

Information relating to the approved and actual Cadre of the Sabha as at 31 December 2014 is shown below.

| Category of Employees | Approved | Actual | Vacant | Excess |
|-------------------------------------|----------|--------|--------|--------|
| Tertiary | 01 | 02 | - | 01 |
| Secondary | 26 | 22 | 04 | - |
| Preliminary | 38 | 41 | - | 03 |
| Others (Casual/Temporary/ Contract) | - | 05 | - | 05 |
| | 65 | 70 | 04 | 09 |

4. Accountability and Good Governance

4.1 Budgetary Control

The Budget of the Sabha had not been made use of as a tool of financial management as material variations were observed between budgeted revenue and expenditure and the actual revenue and expenditure.

5. Systems and Controls

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

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