

Rajgama 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 03 August 2015 while Financial Statements relating to the preceding year had been submitted on 18 August 2014. The Auditor General's Report relating to the year under review was issued to the Secretary to Sabha on 29 September 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 Rajgama Pradeshiya Sabha as at 31 December 2014 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 Advance Accounting Practices

Journal Entries had not been used for recording assets and liabilities in the Main Ledger as at 01 January of the year under review.

1.3.2 Accounting Policies

Accounting Policies followed by the Sabha had not been disclosed together with the financial statements.

1.3.3 Accounting Deficiencies

Following observations are made.

- (a) Values of Stationery (General Stores) amounting to Rs.1,099,228, Electrical Stores amounting to Rs.2,651,560, and Ayurvedic Socks amounting to Rs.151,780 had been credited to the Contributions from Revenue to Capital Outlay Account. Due to that, the balance of that account had been overstated in a sum of Rs. 3,902,568.
- (b) Although the balance of the Accumulated Fund and Deficits Account as at 31 December of the year under review according to the Main Ledger was Rs.32,258,192, it had been shown as Rs. 30,204,036 in the financial statements, causing understatement of the balance in a sum of Rs. 2,054,156.
- (c) Furniture and Fittings valued at Rs. 424,236 and Motor Vehicles and Carts valued at Rs. 294,500 purchased during the year under review had not been capitalized.
- (d) Interest relevant to the year under review on 04 self-renewing Fixed Deposits had not been computed and shown in the accounts.
- (e) Although the balance of the Stationery Stock as at 31 December of the year under review was Rs. 20,295, it had been shown as Rs. 32,087 in the financial statements, causing overstatement in a sum of Rs. 11,792.
- (f) Capital Grants Receivable and Capital Expenditure Payable amounting to Rs.4,605,740 for the year under review had been omitted in the financial statements. Due to that, Capital Grants and Debtors; Capital Expenditure and Creditors had been understated to that extent.

- (g) A sum of Rs. 500,000 transferred from the General Account to the Works Account during the year under review had been recorded as Capital Grants received. Due to that Capital Grants for the year had been overstated in a sum of Rs. 500,000.
- (h) Capital Grants amounting to Rs.12,147,073 received during the year under review on account of past years had been shown as Capital Grants of the year under review. Due to that, Capital Grants and Debtors had been overstated at the rate of Rs.12,147,073 in the financial statements.
- (i) A sum of Rs.7,064,706 paid for 28 Works for which provision had been made under Creditors in the past years, had been recorded as Capital Expenditure for the year under review. Due to that, Capital expenditure and Creditors had had been overstated at the rate of Rs.7,064,706.
- (j) A sum of Rs. 4,317,134 transferred from the Works Account to the General Account during the year under review had been recorded as Capital expenditure. Due to that, Capital expenditure had been overstated to that extent.
- (k) Release of Retention Money amounting to Rs. 707,994 relating to past years had been recorded as Capital Expenditure for the year under review. Due to that, Capital expenditure and Deposits had been overstated at the rate of Rs. 707,994 in the financial statements.
- (l) Although the Court Fines Receivable or the year under review was Rs. 4,308,480, it had been shown as Rs. 7,800,000 in the financial statements. Due to that, revenue for the year and Debtors had been overstated at the rate of Rs. 3,491,520.

1.3.4 Non-reconciled Control Accounts

A difference of Rs. 8,351,597 was observed between the balances according to control accounts relevant to 05 items of accounts and the balances according to Subsidiary Registers.

1.3.5 Suspense Account

Action had not been taken to identify and adjust the debit balance of Rs. 636,821 in the Suspense Account as at 31 December of the year under review.

1.3.6 Lack of Evidence for Audit

Evidences such as Title Deeds, updated Register of Fixed Assets, Schedules, Board of Survey Reports, Certificates of Fixed Deposits, properly maintained Creditors Registers and Confirmation of balances relating to transactions totalling Rs. 41,354,659 shown in the financial statements were not furnished to audit..

1.3.7 Non-compliance with Laws, Rules and Regulations

- (a) Although it has been stated that in terms of Section 132 (k) of the Pradeshiya Sabha Act No. 15 Of 1987 , such contributions not exceeding in the aggregate one thousand rupees in any year as may be voted by the Pradeshiya Sabha, and such other contributions as may be voted by the Sabha with the prior sanction in writing of the Minister towards the cost of public entertainments or recreations or towards the support of any libraries or any educational, scientific, charitable or benevolent institutions; a sum of Rs. 20,000 had been paid for football matches without sanction of the Minister.

- (b) Although it has been stated that in terms of Section 132 (j) of the Pradeshiya Sabha Act , such expenses not exceeding in the aggregate one thousand rupees in any year as may be incurred by the Pradeshiya Sabha, and such other expenses as may be incurred by the Pradeshiya Sabha with the prior sanction in writing of the Minister in connection civic receptions or the celebration or observance of any events or occasions of public interest, a sum of Rs. 125,460 had been paid for Local Government Sports Meet without sanction of the Minister.

- (c) A sum of Rs. 43,623 had been paid out of the Sabha Fund as incidental expenses and combine allowance to the Vice Chairman of the Pradeshiya Sabha on 23 October 2014 for a foreign study tour which is not a function falling under Section 132 of the Pradeshiya Sabha Act No. 15 of 1987, without proper approval as well.
- (d) According to the amendments made to the Value Added Tax Act No. 14 of 2002 through the budget proposals for the year 2013, if the aggregate value of issue of invoices for supplies liable for collection of value added tax is not legal if the value does not exceed Rs. 03 million per quarter or Rs. 12 million per annum (for one month or three months) for the taxable period commencing from 01 January 2013 or thereafter. However, Value Added Tax amounting to Rs. 591,907 had been recovered by the Sabha during the year 2014 in spite of the fact that that the value of supplies had not exceeded Rs. 03 million per quarter or Rs. 12 million per annum.
- (e) Although it is stated in the Financial Regulation 371(2)(b) of the Republic of Sri Lanka that the imprest to be granted at a time should be limited to Rs. 20,000, contrary to that a sum of Rs. 1,075,000 had been granted as advances in 07 instance. Similarly, advances had been paid continuously, while advances already obtained remained unsettled.
- (f) Although it is stated in the Financial Regulation 371(2)(c) that the sub-imprest granted should be settled immediately after completion of the work for which such advance was granted, it was observed that there was a sum of Rs. 33,500 which had elapsed 05 years and a sum of Rs. 1,075,000 which had elapsed 03 years as un-settled advances.

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.5,111,310 as against the excess of recurrent expenditure over revenue for the preceding year amounted to Rs.4,420,314.

2.2 Revenue Administration

2.2.1 Rates

Action in terms of Section 158 (1) (a) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Rates amounting to Rs.10,795,713 due to be recovered to the Pradeshiya Sabha during the year under review and past years.

2.2.2 Lease Rent

Action in terms of Section 159 (1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Lease Rent s amounting to Rs. 676,534 due to be recovered to the Pradeshiya Sabha during the year under review and past years.

2.2.3 License Fees

Action had not been taken to recover License Fees amounting to Rs.84,622 relevant to the year under review and previous years in terms of Section 152(4) of the Pradeshiya Sabha Act No. 15 of 1987 during the year under review as well.

2.2.4 Court Fines and Stamp fees

Courts Fines amounting to Rs. 8,772,214 and Stamp Fees amounting to Rs. 9,281,450 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31December 2014.

2.2.5 Telecommunication Tower Charges

Although it is stated according to Paragraph 4 in the Extra Ordinary Gazette Notification No.159/8 dated 17 April 2009 published by the Minister of Urban Development and Community Land Development a certificate of conformity should be obtained before using a telecommunication tower, the telecommunication tower in Kuleegoda area had been used since 07 May 2014 without obtaining a certificate of conformity. Accordingly, fines amounting to Rs.24,650 were due to be recovered for 493 days from 07 May 2014 to 11 September 2015 in terms of Clause 6(vii) of the gazette notification.

3. Operational Review

3.1 Management Inefficiencies

Declarations of Assets and Liabilities had not been furnished for the year 2014 by the Chairman, Vice Chairman and 12 Members of the Sabha as required in terms of the Declaration of Assets and Liabilities Act No.01 of 1975 as amended by Act No. 74 of 1988.

3.2 Operating Inefficiencies

Action had not been taken to recover Loan Advances in arrears amounting to Rs. 26,760 due over a period of 09 years from 03 employees left on transfers and 03 deceased officers.

3.3 Idle Assets

It had been informed to prepare a scheme for disposal of old vehicles and machinery getting destroyed without being used in Government Institutions by 05 September 2013, vide Circular No.PCMD/PR/2013 dated 05 June 2013 issued by the Secretary to the President with regard old vehicles and machinery getting destroyed without being used. It was observed in the audit inspection carried out on 11 September 2015, that 02 tractors and the concrete mixing machine belong to the Sabha were getting corroded without action being taken in terms of those instructions.

3.4 Assets Management

Although the maintenance and repair works of 11 vehicles used by the Sabha are made by the Sabha, the ownership of those vehicles had not been vested in the Sabha up to 11 September 2015, date of audit.

3.5 Identified Losses

The Ministry of Local Government and Provincial Council had provided 544 Galvanized Pipes 1” to the Sabha on 23 November 2014.

- (i) 544 Galvanized Pipes received to the Sabha had not been recorded in the Inventory Register. Out of these pipes 168 pipes had been handed over to the Hikkaduwa Urban Council on 26 November 2014.
- (ii) It was confirmed at the audit inspection carried out on 06 April 2015 that there were 105 pipes in the possession of the Hikkaduwa Urban Council and 42 pipes in the possession of the Rajgama Pradeshiya Sabha.
- (iii) Accordingly, there was a shortage of 397 pipes out of the 544 pipes 1” provided to the Sabha. Value of the shortage amounted to Rs. 439,479.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that there were material variations of revenue and expenditure between the budget estimates and the actual indicating 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 the following areas of controls.

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