

**Kirinda Puhulwella 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 04 April 2017 and the financial statements (amended) for the preceding year had been presented to the Audit on 11 April 2016 and the Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 31 August 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 Kirinda Puhulwella Pradeshiya Sabha as at 31 December 2016 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 during the course of audit.

- (a) Fixed assets value of Rs. 132,630, industrial debtor and creditor balances of Rs. 676,224 and advance account balance of Rs. 32,964 were understated in the financial statements.
- (b) The receivable vehicle rent income of Rs. 261,975 and property loan interest income of Rs. 25,724 had not been accounted.
- (c) Cash transfer balance of Rs. 1,423,450 was shown in the financial statements due to non-transferring of cash among accounts correctly.
- (d) Fixed assets of Rs. 702,440 had not been capitalized during the year under review.
- (e) Provisions for industrial creditors with relating to the construction of compost yard had been overstated by Rs. 399,524 in the financial statements.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs. 5,579,473 were observed between the balances of 15 items of account shown in the financial statements totaling Rs. 21,300,857 and the balances appearing in the subsidiary registers / schedules relating thereto.

1.3.3 Accounts Receivables and Payables

The following observations were made.

- (a) Twelve balances over 03 years period of Rs. 5,140,028 had been included in industrial debtor balance aggregating Rs. 7,637,064 as at the end of the year under review.
- (b) Steps had not been taken to settle the loan account total of Rs. 324,465 of Kamburupitiya Pradeshiya Sabha for 10 years period.
- (c) Actions had not been taken even in the year under review to settle stamp fees, Value Add Tax and Nation Building Tax balances aggregating Rs. 971,279.

1.3.4 Lack of Evidence for Audit

In view of the failure to produce evidence such as title deeds and vesting registers in respect of the fixed assets totaling Rs. 40,987,218 and relevant schedules of plant machinery, furniture and fittings balance brought forward from the year 2006, the properly updated loan register for staff loan of Rs. 1,469,306 could not be satisfactorily examined in audit.

1.3.5 Un-authorized Transactions

Incentive allowances of Rs. 29,655 had been paid to two officers of the Sabha for taking information of stamp fees revenue from land registry offices in Colombo by miss-interpreting the paragraph 8.1 of the Circular No. 1984/19 dated 24 November 1984.

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 2016 amounted to Rs. 3,729,662, as compared with the excess of recurrent expenditure over revenue amounting to Rs. 1,528,678 for the preceding year. Accordingly, the financial results for the year under review indicated an improvement of Rs. 2,200,984 as compared with the preceding year.

2.2 Analytical Financial Review

The following observations were made.

- (a) The total recurrent expenditure represented more than 88 per cent of the total recurrent revenue of the year under review.
- (b) Even though the recurrent expenditure of every year had increased continuously in considerable measure, the attention of the Sabha had not been paid for controlling that position.

- (c) It was observed that the recurrent expenditure had been increased more than the self-generated Revenue by significant amounts in the year under review as well as the previous two years.
- (d) It was shown situation where recurrent expenditure could not be recovered at any mean from self-generated Revenue if revenue grant is not received.

2.3 Working Capital Management

It was observed in audit, that a liquidity position according to the current and quick ratios does not exist due to the existence of unrecovered 12 balances older than 03 years amounting to Rs. 5,140,028 in the debtor balance of the year under review.

2.4 Revenue Administration

2.4.1 Rates and Taxes

The following observations were made.

(a) Rates

While there was opening arrears amounting to Rs. 659,511, and a sum of Rs. 1,109,472 had to be recovered including the billings of Rs. 449,961. The arrears balance as at the end of the year was higher as Rs. 617,478 due to the total recoveries was Rs. 491,994.

(b) Acreage Tax

While there was opening arrears amounting to Rs. 129,968, and the billings of Rs. 12,482 of the year. The arrears as at the end of the year was Rs. 130,726 due to the total recoveries during the year was Rs. 11,724.

2.4.2 Lease Rent

While there was opening arrears amounting to Rs. 1,324,319, and a sum of Rs. 1,600,787 had to be recovered including the billings of Rs. 1,324,319. The arrears as at the end of the year was Rs. 250,343 due to the total recoveries was Rs. 1,350,444.

2.4.3 Stamp Duty

Stamp Duty amounting to Rs. 8,271,640 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at the end of the year under review.

03. Operating Review

3.1 Management Inefficiencies

Actions had not been taken to fill 02 secondary vacancies as well as to streamline in 17 excess staff.

3.2 Idle and Underutilized Assets

The following observations were made.

(a) Nine land lots belonging to the Sabha with the extend of 115.8 perches were in idle and steps had not been taken to protect by making land marks in 21 land lots with the extend of 02 acres 03 roods 19.3 perches.

(b) Motor Vehicles and Cart

Though 03 vehicles at a cost of Rs. 1,399,400 had been kept idle, actions had not been taken to utilize them by making repairs or to dispose.

3.3 Contract Administration

The following observations were made.

(a) According to the budget estimate of the year under review, though it was planned to implement 44 work proposals of Rs. 57,800,000 by the Sabha under sundry provisions, any work proposals had been implemented during the year.

(b) Seven contracts of Rs. 5,397,692 had been implemented by the Sabha under sundry provision, which the provision had not been made in the budget.

3.4 Solid Waste Management

The expenditure of Rs. 12,086,370 had been incurred from the year 2012 to the end of the year 2016 by the Sabha for solid waste management. Further a sum of Rs. 1,327,139 had been spent to construct the compost yard. Though a sum of Rs. 2,933,442 had been spent during the year to manufacture organic fertilizer, the revenue generated from that was Rs. 133,202.

04. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the budget had not been made use of as an effective instrument of financial management control due to the savings aggregating Rs. 376,152 in 06 expenditure votes budgeted in the year under review and non-achieving targets aggregating Rs. 1,913,111 in 02 revenue votes.

4.2 Internal Audit

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. SPLA/G/01/MCC dated 24 February 2014 of the Commissioner of Local Government of the Southern Province, a sum of Rs. 347,096 had been paid to the Internal Audit Officer deployed by the Sabha as salaries and allowances in 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.

4.4 Conducting of Annual Board of Survey

According to the Board of Survey report conducted in 31 December 2016, though it was revealed a shortage of 104 inventory equipment units belonging to 20 items, further actions had not been taken in that regard.

5. Systems and Controls

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

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