

Hakmana Pradeshiya Sabha

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been presented to the Audit on 22 July 2016 and the financial statements for the preceding year had been presented to the Audit on 29 July 2015. The Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 03 January 2017.

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 Hakmana Pradeshiya Sabha as at 31 December 2015 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) In view of the errors in the presentation of the values of assets, equity and liabilities in the financial statements, differences totalling Rs.5,540,360 was observed.
- (b) The value of 10 huts received as donation had not been computed and brought to account.
- (c) The works debtors and creditors had been understated by a sum of Rs.912,598 due to the failure to make provision for the debtors and creditors for 05 works of the year under review, whilst the value of the Roneo Machine amounting to Rs.212,800 had been brought to account twice and as such the value of fixed assets had been overstated by a similar amount.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs.1,593,520 were observed between the balances of 13 items of account shown in the financial statements totalling Rs.9,264,112 and the balances appearing in the subsidiary registers / schedules relating thereto.

1.3.3 Suspense Account

Steps had not been taken even during the year under review to make adjustments and settle the debit balance of the Rs.873,211 of the Suspense Account as at the end of the preceding year.

1.3.4 Accounts Receivable and Payable

Even though balances of 05 Accounts Receivable amounting to Rs.227,740 , forty two creditors balances amounting to Rs.366,245 and 12 deposit balances amounting to Rs.1,707,092 older than 03 years existed , steps had not been taken to settle those balances.

1.3.5 Lack of Evidence for Audit

In view of the failure to produce documents such as the Register of Fixed Assets and the Reports of the Annual Boards of Survey in respect of assets totalling Rs.178,465,076 , the Registers of Debtors and Creditors and the schedules in respect of the Sundry Debtors balance amounting to Rs.17,889,176 and Sundry Creditors balances amounting to Rs.22,840,763 , the updated register and the confirmation of balances in respect of balance of the Local Loans and Development Fund amounting to Rs.2,707,033 and the detailed schedules in respect of deposit balances totalling Rs.1,453,791 , those could not be satisfactorily examined in audit.

1.3.5 Non-compliance with Laws, Rules and Regulations

A statement of excess or saving under each item of expenditure as compared with the budget and the Supplementary Votes, together with an explanation on the cause of the excess or unexpended balance had not been presented with the accounts in terms of Rules 193 of the Pradeshiya Sabha (Financial and Administrative)Rules – 1988.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.1,177,140 , as against the excess of recurrent expenditure over revenue amounting to Rs.5,453,698 for the preceding year. Accordingly, the financial results for the year under review indicated an improvement of Rs.6,630,838.

2.2 Analytical Financial Review

The following observations are made.

- (a) Even though the expenditure of the year under review, as compared with the preceding year indicated a minor decrease, the total recurrent expenditure represented 97 per cent of the recurrent revenue.
- (b) A Summarized Statement of the total Recurrent Revenue, the Revenue Grants, the Self-generated Revenue and the total Recurrent Expenditure of the Sabha for the year under review and the two preceding years is given below.

Year	Total Recurrent Revenue	Revenue Grants	Self- generated Revenue	Total Recurrent Expenditure	Recurrent Expenditure exceeding the Self- generated Revenue
-----	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.	Rs.
2015	36,150,010	21,844,304	14,305,706	34,972,870	(20,667,164)
2014	31,264,785	13,170,344	18,094,441	36,718,483	(18,624,042)
2013	27,081,849	11,457,687	15,624,162	29,522,751	(13,898,584)

The following observations are made in this connection.

- i. Even though the Revenue Grants of the year under review and the two preceding years had indicated an improvement, the self-generated revenue of the year under review as compared with the preceding year indicated a deterioration of Rs.3,788,735.
- ii. Even though the recurrent expenditure of the three preceding year had continuously increased considerably exceeding the self-generated revenue of the Sabha, an adequate course of action had not been implemented for controlling the expenditure.
- iii. If not from the receipt of the Revenue Grants, it would not have been possible in whatsoever manner to cover the recurrent expenditure from the self-generated revenue of the Sabha.
- iv. In view of the position shown at paragraphs (i) to (iii) above it is observed that the attention of the Sabha should be paid for increasing the revenue position of the Sabha, that a formal course of action should be formulated and implemented, and if such action is not taken, it would create problems relating to financial position of the Sabha due to the weaknesses in the financial management prevailing, thereby causing adverse impacts on the going concern of the Sabha.

2.3 Working Capital Management

In view of the existence of current liabilities exceeding the current assets during the year under review and the preceding year, the working capital had converted to a negative value. Such position is not a salutary feature of the financial management.

2.4 Revenue Administration

The following observations were made.

2.4.1 Rates and Taxes

- (a) The opening outstanding balance amounted to Rs.548,220 and the billings amounted to Rs.364,978. Recoveries during the year had been 44 per cent of the arrears and 66 per cent of the billings. Action in terms of Section 158(1)(A) of the Pradeshiya

Sabhas Act, No. 15 of 1987 had not been taken for the recovery of the arrears balance as at the end of the year.

- (b) The opening balance of the Acreage Tax amounted to Rs.90,810 and the billings amounted to Rs.7,790. Even though 12 per cent of the opening outstanding amount and 39 per cent of the billing had been recovered, action in terms of Section 158(1)(A) of the Pradeshiya Sabhas Act, No. 15 of 1987 had not been taken for the recovery of the arrears balance.

2.4.2 Rent Revenue

The opening rent balance amounted to Rs.275,212 and the billings amounted to Rs.2,096,275. A sum of Rs.2,145,358 had been recovered during the year and the arrears balance as at the end of the year amounted to Rs.226,139.

2.4.3 Courts Fines and Stamp Duty

Stamp Duty amounting to Rs.4,943,745 and Courts Fines amounting to Rs.356,273 remained receivable as at 31 December 2015 from the Chief Secretary of the Provincial Council and other Authorities.

3. Operating Review

3.1 Assets Management

Idle Assets

- (i) In view of the failure to take any course of action in connection with 09 idle motor vehicles costing Rs.3,520,000, those motor vehicles had been deteriorating.
- (ii) The cement blocks machine purchased from the Sabha Fund for Rs.130,862 on 19 March 2010 remained idle without being used even by the end of the year under review.

3.2 Management Inefficiencies

(a) Staff Loans

Action had not been for the recovery of the outstanding loan balances amounting to Rs.300,405 granted to 04 officers in the year 2014.

(b) Human Resources Management

Even though 09 persons exceeding the number approved in the Cadre Plan had been deployed in service action had not been taken for formalizing those posts.

(c) Identified Losses

Liquidated damages amounting to Rs.12,600 relating to 02 works on the laying of cement clocks on the Kandegoda School Cross Road and the development of Gangodagama Kaluwagahahena Road had not been recovered.

4. Good Governance and Accountability

4.1 Budgetary Control

The non-achievement of the targeted revenue of 05 items of revenue included in the budget for the year under review totalling Rs.34,473,265 , the expenditure exceeding the approved limits of 03 items of expenditure amounting to Rs.12,159,263 and the savings in 06 items of expenditure amounting to Rs.8,133,203 existed and as such the budget had not been made use of as an effective instrument of financial management control.

4.2 Internal Audit

Even though an adequate internal audit had not been carried out as specified in the Financial Regulations 133 and 134 of the Financial Regulations of the Republic of Sri Lanka and the Circular No. දපපා/යන/01/නවමැද්ද dated 24 February 2014 of the Commissioner of Local Government of the Southern Province, the Internal Audit Officer appointed by the Sabha had been paid a sum of Rs.389,755 as salary and allowances during the year under review.

4.3 Audit and Management Committee

Action in terms of the provisions in the Management Audit Circular No.DMA/2009(i) dated 09 June 2009 had not been taken even by the end of the year under review for the establishment of the Audit and Management Committee.

5. Systems and Controls

Special attention of the Sabha is drawn to the following areas of systems and controls.

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