

Neluwa Pradeshiya Sabha
Galle District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 07 April 2014 while Financial Statements relating to the preceding year had been submitted on 01 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 22 December 2014.

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 Neluwa Pradeshiya Sabha as at 31 December 2013, its financial performance and cash flows for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Public Sector Accounting Standards

Although all Local Authorities should prepare financial statements according to Public Sector Accounting Standards in terms of circular No.PED/54 dated 19 January 2010 of the Director General of Public Enterprises with effect from 01 January 2011 those accounting standards had not been followed.

1.3.2 Accounting Policies

Accounting Policies followed by the Sabha had not been disclosed with the accounts.

1.3.3 Accounting Deficiencies

Following observations are made.

- (a.) A Revenue Balance of Rs.104,338 that was being brought forward over a period of 05 years had been shown as liabilities in the financial statements.
- (b.) Capital Expenditure for the year under review had been overstated in a sum of Rs. 1,203,287 due to inclusion of Rs. 1,203,287 paid in respect of 06 works relevant to the preceding year, as expenditure of the year under review.
- (c.) Payments amounting to Rs. 572,547 had been made under creditors during the year under review for two works for which provision had not been made under creditors during the preceding year. Due to that, creditors had been understated in a sum of Rs.572,547 and balance of the Accumulated fund had been overstated in a similar sum.
- (d.) Provision had not been made in the financial statements for a sum of Rs.7,475,775 receivable as Capital Grants and Expenditure payable relevant to 12 works of the year under review. Due to that the revenue and the expenditure as well as debtors and creditors had been understated in a sum of Rs. 7,475,775 for the year under review.
- (e.) Although a sum of Rs. 96,869 had been paid under creditors during the year under review for cutting the Yakkaduwa Road to width of 04 meters and leveling which

was a work relevant to the preceding year, a sum of Rs. 78,693 had been debited again to the Expenditure Head. Due to that capital expenditure of the year under review had been overstated in a sum of Rs. 78,693.

- (f.) Machinery and Equipment valued at Rs. 46,950, Furniture and Fittings valued at Rs.1,532,200 purchased during the year under review and expenditure incurred on construction of buildings amounting to Rs. 17,500 totalling to Rs.1,596,650 as Fixed Assets had not been capitalized. Due to that, balances of Fixed Assets and Contribution from Revenue to Capital Outlay Account had been understated in a sum of Rs.1,596,650.

1.3.4 Non-reconciled Control Accounts

Following observations are made.

- (a.) While the balance of Pre-payments according to financial statements was Rs.423,125, the relevant balance according to the subsidiary registers had been Rs.1,435,943 and therefore a difference of Rs.1,012,500 was observed.
- (b.) The Control Account balance amounting to Rs.1,443,435 relating to 07 items of accounts could not be reconciled with the relevant subsidiary registers of as the subsidiary registers had not been balanced.

1.3.5 Lack of Evidence for Audit

Evidence such as ownership deeds, up-dated registers of fixed assets board of survey reports, balanced registers of deposits, schedules and age analysis connected with transactions totalling Rs.57,430,080 were not submitted to audit.

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 2013 amounted to Rs. 613,519 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.1,435,943.

2.2 Revenue Administration

2.2.1 Acreage Tax and Lease Rent

Although Acreage Tax amounting to Rs.6,222 and Lease Rent amounting to Rs.9,480,197 were in arrears as at 31 December of the year under review, action had not been taken to recover those balances in arrears in terms of sections 158 and 159 of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.2 Court Fines and Stamp fees

Court Fines amounting to Rs. 108,907 and Stamp Fees amounting to Rs.1,217,860 were outstanding to be recovered from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013.

2.2.3 Non-recovery of Lump Sum Money

During the year 2009, 258 Trade Stalls and Trade Spots had been provided to traders on the basis of recovering lump sum money amounting to Rs. 10,000per stall and a lump sum money amounting to Rs.5000 per spot from 142 trade spots situated in the Neluwa Fair Ground. At the audit inspection carried out on 02 October 2014 in this connection, it was observed that a sum of Rs.2,285,000 out of lump sum money recoverable from stalls and a sum of Rs.525,000 out of trade spots recoverable totalling to Rs.2,810,100 had not been recovered.

3. Operational Review

3.1 Management Inefficiencies

Statement of Assets and Liabilities as required in the Act No. 01 of 1975 as amended by the Declaration of Assets and Liabilities Act No. 74 of 1988 had not been provided by 6 Members of the Pradeshiya Sabha up to 05 October 2014, date of audit.

3.2 Lease of Neluwa Public Market Stalls

Forty three stalls including 19 stalls in the ground floor and 24 stalls in the first floor of the Neluwa Public Market had been given on lease after signing agreements. Following matters were observed at the on the spot inspection carried out on 04 October 2014.

- (i.) Although there was no permission to carry out other businesses except the business for which the agreement was signed, in terms of condition 06 of the agreement 08 stalls were being used to carry on other businesses.
- (ii.) Although it had been stated that right to use the stall or section of it cannot be sold, transferred or sub-leased or cannot be agreed upon with a third party by the lessee without approval of the Pradeshiya Sabha, in terms of the condition 07 of the agreement, 05 stalls had been sub-leased.
- (iii.) Although it had been stated that the lessee is agreeable to be ejected from the stall after recovery of lease rent in arrears when he has defaulted payment of lease rent for three months or more than that according to condition 13 of the agreement, such action had not been taken with regard to lessees of 05 stalls who had defaulted payment of lease rent for more than 03 months.
- (iv.) Although the lessee had agreed according to the condition 17 of the agreement, not to make any alteration to the property taken on lease without a written permission of the Chairman, stall Nos.02, 05 and 06in the Ground Floor Stall Nos.21 and 22 in the First Floor had been altered by fixing plants.
- (v.) Although it had been stated according to the condition 20 of the agreement that trading stocks should not be kept on the access roads to the stalls and outside of the

stalls, goods had been stacked stall No.14 of the Ground Floor and access road to the First Floor and in front of the stalls.

- (vi.) Although the stall should not be used as a store according to condition 21 of the agreement, electrical equipment had been stored in the stall No.03 of the ground floor.
- (vii.) Although the stalls were leased out to by the Sabha to carry on with business for public benefit stall No.01, 03 and 09 in the ground floor and stall No.02 and 03 in the first floor had been kept closed.

3.3 Financial Control Weaknesses

Although a difference of Rs. 19,218 prevailed between the cash book balance and the balance shown in the Bank statement of the Sabha during a period of three years action had not been taken to identify and clear it.

3.4 Transactions of Contentious Nature

Action had been taken by the Sabha to purchase plastic chairs after calling for quotations according to the Sabha decision dated 28 May 2013, in response to request made by two Welfare Societies and one Farmers Society . Accordingly, 290 armchairs had been purchased from a private firm on voucher No.350 dated 17 June 2013 having paid a sum of Rs. 200,000. Following observations are made in this connection.

- (a.) While a tender decision had not been taken for the purchase of chairs, purchases had been made having obtained quotations from 3 firms.
- (b.) Date of the bill issued by the firm from whom the purchases were made had been altered.
- (c.) While chairs purchased had not been recorded in the stock book or inventory register of the Sabha, register containing particulars relating to distribution was not furnished to audit.
- (d.) Although a letter forwarded to the Chairman by one society on 02 June 2013 thanking for providing chairs had been attached to the voucher, a written confirmation was given on 01 October 2014 to the audit by the President, Vice President and Secretary of that society that the chairs were not issued to the Society.
- (e.) The Secretary of the other society too submitted a written statement to the audit confirming that chairs were not provided up to 1 October 2014, although a request was made to provide 100 chairs.

- (f.) Although it had been stated that a request was by the secretary of the Farmers Society to provide chairs on 15 May 2013, the secretary of the farmers society had informed on 01 October 2014 that he did not make a request to provide chairs from the Sabha as secretary of the farmers society and that it is a farmers organization involved in activities only for improvement of agricultural works and that is not a function of the society to provide chairs and sheds in the occasions of functions and therefore there is no necessity to obtain chairs. In addition it had been stated that chairs were not provided to the society either during the year 2013 or 2014.

3.5 Idle Assets

A Hand Tractor valued at Rs. 250,000 had been provided to the Sabha by the Ministry of Local Government and Provincial Councils as a donation on 11 January 2008. It was observed at the audit inspection carried out on 01 October 2014, this vehicle was not in running condition and had been parked in the Sabha ground and tires had become unserviceable due to non-running.

4. 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