

Thihagoda 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 04 August 2015 while Financial Statements relating to the preceding year had been submitted on 05 December 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 08 October 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 Thihagoda 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 Accounting Deficiencies

Following matters are observed.

- (a) A sum of Rs. 337,480 deducted as loan installments for Motor Cycle Loans granted to Members when reimbursement of Members allowance from the Southern Province Local Government Commissioner had not been debited to Salaries and Allowances Account having credited Revenue Grant Account.

- (b) The sum of Rs. 1,244,770 received as Staff Salaries and Members Allowance amounting to Rs. 1,128,500 and Rs. 116,270 respectively for December 2014 from the Southern Province Local Government Commissioner had not been credited to Revenue Grants Revenue Head of the year under review.

- (c) Although the sum of Rs. 39,142 to be credited to the Local Government Service Pension Fund for the year 2013 should be credited to the Pension Funds Payable Account having debited the Accumulated Fund that value had been credited to Unpaid Salaries and Wages Account.
- (d) Property Loans Interest Money receivable amounting to Rs. 32,307 for September, October, December months of the year 2014 from the Southern Province Local Government Commissioner had not been credited to Sundry Advances (Property Loans Interest) Account.
- (e) While a sum of Rs. 600,000 had been transferred to Works Account from the General Account during September 2014, that amount had been credited to Revenue Grants Revenue Head of the year under review.
- (f) A sum of Rs. 4,369,291 received in respect of past years under Maga Neguma Rural Roads Development Scheme had been credited to the Capital Grants Revenue Head of the year under review.
- (g) Audit Fees amounting to Rs. 46,704 relevant to the year 2011 had been debited to Transport, Communication, Utility and Other Services Expenditure Head of the year under review.
- (h) Although a sum of Rs. 256,762 had to be to be credited as at 31 December 2014 relevant to the Expenditure Head 609, amount credited to that account had been Rs. 236,762. Accordingly Sundry Supply Creditors had been understated in a sum of Rs. 20,000 in the accounts.
- (i) Although a sum of Rs. 1,008,666 had to be to be debited Expenditure Head 309 during the year under review, that amount had been debited to Expenditure Head 109.

- (j) Vehicle Hire amounting to Rs.47,500 paid during November and December 2014 had been debited to Capital Expenditure Head 109.
- (k) Although the value of constructing the Compose Building was Rs.1,093,472 agreement value of Rs.1,175,497 had been capitalized. Accordingly a sum of Rs.82,025 had been overcapitalized.
- (l) Although a sum of Rs.1,527,569 had to be paid as pension contributions as at 31 December 2014 according to the bills of the Pension Department, that amount had not been shown in the Balance Sheet.

1.3.2 Unreconciled Control Accounts

While the total of balances relevant to 07 items of accounts according to financial statements was. Rs. 5,082,923, according to the subsidiary registers and schedules total of those accounts had been Rs. 3,848,324 indicating a difference of Rs. 1,234,599.

1.3.3 Suspense Account

Action had not been taken to settle the credit balance of Rs. 2,383,841 in the Suspense Account during this year too, which was being brought forward from a number of past Years.

1.3.4 Accounts Receivable and Payable

- (a) Value of Balances Receivable that had been outstanding for more than a year as at 31 December 2014 was Rs. 65,860,726.
- (b) Value of Balances Payable that had been outstanding for more than a year as at 31 December 2014 was Rs. 994,278.

1.3.5 Lack of Evidence for Audit

While Board of Survey Reports relevant to Buildings valued at Rs. 20,656,481, Schedules relevant to Debtors valued at Rs.102,562,514 Schedules relevant to Creditors valued at Rs. 2,053,830, Registers relevant to Advances valued at Rs. 75,668 were not furnished to audit, evidence relating to Journal Entries 11 and 62 relevant to debits and credits made to the Accumulated Fund too were not furnished.

1.3.6 Non-compliance with Laws, Rules, and Regulations

Instances of non-compliance with Laws, Rules, Regulations observed in audit are shown below.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) <u>Pradeshiya Sabha (Financial and Administrative) Rules of 1988</u>	
(i.) Rule 193	- A statement showing reasons for the surpluses and deficits, had not been submitted having compared the Budgeted and Supplementary Votes Expenditure with the actual expenditure
(ii.) Rule 218	- Action had not been taken to inspect all Lands and Buildings utilized and used for occupation by the Sabha at least once a year.
(b.) Treasury Circular No. IAI/2002/02 Dated 28 November 2002 of the Treasury	- A Fixed Assets Register had not been maintained for Computer Accessories and Software.

2. Financial 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 had been Rs.1,948,304 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 3,548,957 in the preceding year.

While the Business and Self-Generated Revenue of the Sabha relevant to the year under review amounted to Rs. 16,412,884, a sum of Rs. 14,263,455 had been spent out of that for payment of salaries and other allowances of the staff. Accordingly, the expenditure on salaries and allowances out of that revenue had been about 86 per cent.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

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

Source of Revenue	Estimated Revenue	Actual	Cumulative Arrears as at 31 December 2013
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	Rs.'000	Rs.'000	Rs.'000
Rates and Acreage Tax	281	2	18
Rent	1,435	1,340	209
Licence Fees	1,025	3,936	43
Other Revenue	29,680	49,542	277

2.2.2 Acreage Tax

While there was an arrears balance of Rs. 21,364 at the beginning of the year under review, charge and fines billed for the year had been Rs. 2,564. A sum of Rs. 4,081 for the preceding year and a sum of Rs. 1,497 relevant to the current year had been recovered. Accordingly, amount to be recovered as at 31 December of the year under review was Rs. 18,150.

2.2.3 Lease Rent

While there was an arrears balance of Rs.326,155 at the beginning of the year under review, value of billings with fines for the year had been Rs.1,007,632 a sum of Rs.1,061,363 had been received as a sum of Rs.54,414 for the preceding year and a sum of Rs.1,006,949 relevant to the current year had been recovered, a further sum of Rs.272,424 was in arrears. However, according to the financial statements balance of arrears had been Rs.209,425 reflecting a difference of Rs.62,999.

2.2.4 Water Tax

While the balance in arrears at the beginning of the year under Review was Rs.252,973 billings with fines for the year had been Rs. 350,816. Recoveries during the year were Rs.364,603. Accordingly, balance in arrears as at 31 December 2014 was Rs. 239,186.

2.2.5 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.
Court Fines	174,473
Stamp Fees	62,624,454

3. Operating Review

3.1 Human Resources Management

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

Category of Employees	Approved	Actual	Vacant	Excess
Executive	01	01	-	-
Tertiary	01	02	-	01
Secondary	16	19	-	03
Primary	26	21	05	-
Others Casual/Temporary/ Contract basis	02	07	-	05
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	46	50	05	09
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Although it had been informed vide Management Services Circular No. 14 dated 09 January 2002 of the Secretary to the Treasury and Circular No. 28 dated 10 April 2006 of the Secretary to the Ministry of Finance and Planning that recruitments in Local Authorities on the basis of temporary, casual substitute or other basis should be suspended immediately, it was observed that the Pradeshia Sabha had paid salaries out of the Sabha Fund for 05 employees recruited without approval during the year 2014.

4. Accountability and Good Governance

4.1 Internal Audit

An adequate internal audit had not been carried out in the Sabha.

4.2 Budgetary Control

It was observed that the Budget had not been made use of as an effective tool of financial management as material variations were observed between estimated revenue and expenditure according to the budget presented for the year under review 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.) Budgetary Control
- (c.) Revenue Administration
- (d.) Assets Management