

Akmeemana 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 25 March 2014 while Financial Statements relating to the preceding year had been submitted on 04 June 2013. The Auditor General's Report relating to the year under review was issued to the Chairman on 23 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 Akmeemana Pradeshiya Sabha as at 31 December 2013 and 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 of Sri Lanka

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

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

The following observations are made.

- (a.) Fixed Assets valued at Rs.22,326,091 had been omitted in the financial statements.
- (b.) Computers and Accessories valued at R381,900 purchased during the year under review had been shown under Furniture and Equipment in the financial statement without being shown under Plants and Machinery Equipment.
- (c.) The loan of Rs.1,833,358 obtained from the Local Loans and Development Fund for construction of the Ayurvedic, Library and Auditorium Building where Sabha Office is located had been omitted in the financial statements.
- (d.) Although the Members' Allowance relevant to the year under review is Rs.903,000, a sum of Rs. 381,750 after deducting Rs. 521,250 as Motor Cycles Loan Installments

only had been shown as Members Allowance in the financial statements. Due to this, expenditure for the year under review had been understated in a sum of Rs. 521,250.

- (e.) Purchase of Fixed assets amounting to Rs. 439,798 had been shown as Recurrent Expenditure in the financial statements.
- (f.) Expenditure to be incurred amounting to Rs. 4,144,692 and Rs. 5,003,054 totalled to Rs.9,147,746 on account of 09 Work Proposals during the preceding year and 18 Work Proposals during the year under review respectively, had not been provided in the financial statements. Due to that, balance of the Accumulated Fund had been overstated in a sum of Rs.4,144,692 and Capital Expenditure of the year under review had been understated in a sum of Rs.5,003,054, while Creditors had been understated in a sum of Rs. 9,147,746.
- (g.) The Capital Grant of Rs. 2,313,313 received during the year under review had been shown under General Deposits without being shown as Capital Grants in the financial statements. Due to that, Capital Revenue of the year had been understated in a sum of Rs. 2,313,313.
- (h.) Although the expenditure incurred on 08 Works performed during the year under review was Rs.7,380,360, 10% Retention Charges amounting to Rs. 738,036 had not been accounted as expenditure. Due to that, Capital Revenue of the year had been understated in a sum of Rs.738,035.
- (i.) Provision had not been made in the financial statements relevant to Recurrent Expenditure amounting to Rs. 217,220 as at 31 December of the year under review. Due to that, expenditure of the year had been understated in a sum of Rs.217,220.
- (j.) Although the Courts Fines Revenue Receivable for the year under review was Rs.2,399,475, it had been shown as Rs. 2,337,558 in the financial statements. Due to that, the revenue for the year under review had been understated in a sum of Rs.61,917.
- (k.) Provision had not been made in the financial statements for the pension contribution of Rs.2,831,960 payable on behalf of the Retired Local Government Employees as at 31 December of the year under review.

1.3.4 Non-reconciled Control Accounts

A difference of Rs. 6,294,253 was observed between the balances according to control accounts relevant to 04 items of accounts and the balances according to subsidiary registers.

1.3.5 Lack of Evidence for Audit

Evidences such as Ownership Deeds, Valuation Reports, up dated Fixed Assets Register, Board of Survey Reports, Schedules, Properly Maintained Debtors and Creditors Registers, Confirmations of Balances, Age Analysis, Properly Maintained Advance Registers and Deposits Registers etc. connected with transactions totalling Rs.79,442,686 shown in the financial statements were not furnished 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. 2,617,686 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 1,825,908.

2.2 Revenue Administration

2.2.1 Rates and Acreage Tax

Action in terms of Section 158 of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Rates amounting to Rs. 2,295,360 and Acreage Tax amounting to Rs. 298,145 due to be recovered to the Pradeshiya Sabha during the year under review and preceding years.

2.2.2 Trade License Fees and Lease Rent

Action in terms of Section 159 of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Trade Licence Fees amounting to Rs. 215,962 and Lease Rent amounting to Rs.261,125 due to be recovered to the Pradeshiya Sabha during the year under review and preceding years.

2.2.3 Courts Fines and Stamp Fees

Courts Fines amounting to Rs.2,905,102 and Stamp Fees amounting to Rs.23,428,280 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31December 2013.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

(a.) **Non-submission of Statements of Assets and Liabilities**

Declarations of Assets and Liabilities had not been furnished by the Chairman, Vice Chairman and 11 Sabha Members as required in terms of the Declaration of Assets and Liabilities Act No. 01 of 1975 as amended by Act No. 74 of 1988 up to 27 January 2014, date of audit.

(b.) Counseling Committees

In terms of Sections 12(1) and (2) of the Pradeshiya Sabha Act No. 15 of 1987, it is required to appoint separate Committees in order to give advice to the Pradeshiya Sabha in respect of each subject connected with Finance and Policy Framing, Housing and community Development, Technical Services, and Environment and facilities, and also authority could be delegated to those Committees subject to the conditions that Sabha could decide the authority and functions of the Sabha from time to time. Although those Committees had been had been appointed for the year 2013, those had not been implemented.

3.2 Operating inefficiencies

While the cab vehicle belongs to the Sabha had met with an accident on 22 January 2011, a sum of Rs. 288,612 in January 2012 and a sum of Rs. 360,461 in December 2013 totalling Rs. 649,073 had been paid out of Sabha Fund to a certain establishment to repair that. The Insurance Corporation had informed that the accident had not been occurred at the place supposed to be stated by the driver in that manner and that damages to the vehicle are not in conformity with accident and had refused the payment of insurance claim on those grounds by the Corporation.

3.3 Improper Transactions

3.3.1 Purchase of Two Water Bowser Tanks

It had been decided to Purchase Two Water Bowser Tanks for the Sabha at the General Meeting held on 10 April 2012 and quotations had been called for accordingly. On 12 June 2012, the General Sabha had given the approval to accept the minimum quotation of Rs. 300,000 after submission of the quotations to the Sabha.

The Chairman had informed the Manager of the Establishment that had submitted the minimum quotation to supply one Water Bowser Tank and had mentioned that full payment could be made through a cheque after providing that, by sending a letter on 25 June 2012. While the first 3200 litres Water Bowser Tank had been transported to the Sabha on 30 July 2012 by the supplier and the Bill No. 263 dated 30 July 2012 had been handed over to the Sabha, Rs. 300,000 had been paid to the Establishment on 27 August 2012.

While the second Water Bowser Tank had been transported to the Sabha on 04 March 2013 by the Establishment, a bill for Rs. 300,000 too had been handed over to the Sabha on 04 March 2013. A sum of Rs. 300,000 had been recorded In the private traveling voucher mentioning as settlement of bills for the purchase of 3,200 Litres Water Bowser Tank and indicating as the approval of the Council dated 14 May 2013 and payment had been made out of the Council Fund. The Chairman had made a written note on the Bill No. 323 dated 04 March 2013 attached to the voucher submitted by the Establishment to take action to issue an opened cheque without being crossed in favour of the name. While the cheque number and the date had not been mentioned on the payment voucher, according to the Payment Cash Book and the Counterfoil of the Cheque, the Cheque Number 416824 dated 14 May 2013 had

been written in favour of a private individual and that the Cheque had been en-cashed on the same date.

Following observations are made in this connection.

- (i.) A file containing information with regard to purchase of two Water Bowser Tanks had not been maintained.
- (ii.) Although the second Water Bowser Tank had been provided on 04 March 2013 and the Bill No.323 for Rs.300,000 had been handed over on the same day, the cheque had been issued in favour of a private name without crossing instead of issuing in favour of the Establishment. The Management Assistant who placed the first signature on the cheque (Soppy Officer) had presented the cheque to the bank and had obtained cash improperly.

3.3.2 Purchase of an Electricity Generator

An Electrical Generator had been purchased on 22 August 2013 having spent a sum of Rs. 875,000 out of the Sabha Fund. Following matters are observed.

- (a.) While the Sabha Secretary had informed 03 Establishments on 01 August 2013 to submit quotations for a Voiceless Diesel Electricity Generator of 10 kilo watts, the Establishment which had submitted the lowest quotation of Rs. 875,000 had been informed to supply that on 14 August 2013.
- (b.) While specifications relevant to purchase of the machine had not prepared, the quotations submitted had not been referred to a Technical Evaluation and recommendations had not been obtained.
- (c.) While a guarantee period had not been mentioned in the quotation submitted by the Establishment from which the machine was purchased, the Sabha had not paid attention in that regard.
- (d.) While the Electricity Generator machine had been received to the Sabha on 30 August 2013, an opened cheque for a sum of Rs. 875,000 had been written on voucher No.1030 dated 22 August 2013 in favour of a certain individual who was not the supplier. That cheque had been en-cashed from the bank by that individual on 23 August 2013. Action had been taken to make payment before receiving the Electricity Generator to the Sabha, contrary to provisions in Rule No. 115 of the Pradeshiya Sabha (Financial and Administrative) Rules of 1988 and Financial Regulation 137 of the Republic of Sri Lanka.
- (e.) The Operational and Maintenance Hand-Book supplied with the Electricity Generator Machine had been only a common Hand-Book; it was not relevant to this Electricity Generator Machine.
- (f.) While the Sabha had not entered into an agreement with this supplier, a disputed

situation had arisen already with regard to the repairs to be effected due to lack of a guarantee period.

- (g.) This Electricity Generator Machine received to the Sabha on 30 August 2013 was physically and jointly examined by the Electrical Superintendent of the Southern Province Engineering Service, Mechanical Engineer of the Southern Province Local Government Department and Audit Officers on 09 April 2014. While the Electricity Generator Machine had been defunct by that time, following observations had been made by the Mechanical Engineer and the Electrical Superintendent.
- (i.) While the battery relevant to the Electricity Generator Machine was not available there, electricity wire carrying electricity from the Alternator had been burned.
- (ii.) The Electricity Generator Machine had not been connected to the Pradeshiya Sabha Building.
- (iii.) Model, Serial Number and other particulars mentioned in the quotation submitted by the supplier were different and the Alternator too was not the product mentioned in the quotation.

4. Accountability and Good Governess
Audit Queries not Replied

While replies had not been furnished to 12 audit queries as at 31 December of the year under review, value of transactions that could be computed subject to those audit queries was Rs.4,341,057.

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.) Financial Control
(d.) Revenue Administration
(e.) Assets Management