

Weeraketiya Pradeshiya Sabha
Hambanthota District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 18 June 2014 while Financial Statements relating to the preceding year had been submitted on 28 June 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 23 December 2014.

1.2 Adverse Opinion

Because of the significance of matters described in paragraph 1.3 of this report, I am of opinion that the financial statements do not give a true and fair view of the financial position of the Weeraketiya Pradeshiya Sabha as at 31 December 2013 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Although the accounts should be prepared by the Local Authorities with effect from 01 January 2011, according to the Sri Lanka Public Sector Accounting Standards, in terms of the 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.) Following deficiencies were observed with regard to accounting for Fixed Assets.
- (i.) While the value of Machinery and Equipment and 13 Motor Vehicles according to Register of Fixed Assets had been Rs.35,122,110, according to the Balance Sheet, it had been Rs.50,688,000 showing a difference of Rs.15,565,895.
 - (ii.) While action had not been taken to assess the and account the value of 21 Land and Buildings included in the Register of Fixed Assets of which value had not been shown, value of 05 blocks of land amounting to Rs. 280,000 had not been capitalized.
 - (iii.) Action had not been taken to assess and account under Land and Buildings, the value of 22 Cemeteries not included in the Register of Fixed Assets

- (iv.) Although a sum of Rs. 6,413,963 had been spent for the Land and Buildings relevant to Pilisaru Project located in Kondagala, a sum of Rs. 6,100,000 only had been capitalized. Accordingly, a sum of Rs. 313,963 had been under capitalized.
- (v.) Although a sum of Rs. 326,532 had been spent on 31 December 2013 for erection of a boundary wall around the new Pradeshiya Sabha Building, , that value had not been capitalized.
- (b.) Although advances totalling Rs.1,450,288 had been settled as at 31 December 2013, it had been shown as unsettled advances without crediting the Advance Account. While the advance of Rs.1,000,000 included in this for the purchase of Office Equipment had been settled on 28 August 2013, the relevant expenditure had not been debited to the Item of Expenditure 106.
- (c.) The sum of Rs.1,364,893 received from the office of the Commissioner of Local Government for the purchase of Office Equipment during the year 2014, relevant to the year 2013 had not been accounted as revenue and debtors of the year under review.
- (d.) Although a sum of Rs. 213,520 should be received from the Central Environmental Authority relating to the construction works of the Pilisaru Project, it had been shown as Rs. 305,195 in the Balance Sheet.
- (e.) While the balance of the Savings Account No.4797677 had been shown in two places in the Balance Sheet as Rs.666,181 under Cash and as Rs.693,322 under Investments, action had not been taken to account the interest relevant to the year under review for that account.
- (f.) A difference of Rs.17,146,907 was observed between the main ledger and the financial statements relating to Fixed Deposits, Expense Creditors and License Fees Receivable.
- (g.) While a credit balance of Rs.5,885,966 had arisen due to incorrect accounting relating transfer of funds between bank current accounts, it had been shown under Receipts in Advance in the Balance Sheet.
- (h.) The credit balance of Rs.1,229,593 in the Suspense Account brought forward from the preceding year had been credited to the Accumulated Fund through the journal entry No.40, without taking action to clear it after finding out the reasons.
- (i.) Although it had been shown through the journal entry No.35 that Sundry Creditors were credited having debited the Capital Expenditure (309 and 209) for accounting Capital Expenditure amounting to Rs.41,055,000 payable relevant to

the year 2013, it had been debited to Creditors in the Ledger and due to that, Creditors balance had been understated in a sum of Rs.82,110,000.

- (j.) Provision had not been made for audit fees for the year under review in the accounts.
- (k.) The sum of Rs.95,080 reimbursable from the Electricity Board for the maintenance of street lamps as at the end of the year under review had not been shown under Revenue Debtors in the Balance Sheet.
- (l.) Although a sum of Rs.285,240 should be credited to the Revenue and Expenditure Account as Revenue on account of Street Lamps Grants under Revenue Grants (5-70), the entire sum of Rs.342,630 received during the year had been credited to revenue.
- (m.) Funds had been received on 01 and 02 January 2013 for the two Maga Neguma Projects MG/9/11/189 and MG/09/11/188. A total sum of Rs.948,421 had been shown as receivable for those two projects under Revenue Debtors in the Balance Sheet. Although that amount had been paid to the work performed Farmers Societies, it had been shown under Creditors as well in the Balance Sheet.
- (n.) Provision had not been made under Debtors and Creditors for 02 Specific Provincial Works totalling Rs.1,800,000 relevant to the year 2013.
- (o.) Although agreements had been entered for an estimated sum of Rs.1,500,000 for the construction of Weeraketiya Pradeshiya Sabha Pre-school Building through Sabha Funds during the year 2013, provision for Creditors had not been made for that.
- (p.) Although a sum of Rs.73,289 had been paid on 29 May 2013 as Nation Building Tax, while that had not been recorded as payments in the Nation Building Tax Control Account, it had been debited to Contracts Deposits Account.
- (q.) Although a sum of Rs. 44,041,586 had been credited to the Accumulated Fund having debited Local Loans and Development Fund, in order to correct the opening balance of the Local Loans and Development Fund according to the journal entry 32, it should be corrected as Rs.43,381,002. Accordingly, a difference of Rs.660,584 was observed.
- (r.) Although a sum of Rs.289,100 should be credited to the Revenue and Expenditure Account as License Fees Revenue (2.30) according to journal entry 31, a sum of Rs.686,507 had been debited.

1.3.3 Non-reconciled Control Accounts

A difference of Rs. 4,205,247 was observed between the value according to financial statements and subsidiary registers relevant to 7 items of accounts.

1.3.4 Lack of Evidence for Audit

Three Items of Accounts totalling Rs.1,862,908 could not be satisfactorily vouched in audit due to non-submission of required information.

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.7,780,023 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.81,229,174.

2.2 Revenue Administration

2.2.1 Performance in collection of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	1,892	858	3,480
(ii.) Lease Rent	24,481	16,854	3,228
(iii.) Other Revenue	26,973	24,968	57,285

2.2.2 Rates

- (i.) Action in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Arrears of Rates amounting to Rs. 3,480,390 as at the end of the year under review.
- (ii.) Analysis carried out with regard to balances exceeding Rs.5,000 included in the Arrears of Rates amounting to Rs.3,480,390 as at 31 December 2013 it was revealed that a sum of Rs.628,083 was outstanding to be recovered from 68 units.
- (iii.) While Rates had been recovered during the year 2013 too, based on the valuation carried out in 2002 and action had not been taken to carry out a fresh valuation and recover rates based on that.

2.2.3 Stalls Rent

- (i.) Although all agreements should be updated once in every 03 years in term of paragraph 05 of the Circular No.SLG/CLG/2010/1 dated 01 January 2011; action had not been taken to update the agreements which had been old for more than 25 years, relating to 4 stalls at Pasmahandiya and 7 stalls in the public market belong to the Sabha.
- (ii.) According to paragraphs 02, 03 and 05 of the above circular, stalls rent should be decided on the basis of a valuation obtained from a Valuer and thereafter it has to be sanctioned by the Sabha. According to paragraph 6 of that circular it had been informed that at least once in 5 years assessed lease amount should be amended through a new valuation. However, a proper valuation had not been obtained for the stalls rent recovered during the year 2013.
- (iii.) Although the rent of stalls had been increased during the year 2005 with effect from 01 January 2006, basis of deciding that rent and the agreements containing that new rent were not submitted to audit. Five old agreements relating to public market stalls too were not submitted to audit.

2.2.4 Machinery and Equipment Charges

Action had not been taken to recover Machinery and Equipment Charges in arrears amounting to Rs.1,008,296 due from outside parties and Sabha employees as at the end of the year under review.

2.2.5 Acreage Tax

Action in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Acreage Tax in arrears amounting to Rs. 43,303 as at the end of the year under review.

2.2.6 Court Fines and Stamp Fees

Court Fines and Stamp Fees totalling Rs. 9,614,682 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2013.

3. Operating Review

3.1 Management Inefficiencies

- (i.) Action had not been taken to remit the Value Added Tax, Nation Building Tax and Stamp Fees totalling Rs.6,256,245 collected by the Sabha up to 31 December 2013 to the Commissioner General of Inland Revenue.

- (ii.) Although the Commissioner General of Inland Revenue had informed not to recover the Nation Building Tax with effect from 01 January 2013 according to the budget proposals for the year 2013, a sum of Rs.85,773 had been over recovered as installments lessees of Weeraketiya, Morayaya and Julampitiya public markets, due to recovery of charges contrary to the instructions.
- (iii.) Revenue Licenses had not been obtained for a number of years for 01 cab vehicle, 05 tractors, 02 JCB Machines, 01 water bowser and 01 motor grader belong to the Sabha.

3.2 Operational Inefficiencies

Action in terms of Financial Regulation 396(d) of the Republic of Sri Lanka had not been taken with regard to 10 cheques totalling Rs. 223,418 issued, but not presented for payment.

3.3 Assets Management

(a.) Idle and Under-utilized Physical Assets

It was observed that Water Supply Equipment and Tube Well Equipment value at Rs. 87,189 remained idle.

(b.) Photo Copying Machine sent for Repairs

Although the Canon 7160 Photo Copying Machine belongs to the Sabha had been sent for repairs to Matara Metropolitan Institute on 28 December 2007, action had not been taken to get back that after repairs even up to 26 June December 2014, date of audit.

3.4 Purchase of Air Condition Machines for the New Building

While a bill had been received for a sum of Rs. 980,200 in respect of purchasing Air Condition Machines for the New Building, a sum of Rs. 500,000 had been paid out of that, to a private institute on 13 September 2013. Following observations are made in this connection.

- (i.) Although it is required to publish tender notices in newspapers, if the value of quantity to be purchased exceeds Rs.50, 000 in terms of Pradeshiya Sabha (Financial and Administrative) Rules 208 of 1988, notices relating to that had been displayed in Divisional Secretariats in the Hambantota District, Walasmulla Sub-office and Weeraketiya, Walasmulla Agrarian Service Committees.
- (ii.) Although a minimum of 05 quotations should be obtained for purchases exceeding Rs.250,000 according to Clause 2.14.1 of the Government Procurement Guidelines, only 03 quotations had been received.

(iii.) An agreement had not been entered into with the service supplying institution.

**4. Accountability and Good Governess
Budgetary Control**

It was observed that the revenue as expected in the Budget had not been received and that there had been large savings in certain items of expenditure. Accordingly, it was observed that the budget had not been made use of as an effective tool management.

5. Systems and Controls

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

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