

Baddegama 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 04 April 2014 while Financial Statements relating to the preceding year had been submitted on 10 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman 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 Baddegama Pradeshiya Sabha as at 31 December 2013 and its financial performance and Cash Flow 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 Local Authorities should prepare the financial statements according to the Sri Lanka Public Sector Accounting Practices 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 Deficiencies

Following observations are made.

- (a.) Although the balance of Pension Contribution Payable to the Pension Department on behalf of retired Local Government Employees as at 31 December of the year under review was Rs.6,195,139, it had been shown as Rs.3,857,925 in the financial statements causing an understatement of Creditors in a sum of Rs.2,337,214.
- (b.) Provisions had not been made in the financial statements on account of Capital Grants Receivable amounting to Rs.15,927,113 causing understatement of Capital Grants and Debtors for the year under review.
- (c.) Although the balance of Works Creditors as at 31 December of the year under review was Rs.17,492,861, a sum of Rs.7,230,293 had been made as provisions in the financial statements. Due to that, Capital Expenditure and Creditors had been understated in a sum of Rs. 10,262,568.
- (d.) Although the balance of the Local Loans and Development Fund as at 31 December of the year under review was Rs.4,744,664, , it had been shown as Rs.4,600,379 in the financial statements. Due to that, Loan Balance had been understated in a sum of Rs. 144,285.
- (e.) The sum of Rs. 18,087,501 received from the Local Government Department for reimbursement of salaries had been shown under one Programme instead of apportioning among all Programmes.

(f.) Rates amounting to Rs. 94,216 and Acreage Tax mounting to Rs. 2,505 received for the ensuing year had been shown deducted from the Taxes in arrears instead of showing as Receipts in Advance in the financial statements.

(g.) Capital Expenditure amounting to Rs. 122,487 incurred during the year under review had been shown as Recurrent Expenditure in the financial statements.

1.3.3 Non-reconciled Control Accounts

Following observations are made.

(a.) A difference of Rs. 322,763 was observed between the balances according to control accounts relevant to 03 items of accounts and the balances according to Subsidiary Registers.

(b.) Although the balance of Refundable Deposits according to Control Accounts was Rs.14,721,292, relevant Subsidiary Registers to that had not been balanced and therefore it was not possible to reconcile the balances shown in the Control account with the Subsidiary Registers.

1.3.4 Suspense Account

Action had not been taken to identify the debit balance of Rs. 5,581,230 in the Suspense Account as at 31 December of the year under review and make the necessary adjustments in the accounts.

1.3.5 Lack of Evidence for Audit

Evidences such as Title Deeds, Plans, up dated Register of Fixed Assets, Schedules, Board of Survey Reports, properly maintained Creditors and Debtors Registers, Age Analysis and Confirmations of Balances connected with transactions totalling Rs.80,414,599 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. 3,278,506 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 2,192,716.

2.2 Revenue Administration

2.2.1 Arrears of Revenue

Action had not been taken to recover Rates amounting to Rs. 2,533,084, Acreage Tax amounting to Rs. 509,370 and Lease Rent amounting to Rs. 509,370 for the year under review and previous years in terms of Sections 158 and 159 of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.2 Court Fines and Stamp fees

Courts Fines amounting to Rs. 296,917 and Stamp Fees amounting to Rs. 8,207,381 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013.

3. Operational Review

3.1 Management inefficiencies

Declarations of Assets and Liabilities had not been furnished for the years 2013 by the Chairman and 14 Sabha Members even as at 17 February 2014, date of audit, as required in terms of the Declaration of Assets and Liabilities Act No. 01 of 1975 as amended by Act No. 74 of 1988, Declarations of Assets and Liabilities had not been furnished for the year 2013 by the Chairman and 14 Members.

3.2 Operating inefficiencies

Following observations are made.

(a.) Un-settled Accounts

Action had not been taken to settle 03 Accounts Balances amounting to Rs.510,673 which was being brought forward over a period of more than 06 years.

(b.) Dishonored Cheques

Action had not been taken to settle a Dishonored Cheque amounting to Rs.27,256 which was being brought forward over a period prior to 05 years even up to June 2014.

3.3 Land Sale of Samanthanna Estate

While the Samanthanna Estate situated in the Walpita Grama Niladhari Division belongs to the area of authority of the Urban Development Authority, in extent of 08 acres, 02 rude and 9.2 perches had been blocked out to 92 plots by a private firm, Development Permit had been given by the Sabha on 02 September 2013. Following matters were revealed at the physical inspection carried out on 12 February 2014.

- (i.) According to the provisions in the Circular No. 05/02/1/384 dated 16 December 2008 issued by the Director General of the Urban Development Authority, a Certificate of Conformity should be obtained after payment of sum of Rs. 1,000 for each sub-partition of the first block of land and at the rate of Rs. 500 for the balance blocks of lands. Although except 03 blocks of lands, all balance blocks had been sold by February 2014, a revenue of Rs. 46,500 had been lost to the Sabha as Certificates of Conformity had not been obtained.
- (ii.) According to the provisions in the Circular No.3/2/1/10(ii) dated 30 September 1992 of the Chairman of the Urban Development Authority, not less than 10% of every sub-partitions of lands should have been reserved after leaving for streets, in a suitable location for community and recreation activities. Accordingly, the extent of 10% of the land that should have been given to Sabha out of the land auctioned in

extent of 7 acres 1 rude and 25.6 perches had been 2 rude 32.41 perches. However, it was observed in audit that the extent of land obtained to the Sabha had been only 2 rude and 21.6 perches. It was further observed in audit, that the portion given to the Sabha had been an un-useable land with slopes situated at the end of the land.

3.4 Improper Transactions

- (i.) Contrary to the provisions in the Circular No. 8 dated 01 March 2006 of the National Procurement Agency, equipment had been purchased to install a CCTV Camera System in the office premises having spent a sum of Rs. 436,950.
- (ii.) Revenue amounting to Rs. 6,482,650 had been adjusted to the Accumulated Fund in order to tally the balances shown in the subsidiary registers/schedules with the balances in the ledger accounts.

3.5 Identified Losses

A sum of Rs. 22,380 had been paid as surcharges to the Employees Provident Fund due to non-remittance of contributions on behalf of the substitute and casual employees served in the Sabha in terms of Section 10 of the Employees Provident Fund Act No.15 of 1958 as amended by the Amendments Act No. 01 of 1981.

Although any charge had to be paid due to delay in payments that charge should be recovered from the officers responsible for that in terms of the Financial Regulation 210(2) of the Republic of Sri Lanka, Sabha had not taken action accordingly.

4. Systems and Controls

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

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