

Elpitiya 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 31 March 2016 and 09 April 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 25 October 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Elpitiya Pradeshiya Sabha as at 31 December 2015 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 Accounting Policies

Accounting policies followed in accounting had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The loan of Rs.15,870,458 obtained from the Local Loan and Development Fund in the year 2010 had not been shown in the financial statements.
- (b) The total payment of Rs.530,670 made to the creditors of the previous year up to the date of preparation of accounts had only been shown erroneously in the accounts as the balance of creditors of the year under review.
- (c) The contribution of Rs.7,479,894 payable to the Local Government Pensions Fund had not been brought to accounts.
- (d) The receivable amount for the performance of works as at the end of the year under review had been overstated by Rs.163,000,000 in the financial statements.
- (e) A sum of Rs.290,400 recoverable for 296 days of no-pay leave of 10 employees as at 31 December 2015, had not been brought to account as revenue receivable.

1.3.3 **Unreconciled Control Account**

There were differences totaling Rs.3,610,186 between the balances of 7 expenditure objects shown in the financial statements and the related subsidiary books and records.

1.3.4 **Accounts Receivable**

Balances of accounts receivable as at the end of the year under review totaled Rs.23,535,622 out of which a balance of Rs.19,468,148 had been brought forward prior to the year 2012. Action had not been settle those balances even in the year under review.

1.3.5 **Accounts Payable**

Action had not been taken to settle works creditors balance of Rs.3,199,601 and the general supplies creditors balance of Rs.801,455 remained as at the end of the year under review.

1.3.6 **Lack of Evidence for Audit**

Due to non-rendition of information such as schedules in respect of deposits totaling Rs.3,472,822 and the interest receivable on property loans amounting to Rs.280,156, schedules and deposit certificates in respect of investments of Rs.684,000 available for the payment of compensation for lands, agreements relating to the loans of Rs.18,116,095 obtained from the Local loans and Development Fund etc., those transactions could not be satisfactorily examined in audit.

1.3.7 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following instances of non-compliance with Laws, Rules, Regulations were observed.

Reference to Laws, rules etc.

Non-compliance

Financial Regulations of the Republic of Sri Lanka

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| (i) Financial Regulation 570 and 571(1)(2) | Although there were 5 deposit balances totaling Rs.211,875 elapsed as at 31 December 2015 action in terms of financial regulation referred to had not been taken. |
| (ii) Financial Regulations 1645 and 1646 | Daily running charts and monthly performance summaries in respect of 18 motor vehicles belonged to the Sabha were not made available for audit. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, to audit for the year ended 31 December 2015, the revenue over recurrent expenditure of the Sabha amounted to Rs.21,428,007 as compared with the revenue over recurrent expenditure for the preceding year amounted to Rs.8,257,216. Accordingly, the financial results of the year under review had been an improvement of Rs.13,170,791 as compared with the preceding year.

2.2 Analytical Financial Review

- (a) As the recurrent expenditure represented 71 per cent of the recurrent revenue of the year under review, the recurrent expenditure as compared with the recurrent revenue had been at a high level.
- (b) Particulars of revenue grants, self-operating revenue and recurrent expenditure of the year under review and the 2 preceding years are given below.

Year	Total recurrent revenue	Revenue grants	Self-operating revenue	Total recurrent expenditure	Recurrent expenditure over self-operating revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	73,874,936	46,194,082	33,680,854	52,446,928	18,766,074
2014	53,871,510	31,406,984	22,464,526	45,614,293	23,149,767
2013	43,823,012	21,120,853	22,702,159	37,816,525	15,114,366

The following observations are made in this connection.

- (i) Although the recurrent expenditure of the Sabha had continuously increased in considerable values, the attention of the Sabha had not been paid to control expenditure by identifying such position.
- (ii) Recurrent expenditure of Rs.18,766,074 had existed in excess of the self-operating revenue of the Sabha in the year under review.
- (iii) Without getting revenue grants it was indicated that the recurrent expenditure of the Sabha could not be covered in any way from the revenue of the Sabha.

- (c) As compared the recurrent revenue with the recurrent expenditure in terms of programs in the year under review, expenditure over revenue was indicated even in 4 programs.
- (d) Even though capital expenditure of Rs.12,551,784 had been incurred in excess of capital revenue, at least 30 per cent of the self-operating revenue had not been estimated as capital expenditure.

2.3 **Working Capital Management**

As a result of over accounting of Rs.163,000,000 receivable for works performed, the current assets had increased by 74 per cent of the year under review. It had directly affected the increase of working capital.

2.4 **Revenue Administration**

2.4.1 **Rates**

Even though the arrears of rates as at the end of the year under review amounted to Rs.9,162,732, action in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover the arrears.

2.4.2 **Acreage Tax**

Out of the arrears of balances of acreage tax amounting to Rs.376,687 remained in the year under review, only a sum of Rs.50,941 had been recovered during the year. 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.

2.4.3 **Court Fines and Stamp Fees**

Sums of Rs.1,175,650 and Rs.11,388,824 were receivable as at 31 December 2015 as court fines and stamp fees respectively from the Chief Secretary of the Provincial Council and other authorities.

3. **Operating Review**

3.1 **Management Inefficiencies**

The following matters were observed.

- (a) A provision of Rs.5,000,000 had been given by the Provincial Council for the construction of a new crematorium in the Maithreegama General Cemetery, in the year 2015, but the project had not been commenced even by 31 July 2016.
- (b) Action had not been taken to fill the vacancies of 5 in 2 posts included in the approved staff plan and to regularize 4 excess cadre recruited by the Sabha.

3.2 **Operating Inefficiencies**

As the loans obtained from the Local Loans and Development Fund on 17 March 2010 had not been repaid as specified, it was agreed to pay an interest of Rs.233,775 arisen after being re-structured the loan.

3.3. **Irregular Transactions**

- (a) Without obtaining the instructions or recommendations of the Assistant Commissioner of Local Government and the Commissioner of Local Government and the approval of the Minister in charge of subject, a sum of Rs.100,000 had been given to the Local Government Welfare Society of the Pradeshiya Sabha on 08 July 2015, but the particulars thereon were not made available for audit.
- (b) Expenditure totalling Rs.818,500 in 8 instances and the festival expenses totaling Rs.147,180 in 3 instances had been incurred without being complied with Section 132(a) and (b) of the Pradeshiya Sabha Act No.15 of 1987.
- (c) Even though expenditure on accommodation and food had been incurred from the Fund of the Sabha for seven foreign study tours made by 6 council members including the Chairmen which did not come under the purview of Section 132 of the Pradeshiya Sabha Act No.15 of 1987, subsistence allowance of Rs.1,304,490 had been paid without being considered it. Duty leave for proceeding abroad had also not been taken by 3 members as specified.

3.4 **Identified Cases**

According to the recommendation of the preliminary inquiry report conducted in respect of the accident caused to the cab bearing No.PF-7406 on 30 July 2015 it was established that the relevant accident had happened prior to this accident. As a result, the payment of insurance indemnity had been rejected by the Insurance Company. Nevertheless, action had not been taken to recover the loss incurred from the responsible person after holding an inquiry and assessed the loss.

3.5 **Delays in Projects**

The following matters were observed.

- (a) A sum of Rs.405,000 received for the implementation of 9 projects within the area of authority had been remained idle without being utilized for the relevant project.
- (b) Even though a sum of Rs.500,000 had been approved for the development of Kahaduwa Araliyawatta road under the Provincial specific Development grants, that work had not been commenced even by 20 June 2016.

3.6 **Solid Waste Management**

Although a building had been constructed for the grouping of waste in the year 2010 by spending a sum of Rs.1 million out of the sum of Rs.1,252,311 received from the Central Environmental Authority for the Pilisary Project implemented within the Sabha, that project had not been implemented even by 23 June 2016.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Due to the existence of savings of the entire provision of Rs.800,100 in an expenditure object included in the budget for the year under review, savings totalling Rs.11,625,904 in 5 expenditure objects, expenditure of Rs.19,502 incurred in excess of the limit of one object and the existence of targeted revenue of Rs.3,687,295 which had not been reached, 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/යහ/01/න.ව.මළ dated 24 February 2014 of the Commissioner of Local Government. (Southern Province).

4.3 **Assets Management**

Idle and underutilized assets

Action had not been taken to repair and use or dispose of 5 motor vehicles being dilapidated in the Sabha premises in terms of Public Finance Circular No.02/2015 dated 10 July 2015.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Human Resources Management
- (e) Motor Vehicles Control