

Weligama Pradeshiya Sabha

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 24 March 2015 while Financial Statements relating to the preceding year had been submitted on 30 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 20 July 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 Weligama Pradeshiya Sabha at 31 December 2014 and its financial performance for the year then ended and cash flows in accordance with Public Sector Accounting Standards of Sri Lanka.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following deficiencies are observed.

- (a) Lands, Buildings and Other Fixed Assets valued at Rs. 4,694,691 purchased and received as donations during the year under review and the past years had not been capitalized.
- (b) The sum of Rs, 1,000,000 provided for the Pradeshiya Sabha Strengthening Program through the Ministry of Local Government and Provincial Councils on 07 July 2014 had been credited to Other Grants Revenue Head without being accounted as Capital Grants.

- (c) Although a provision of Rs. 550,000 should have been made for Creditors at the end of the year under review for modification of Ayurvedic Building in the Kamburugamuwa Trade Complex, a sum of Rs. 5,050,000 had been provided making an over provision of Rs. 4,500,000.
- (d) The sum of Rs. 4,500 over recovered as at 31 December 2014 according to the Employees Loans Register had been shown deducted in the financial statements, without being shown as a credit balance in the Staff Loans Account.
- (e) Members Allowance amounting to Rs. 2,400 paid to Members who did not attend the Sabha had been recovered in March 2014 and credited to Other Grants Revenue Head 1.70 without being credited to Salaries and Allowances Expenditure Head.
- (f) Fuel Expenditure of the of Members amounting to Rs. 759,000 relevant to the year under review had been debited to Supplies and Equipment Expenditure Head without being debited to Travelling Expenses Expenditure Head.
- (g) The sum of Rs.34,405 over received for Rates as at 31 December 2014 according to the Rates Register had been shown deducted from the balance in arrears, without being shown as a credit balance in the Rates Control Account.
- (h) The surcharge of Rs.18, 684 over recovered for Rates and Acreage Tax relevant to the year under review, had been shown deducted from revenue to that extent without being credited to the revenue for the year.

- (i) Although the value of Other Debtors at the beginning of the year under review was Rs.28,924,258, according to the main ledger, a sum of Rs. 20,754,151 only had been accounted and therefore a sum of Rs. 8,170,107 had been understated in the accounts. This sum received in respect of past years had been shown deducted from the value of Other Debtors amounting to Rs. 45,235,870 without being credited to the Accumulated Fund. Due to that, valued of Debtor had been Rs.37,065,763 in the financial statements.
- (j) Value of 24 blocks of land allocated for common activities out of lands auctioned by blocking out during the year under review and preceding years in the area of authority had not been assessed and accounted under Land and Buildings.

1.3.2 Unreconciled Control Account

While the value of balances relevant to 11 items of accounts according to financial statements was. Rs. 79,282,899, according to the subsidiary registers value of those accounts had been Rs. 81,021,414 indicating a difference of Rs. 1,738,515.

1.3.3 Accounts Receivable and Payable

Following matters are observed.

- (a) Value of Accounts Receivable balances which had elapsed a period of more than a year as at 31 December 2014 was Rs. 3,438,467.
- (b) Value of Accounts Payable balances which had elapsed a period of more than a year as at 31 December 2014 was Rs. 5,545,105.
- (c) Non-settled Accounts
Six account balances amounting to Rs. 3,506,889 which were being brought forward from past years had been shown in the financial statements without being settled during year under review as well.

1.3.4 Lack of Evidence for Audit

Annual Board of Survey Reports, up-dated and proper Fixed Assets Register, Schedules, Investment Registers Confirmations of Balances and Schedules relevant to assets valued at Rs. 170,403,841 and liabilities valued at Rs. 16,734,826 were not submitted to audit.

1.3.5 Non-compliance with Laws, Rules and Regulations etc.

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

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Pradeshiya Sabha Act No. 15 Of 1987 Section 132 (a)	- Although a sum of Rs. 986,400 as Rs.725,900 and Rs. 260,500 had been spent out of the Sabha Fund for functions for the years 2013 and 2014 respectively, prior approval of the Chief Minister had not been obtained for those.
(b.) Pradeshiya Sabha (Financial and Administrative) Rules of 1988 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.
(c.) Treasury Circular No. IAI/2002/02 dated 28 November 2002	- A Fixed Assets Register had not been maintained for Computer Accessories and Software.

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 had been Rs.30,945,594 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs.20,051,773 in the preceding year.

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 2014
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		Rs.'000	Rs.'000	Rs.'000
(i.)	Rates	9,057	2,715	1,044
(ii.)	Rent	3,369	3,294	1,375
(iii.)	License Fees	4,229	7,423	543
(iv.)	Other Revenue	82,020	80,009	64,897

2.2.2 Rates

While Rates for the year under review with surcharges amounted to Rs.287,546, receipts during the year out of that sum had been Rs.67,521. Accordingly, the recovery percentage during the year had been 23 per cent. While Rates in arrears as at 01 January 2014 was Rs.989,990, the amount recovered out of those arrears during the year 2014 was Rs.261,943. Accordingly, recovery percentage of arrears had been 26 per cent.

2.2.3 Acreage Tax

While Acreage Tax billing with surcharges relevant to the year under review was Rs.11,029, receipts out of that amount had been Rs. 584 only and therefore the progress of Acreage Tax recovery relevant to the year under review had been 5 per cent. While balance in arrears as at 01 January 2014 was Rs. 100,943, the amount recovered out of that balance in arrears during the year had been only Rs. 74 and therefore the progress of recovery of arrears had been 0.02 per cent.

2.2.4 Garbage Tax

- (i.) Although it had been decided to recover minimum tax of Rs. 1,000 from each Holiday Homes for removal of garbage accumulating in Holiday Homes in the area of authority of Weligama Pradeshiya Sabha at the Sabha Meeting held on 26 December 2014, recovery of this tax had begun since January 2013.
- (ii.) By-laws had not been enforced for recovery of this tax. Although taxes had been recovered exceeding Rs. 1,000 per month from the Tourist Houses in the area of authority, the basis of deciding the taxes was not revealed. While a sum of Rs. 1,047,000 was outstanding to be recovered from 18 Tourist Houses for the years 2013 and 2014 as at 31 December 2014, any step had not been taken to recover that amount even up to end of April 2015.

2.2.5 Court Fines

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.
i. Court Fines	41,951,405
ii. Stamp Fees	2,700,000

2.2.6 Stalls Rent of Weligama, Mithigama Turkey Village

Twenty one stalls in the Weligama, Midigama Turkey Village had been vested in the Pradeshiya Sabha by the Weligama Divisional Secretary vide letter of vesting dated 27 November 2006.

- (i.) While tenders had been called for leasing out these stalls on 28 November 2006, according to the tenders received 10 stalls had been given to lessees and unilateral agreements had been signed. Although out of lump sum lease money payable by the lessees of stall No. 09 and 10 had been in arrears at the Rates of Rs. 100,000, Sabha had not taken action to recover those amounts.
- (ii.) Although it had been informed to the Sabha through letter dated 07 May 2015 by the Commissioner of Local Government that these stalls should be leased out after vesting in writing, by that time it had been informed by the Divisional Secretary that these stalls could be leased out vide his vesting letter dated 26 November 2006.
- (iii.) While the loss occurred to the Sabha amounted to Rs. 1,098,000 due to non-recovery of lease money through proper billing from ten stalls since the year 2007, the total loss occurred as at 31 December 2014 amounted to Rs. 2,305,800 as the balance 11 stalls too had not been leased out causing a loss of Rs. 1,207,800.
- (iv.) When obtaining electricity supply for these stalls, Sabha had entered into agreements with the Ceylon Electricity Board, but, at the time of signing agreements with lessees, a clause had not been included to ensure that they should settle the electricity bills. Due to this, a sum of Rs.63,012 had to be paid out of the Sabha Fund as per Sabha decision dated 29 October 2013.
- (v.) It was observed that Sabha could be liable to pay the sum of Rs. 1,249,475.77 for the letter of demand sent at present, as the Sabha had entered into with the Ceylon Electricity Board agreement for supply of electricity.

2.3 Surcharges

While 06 Surcharge Certificates and 02 Notices had been referred to the Chairman and the officers, attention of the Commissioner of Local Government had not been made with regard to action to be taken for those surcharges.

3. Operating Review

3.1 Performance Evaluation

3.1.1 Roads Administration

According to the Budget sanctioned for the year under review, the area of authority of the Weligama Pradeshiya Sabha was 101.04 Kilo Meters.

- (a) Although 153 roads had been registered vide Gazette No. 1824 dated 16 August 2013 in terms of Section 24 Of the Pradeshiya Sabha Act No. 15 Of 1987, it was observed that there were roads not published through the Gazette in the area of authority at the inspection carried out with regard to roads developed by the Sabha.
- (b) Although it is required to maintain a Road Inventory Register including length., width, place of beginning and ending and indicating the nature of the road such as whether tar, concrete , gravel , such register had not been maintained.
- (c) Capital Expenditure amounting to Rs. 19,400,000 for Equipment, Lands, Land Improvements and Buildings had been estimated under Physical Planning, Roads, Lands and Buildings. While provision had been made for Roads Development therein, a list of roads relevant to development of roads during the year 2014 had not been furnished. However, a sum of Rs. 37,105,700 had been spent for Roads, Construction of Culverts Development under the Programme 03.

3.2 Management Inefficiencies

3.2.1 Human Resource Management

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

Category of Employees	Approved	Actual	Surplus
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Executive	01	01	-
Tertiary	01	01	-
Secondary	26	29	03
Preliminary	43	77	34
Other (Casual and Temporary)	-	06	06
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	71	114	43
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Following observations are made.

- (i.) While a sum of Rs. 15,214,400 had been reimbursed from the Commissioner of Local Government for Staff Salaries and Allowances, during the year that expenditure amounting to Rs. 31,316,695 had been spent for payment of staff salaries and other allowances causing an additional burden of Rs. 16,102,295 to the Sabha Fund.

- (ii.) Although it had been informed vide Management Services Circular No. 14 dated 03 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 Weligama Pradeshiya Sabha had paid salaries out of the Sabha Fund having recruited 06 employees during the year 2014.

- (iii.) While self-generated revenue of the Pradeshiya Sabha relevant to the year under review had been Rs. 62,050,158, out of that revenue, Rs. 46,319,104 had been revenue in arrears. Accordingly, actual revenue recovered during the year had been Rs. 15,731,054. While additional amount paid out of Sabha Fund for staff salaries and allowances was Rs.16,102,295, that amount had exceeded the self-generated revenue recovered during the year.
- (iv.) It had happened to allocate 50.47 percent of the self-generated revenue to meet the staff cost when compared with other recurrent expenditure of the Sabha and therefore it could affect the financial position in the future. Special attention is needed to promote revenue generation and to obtain full reimbursement of salaries.

4. Accountability and Good Governance

4.1 Reports of Sabha Meetings

Sabha Meetings had not been conducted according to Pradeshiya Sabha (Procedure for Conducting Sabha Activities) Rules of 1988. Particular are shown below.

- (i.) While the General Sabha Meetings scheduled to be held on 26 February 2014 and on 05 March 2014 had not met due to lack of quorum and due to that a meeting had not been held for the month of February.
- (ii.) While 13 Sabha Sessions, including a Special General Meeting had been conducted during the year 2014, out of those only two members had participated at 13 Sessions. One Member for 10 Sabha Sessions and two Members for 7 Sabha Sessions had not participated. There were further instances of not participating in any discussions by 05 Members although they had attended the meetings.
- (iii.) While financial proposals to be shown under Sabha Meeting Rule (e) and (f) of 1988 had been sanctioned under special notifications made by the Chairman, without being displayed in the relevant places, Sabha proposals had been sanctioned contrary to Section 132 (a) of the Act for payments which cannot be made out of the Sabha Fund.

4.2 Budgetary Control

- (a) According to the Budget sanctioned by the Sabha for the year 2014, it had not been estimated for a Housing Project and a Sanitary Project for payments to be made to beneficiaries to construct latrines. A list of beneficiaries too had not been given. However, according to the financial and operational statement for the year under review, in the sum of Rs.7,509,547 debited to Equipment Expenditure, Lands and Land Development Expenditure Head, of the Health Service Program, a sum of Rs. 7,540,000 had been included as Rs. 1,890,000 relevant to the Sanitary Project, and Rs. 5,650,000 relevant to the Housing Project for the year 2014. Accordingly, it was observed that the amounts referred to above had been debited to Expenditure Head 209 as accrued payments as at 31 December 2014, without sanctioning for said Projects in the Budget.
- (b) Although 05 Health Services proposals, 04 Physical Planning proposals 03 Other Utility Services proposals, 15 Welfare Services proposals and 04 Community development proposals had been targeted under Capital Budget proposals mentioned in the Budget for the year 2014, expenditure expected to be incurred for those proposals had not been estimated and shown. Similarly, there was no methodology to get confirmed that those targeted proposals were fulfilled.
- (c) When estimated revenue and expenditure according to the Budget presented for the year under review is compared with actual revenue and expenditure, it was observed that the Budget had not been made use of as an effective tool of financial management.

5. Systems and Controls

The Special attention is drawn for the following areas of systems and controls.

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