

## **Balapitiya Pradeshiya Sabha**

### **Galle District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial Statements for the year under review and the preceding year had been presented to audit on 30 March 2016 and 31 March 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 25 November 2016.

##### **1.2 Qualified Opinion**

In my Opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Balapitiya Pradeshiya Sabha as at 31 December 2015 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**

The following accounting deficiencies were observed.

- (a) The value of road crusher and the water bowser received from the Ministry of Provincial Councils and Local Government in the year under review had not been assessed and brought to accounts.
- (b) There was a difference of Rs.99,000 between the employees security investments and the employees Security Deposits.
- (c) Contributions of Rs.6,713,256 payable to the Local Government Pensions Fund as at 31 December of the year under review had not been brought to accounts.

### **1.3.2 Unreconciled Control Accounts**

Differences totaling Rs.1,839,723 were observed between the balances of 7 items of accounts totaling Rs.45,276,967 shown in the financial Statements and the balances of related subsidiary books and records.

### **1.3.3 Accounts Receivable**

Any action whatsoever had been taken to recover the arrears of stamp fees totaling Rs.2,278,029 cash in hands of officers amounting to Rs.3,556 and the trade stall rent totaling Rs.692,325 even in the year under review.

### **1.3.4 Accounts Payable**

Action had not been taken to settle the stamp fees balance totaling Rs.73,515 payable as staff allowances and the deposit balances totaling Rs.1,821,965 on account of revenue even in the year under review.

### **1.3.5 Lack of evidence for audit**

Due to non-rendition of evidence such as the updated register of fixed assets in respect of Land and Buildings, Plant and Machinery. Motor Vehicles and Cars, Furniture and Fittings, Library books and related schedules totaling Rs.148,757,990 debtors and creditors registers, age analysis and letters of confirmation of balances in respect of debtors and creditors totaling Rs.7,585,059 and Rs.14,847,985 respectively, age analysis and related schedules in respect of staff loans amounting to Rs.5,910,900 refundable deposits of Rs.10,987,599 and sundry debtors of Rs.7,585,059, they could not be satisfactorily verified in audit.

### **1.3.6 Non – Compliance with Laws, Rules, Regulations and Management Decisions**

Action in terms of Financial Regulations 570 and 571(1)(2) had not been taken in respect of 79 deposit balances totaling Rs.2,801,386 elapsed for more than 2 years.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented to audit, the revenue over recurrent expenditure for the year ended 31 December 2015 amounted to Rs.28,466,919 as compared with the revenue over recurrent expenditure for the preceding year amounted to Rs.24,014,440. An improvement of Rs.4,452,479 had indicated in the financial results of the year under review as compared with the preceding year.

### 2.2 Analytical Financial Review

The following matters were observed.

- (a) A summarised information in respect of revenue grants for the year under review and the 2 preceding years, self operating revenue and the recurrent expenditure of the Sabha is given below.

<u>Year</u>	<u>Total</u> <u>recurrent</u> <u>revenue</u> <u>Rs.</u>	<u>Revenue</u> <u>grants</u> <u>Rs.</u>	<u>Self</u> <u>operating</u> <u>revenue</u> <u>Rs.</u>	<u>Total</u> <u>recurrent</u> <u>expenditure</u> <u>Rs.</u>	<u>Recurrent</u> <u>expenditure over self</u> <u>operating revenue</u> <u>Rs.</u>
2015	98,456,086	48,249,326	50,206,760	69,986,166	19,779,406
2014	81,192,076	30,771,592	50,420,484	57,177,635	6,757,151
2013	68,668,076	27,092,822	41,575,254	45,735,600	4,160,346

The following observations are made in that connection.

- (i) An increase of Rs.12,811,531 in recurrent expenditure of the year under review had indicated as compared with the preceding year. As the recurrent expenditure represented about 71 per cent of the recurrent revenue, the expenditure existed at a high level as compared with the revenue.
- (ii) Even though the receipt of revenue grants had shown a considerable improvement every year, a deterioration of Rs.213,724 had shown in the self operating revenue as compared with the preceding year.
- (iii) Though the recurrent expenditure of the Sabha had been increasing continuously at considerable values, attention of the Sabha had not been drawn to control such expenditure.

- (iv) The recurrent expenditure of the Sabha had indicated an increase in excess of the self operating revenue every year.
  - (v) Without getting revenue grants, the recurrent expenditure could not be covered from the revenue of the Sabha in any way.
  - (vi) It is the view of audit that the attention of the Sabha has to be paid in respect of issues stated in paragraph (I) to (V) above and to increase the revenue of the Sabha and a proper Procedure thereon has to be prepared and implemented, otherwise a problematic situation might arise on the going concern as a result of the prevailing weak financial management.
- (b) As compared the recurrent revenue with recurrent expenditure of the year under review in terms of programs, expenditure over income in 4 programs out of 5 programs had indicated.
  - (c) According the Budget for the year under review the Capital revenue and expenditure had been estimated at Rs.50,285,000 and Rs.76,582,000 respectively. However, the manner how to raise funds to incur capital expenditure, exceeding the capital revenue had not been explained.
  - (d) The actual capital revenue for the year under review amounted to Rs.3,498,771 whereas the actual capital expenditure was Rs.16,857,653 and as such the capital expenditure of Rs.13,358,882 had been incurred in excess of capital revenue.

### **2.3 Working Capital Management**

Current ratio and quick ratio had not been at a satisfactory level in the year under review and the previous 2 years and the attention of the Sabha had not been paid to improve the income by investing the excess cash remained in the bank current account.

### **2.4 Revenue Administration**

#### **2.4.1 Rates**

Out of the arrears of Rs.12,102,657 existed as at the beginning of the year under review and the billed amount of Rs.4,334,773, only 30 per cent had been collected during the year and as such the balance of rates in arrear by the end of the year under review amounted to Rs.11,446,255. Action had not been taken to recover the arrears in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987.

#### **2.4.2 Lease rent**

Out of the arrears of Rs.1,055,809 existed as at the beginning of the year under review and the billed amount of Rs.1,568,818, only 56 per cent had been collected during the year, and as such the balance of arrears or rent by the end of the year had been as high value as Rs.1,147,907.

#### **2.4.3 License Fees**

Out of the arrears of Rs.200,280 existed as at the beginning of the year under review and the billed amount of Rs.3,114,373, 94 per cent had been recovered during the year and a further sum of Rs.186,030 had remained arrears by the end of the year.

#### **2.4.4 Court fines and stamp fees**

Stamp fees of Rs.42,530,026 and the court fines of Rs.1,505,123 were due from the Chief Secretary of the Provincial Council and the other authorities as at the end of the year under review.

### **3. Operating Review**

#### **3.1 Management Inefficiencies**

The following matters were observed.

- (a) Eight vacancies in 2 posts approved in the cadre plan and 6 excess staff in the unapproved cadre had existed. However, action had not been taken to fill the vacancies and to regularise the excess cadre even by the end of the year under review.
- (b) Staff loan balances of Rs.5,910,901 as at the end of the year under review had existed loan balances of Rs.42,351 due from officers who had retired, vacated their posts and deceased. Action had not been taken to recover them.

#### **3.2 Irregular Transactions**

Contrary to Section 132 of the Pradeshiya Sabha Act No.15 of 1987, a sum of Rs.125,000 for the new year festival and a sum of Rs.300,000 for the educational tour of the employees of the Sabha in the year 2014 had been paid to the employees welfare society from the fund of the Sabha.

### **3.3 Projects not executed**

Although a financial estimate of Rs.1,086,285 and the proposed design had been presented for the project to increase the length of the Chimney by 20 feet of the Ahungalla crematorium in order to prevent inconvenience caused to house owners living nearby by steam exhausted in operating crematorium, that project had not been implemented even by the end of the year under review.

## **4. Good Governance and Accountability**

### **4.1 Budgetary Control**

Due to such reasons such as incurring expenditure totaling Rs.11,828,560 in 5 expenditure objects included in the Budget for the year under review and expenditure totaling 1,188,385 in another 2 expenditure objects, in excess of the approved Limits, existence of targeted income totaling Rs.18,222,269 in 6 revenue items which had not been reached and earned a revenue of Rs.8,547,354 in one revenue item, exceeding the targeted income, the budget had not been made use of as an effective instrument of management control.

### **4.2 Internal Audit**

An internal audit had not been carried out in terms of Circular No. දපපා/ගන/01/න.ව.ලේ dated 24 February 2014 of the Commissioner of Local Government (Southern Province).

### **4.3 Audit and Management Committee**

Action had not been taken to establish the audit and management committee in terms of Provision in Management Audit Circular No.DMA/2009(i) dated 09 June 2009 even by the end of the year under review.

#### **4.4 Assets Management**

The following matters were observed.

**(a) Idle assets**

Action had not been taken to get 3 motor vehicles parked in the Sabha premises being idling repaired and used or to dispose of them in terms of Public Finance Circular No.02/2015 dated 10 July 2015.

**(b) Assets not acquired**

- (i) Action had not been taken to transfer the ownership of 6 motor vehicles used by the Sabha even by the end of the year under review.
- (ii) Title deeds or transfer orders in respect of 7 Land and buildings used by the Sabha were not available with the Sabha to prove the ownership of them.

#### **5. Systems and Controls**

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

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