

Imaduwa Pradeshiya Sabha

Galle District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review and the preceding year had been presented to audit on 31 March 2016 and 06 April 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 31 August 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 Imaduwa 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 Deficiencies

The following accounting deficiencies were observed.

- (a) The value of 6 motor vehicles totaling Rs.38,229,239 received from the Ministry of Local Government and Provincial Councils, the value of 10 multipurpose mobile canapys and the value of 450 galvanize pipes totaling Rs.498,150 had not been brought to accounts.
- (b) Members allowance of Rs.92,740 in the year under review and the court fine income of Rs.25,296 had been under stated and overstated respectively in the financial statements.
- (c) Stamp fees revenue of Rs.2,286,185 for the year under review had not been brought to account.
- (d) The capital expenditure of Rs.754,280 in the year under review had been shown under recurrent expenditure and the fixed assets valued at Rs.744,380 and the value of 3 plots of land received from Land auctions to the Sabha had not been capitalized.

1.3.2 Unreconciled Control Accounts

There were differences totaling Rs.158,106 between the balances totaling Rs.7,399,024 relating to 5 items of accounts and the balances shown in the related subsidiary books and records.

1.3.4 **Accounts Receivable and Payable**

The following observations are made.

- (i) There were 3 receivable accounts totaling Rs.162,850 brought forward in the accounts without being changed, an account receivable balance of 38,475 existed since 2011 and the debtor balances totaling Rs.42,792,127 as at the end of the year under review. Nevertheless, action had not been taken to settle them.
- (ii) An account payable balance of Rs.9,520 brought forward without changing prior to the year 2010, the balance of works account totaling Rs.46,224,497 as at the end of the year under review and the balance of Rs.1,457,799 in the sundry creditors account had not been settled.

1.3.4 **Lack of Evidence for Audit**

Due to non-remission of evidence such as the updated register of fixed assets prepared in terms of classes of assets and relevant schedules in respect of Land and Buildings, Plant and Machinery, Motor Vehicles and Carts, Furniture and Fittings and Library Books totaling Rs.35,511,361, creditors and debtors registers, age analysis and confirmation of balances in respect of debtors and creditors totaling Rs.101,579,234, age analysis and updated deposit register in respect of employees loans and sundry deposits totalling Rs.6,666,091, they could not be satisfactorily examined in audit.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented to audit, the revenue less than the recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.1,254,889 as compared with the revenue less than the recurrent expenditure for the preceding year amounted to Rs.3,111,522. As compared with the preceding year an improvement of Rs.1,856,633 in the financial results of the year under review was indicated.

2.2 **Analytical Financial Review**

- (a) As the existence of recurrent expenditure, over recurrent revenue of the year by Rs.1,254,889 as compared with the preceding year, the expenditure had been a high level as compared with the revenue of the Sabha.
- (b) A detailed summary of revenue grants self-operating revenue and recurrent expenditure of the year under review and the 2 preceding years is 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	38,888,951	26,046,376	12,842,575	40,143,840	27,301,265
2014	24,707,003	14,862,248	9,844,755	27,818,525	17,973,770
2013	23,104,576	12,226,270	10,878,306	21,893,082	11,014,776

The following observations are made in this connection.

- (i) Recurrent expenditure of the Sabha had increased two times of the self-operating revenue in the year 2013 and 3 times in the years 2014 and 2015. Attention of the Sabha had not been drawn to improve the revenue after being identified this position.
- (ii) Even though it was indicated that without getting revenue grants, recurrent expenditure of the Sabha could not be covered from the revenue, attention of the Sabha had not been paid to improve the revenue.
- (c) Capital expenditure of the Sabha in the year under review amounting to Rs.1,627,173 had been incurred over the capital revenue and the manner in raising funds to meet capital expenditure to be incurred, exceeding the capital revenue by Rs.5,555,000 according to the budget had not been explained.

2.3 Revenue Administration

2.3.1 Rates

Out of the rates recoverable relating to the year under review and the previous years' totaling Rs.393,249, only 21 per cent had been recovered. Attention of the Sabha had not been drawn to recover the arrears in terms of Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.2 Acreage Tax

Although a sum of Rs.56,608 was recoverable as at the end of the year under review, only a sum of Rs.762 had been recovered during the year under review. Attention of the Sabha had not been drawn to recover the arrears of tax in terms of Section 158 (1)(a) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.3. **Garbage Tax**

Out of the estimated garbage tax amounting to Rs.300,000 for the year under review, a sum of Rs.191,650 or 64 per cent of the expected revenue had been collected. A formal procedure had not been prepared and implemented to recover the arrears of taxes.

2.3.4 **License Fees and Business Tax**

Out of the License Fees of Rs.280,666 and the business tax of Rs.852,950, recoverable for the year under review, a sum of Rs.593,800 had been recovered. Action had not been taken to recover arrears of taxes in terms of Section 152(4) of the Pradeshiya Sabha Act No.15 of 1987.

2.3.5 **Court Fines and Stamp Fees**

Court fines of Rs.372,261 and the stamp fees of Rs.9,600,000 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2015.

3. **Operating Review**

3.1 **Performance Evaluation**

As compared the estimated capital expenditure shown in the budget for the year under review, with the actual capital expenditure, utilization of provisions made to achieve each objective of the Sabha had indicated a backward trend. It was observed in audit that this position had been detriment to the Sabha as well as to the general public of the area.

3.2 **Management Inefficiencies**

The following observations are made.

- (a) Excess cadre stood at 36, comprising 26 persons in excess of the approved cadre in the cadre plan and 10 persons in unapproved posts. However, the attention of the Sabha had not been paid to regularize the excess cadre.
- (b) Action had not been taken to recover loan balances totaling Rs.52,698 due from 12 employees, outstanding for a period of 01 year to 08 years in terms of Section 04 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.
- (c) Even though accounts had been prepared based on the assets valued at Rs.9,794,393 and liabilities valued at Rs.2,051,704, decided to be transferred to the Imaduwa Pradeshiya Sabha by the Hambaraduwa Pradeshiya Sabha on the recommendation of the assets and liabilities distribution committee on 15 April 2016, the relevant assets and liabilities had not been legally transferred to the Sabha even by 18 May 2016.

- (d) Action had not been taken to recover the surcharge of Rs.148,000, in terms of the agreement entered in to for the leasing of Monday weekly fair at Bogahagoda at an annual rental of Rs.780,000 for the year under review.

3.3 **Vesting the land for the construction of Bogahagoda weekly fair**

The following matters were observed.

- (a) The Department of valuation had assessed at Rs.2,850,000 for the Paddy Land proposed to be acquired for the construction of Bogahagoda weekly fair. Accordingly, a sum of Rs.2,850,000, comprising a sum of Rs.2,280,000 from the Local loans and Development Fund and a sum of Rs.570,000 from fund of the Sabha had been deposited on 20 October 2014 in the Imaduwa Divisional Secretariat. Such money had been idle as action had not been taken in that connection.
- (b) However, an interest of Rs.178,590 had been paid to the Local Loans and Development Fund as at 31 December 2015 at a monthly interest rate of 6.5 per cent since the date of obtaining the loan.

3.4 **Contract Administration**

The following observations are made in respect of the construction of Imaduwa Market Complex front yard and the Community Hall.

- (a) The contract for this construction had been awarded to an individual on 17 December 2007 for a sum of Rs.22,156,800 and the work should have been completed by 12 September 2008. Only 12 trade stalls in the ground floor had been constructed even by 11 November 2015 and a sum totaling Rs.1,165,406 had been paid to the contractor thereon. It was also observed that a sum totalling Rs.7,641,525 had been obtained from the lessees for 20 stalls in the year 2008.
- (b) Agreement had been entered again to improve the trade stalls and the construction of front yard and the Community Hall with the Puraneguma Project. Accordingly, an advance of Rs.6,452,393 had been paid to the contractor on 22 April 2014. However, the construction work had been halted on 31 December 2014 in view of the earth slip condition of the land. Accordingly, the contractor had submitted a work done report for Rs.3,914,260 in respect of work performed. Accordingly, the contract had been terminated after being recovered the difference between the amount of advance and the work done report which amounted to Rs.2,538,125 from the contractor.
- (c) Accordingly, it was observed in audit that the total expenditure of Rs.15,568,328 paid without conducting a feasibility study and without getting a stability report of the land had been a fruitless expenditure.

3.5 **Solid Waste Management**

In the inspection carried out on 13 November 2015 in respect of Waste Management of the Sabha, it was observed that attention of the Sabha had not been paid in respect of the implementation of a Project with a view to collect garbage by selecting a suitable land within the area of authority.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Due to the existence of savings of the entire provision in a expenditure object totaling Rs.1,122,859, savings totaling Rs.13,773,184 in another 5 expenditure objects expenditure of Rs.10,327,631 in 2 expenditure objects exceeding the limits, expenditure of Rs.252,490 under one expenditure object for which provision was not made targeted revenue of Rs.14,512,692 in 5 revenue items 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.ලේ dated 24 February 2014 of the Commissioner of Local Government. (Southern Province), but a sum of Rs.422,831 had been paid to the Internal Audit Officer who had been appointed by the Sabha as salaries and allowances for the year under review.

4.3 **Audit and Management Committee**

According to the provisions stated in the management audit Circular No. DMA/2009 (i) dated 09 June 2009 action had not been taken to establish audit and management committee even in the year under review.

4.4 **Assets Management**

(a) **Idle and underutilized assets**

The following matters were observed.

- (i) Although electrical appliances had been purchased and fixed by incurring an expenditure of Rs.18,520 in the year under review for the construction of a 'Nanasala' by the Sabha, such a 'Nanasala' had not been operated.
- (ii) Three motor vehicles costing Rs.1,959,000 had been idle and parked unprotectively in the premises of the Head Office and sub offices.

(b) **Un acquired assets**

The Sabha had not taken action to vest the legal ownership of a land 10 acres in extent belonging to a private company which had been given for the construction of a crematorium by the letter dated 04 August 2011 and 3 plots of lands received by auctions even in the year under review.

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) Assets Management
- (e) Contract Administration
- (f) Human Resources Management
- (g) Motor Vehicles Control