

Thihagoda 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 24 March 2017 and the financial statements for the preceding year had been presented to the Audit on 24 March 2016 and the Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 26 July 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 Thihagoda 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) Ayurvedic grants received in-kind to the Sabha in the year under review for Rs. 200,000 had not been accounted.
- (b) Name boards, plant and equipment, motor vehicles and carts, and furniture and fittings procured during the year under review aggregating Rs. 1,045,570 had not been capitalized under fixed assets.
- (c) The assets such as Galaboda community center, two cemeteries at Komangoda and Kottawatta, land adjoining to Thihagoda bus stand had not been valued and accounted under fixed assets.
- (d) The retention deposit amount of Rs. 192,915 paid during the year under review had further being shown in account without clearing them by making adjustments.
- (e) Estimated amount of Rs. 1,000,000 had been shown under industrial creditors without deducting the expenditure of Rs. 242,500 paid with relating to the construction of Galhengoda Mandoraya road.

- (f) The value of 05 buildings aggregating Rs. 9,017,348 paid during the year under review had not been capitalized under fixed assets.
- (g) Creditor provisions with relating to arrears audit fees aggregating Rs. 273,890 for previous years had not been provided.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs. 5,623,314 was observed between the balances relating to 10 items of account included in the financial statements and the balances appearing in the Subsidiary Registers and schedules relating thereto.

1.3.3 Suspense Accounts

Actions had not been taken even in the year under review to adjust and settle accounts by identifying credit balance of Rs. 2,382,841 in suspense account which was continuously carrying forward in accounts without taking steps to settle.

1.3.4 Accounts Receivables

A balance over 03 years period of Rs. 60,412,156 had been included in debtor balances aggregating Rs. 84,238,318 as at the end of the year under review.

1.3.5 Lack of Documentary Evidence for Audit

In view of the failure to furnish evidence such as updated registers of land and building, title deeds and schedules with relating to fixed assets totaling Rs. 69,364,618, proper and updated schedules, age analysis with relating to sundry creditor balance aggregating Rs. 11,378,932 and debtor balance Rs. 86,621,962, and advance registers with relating to advances aggregating Rs. 95,669 those could not be satisfactorily examined in audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

According to the Financial Regulation of the Republic of Sri Lanka 571, actions had not been taken with relating to retention deposits balances payable aggregating Rs. 185,605 which was remaining over 05 years period.

2. Financial Review

2.1 Financial Results

The following observation was made.

- (a) According to the financial statements presented, the excess of revenue over the recurrent expenditure for the year ended 31 December 2016 amounted to Rs. 5,029,840 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs. 13,499,054. The financial results for the year under review indicated a deterioration of Rs. 8,469,214.

2.2 Analytical Financial Review

The following observations were made.

- (a) The total recurrent expenditure represented more than 86.8 per cent of the total recurrent revenue of the year under review.
- (b) 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 and it was shown situation where recurrent expenditure could not be recovered at any mean from Self-generated Revenue.

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 balances older than 03 years amounting to Rs. 60,412,156 in the debtors balance.

2.4 Revenue Administration

The following observations were made.

2.4.1 Rates

Even though the area of authority of the Sabha had been declared as a developed area by the Gazette No. 1824 dated 13 August 2013, rates recovery procedure had not been established by the Sabha even up to the end of the year under review since then.

2.4.2 Lease Rent

While there was opening arrears lease rent balance amounting to Rs. 221,264, and a sum of Rs. 1,135,964 had to be recovered including the billings of Rs. 914,700 of the year. The arrears

balance as at the end of the year was Rs. 222,389 due to the total recoveries during the year was Rs. 913,575.

2.4.3 Revenue from Water Charges

While there was opening arrears balance amounting to Rs. 143,620, and a sum of Rs. 392,709 had to be recovered including the billings of Rs. 249,089 of the year. The arrears as at the end of the year were Rs. 167,666 due to the total recoveries during the year was Rs. 225,043.

2.4.4 Courts Fines and Stamp Duty

Courts fines amounting to Rs. 222,334 and the Stamp Duty amounting to Rs. 10,557,575 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at 31 December 2016.

3. Operating Review

3.1 Management Inefficiencies

- (a) Actions had not been taken by the Sabha to take steps in verifying the ownership of land belonging to Sabha for Rs. 5,850,000 and even though the property procured with cinnamon plantation of 01 acre land lot had been encroached and constructed 02 houses and having the tenure of property by a private party and no steps had been taken in this regard.
- (b) Actions had not been taken to streamline the excess staff recruited for the 17 posts in tertiary, secondary and primary and a sum of Rs. 4,874,923 had been paid from Sabha funds for the payment of salaries and allowances of temporary staff in the year under review.

3.2 Idle and Underutilized Assets

Organic Fertilize Separator and Green House with the size of 30x14x12 feet were remained idle for more than one year, and the land belonging to Sabha which the Yatiyana Well was situated, had not been used for any effective purpose, and also the hand tractor at a cost of Rs. 100,000 were remained idle.

3.3 Contract Administration

A sum of Rs. 1,084,000 had been paid during the year under review for landscaping of new building garden and the new cemetery garden. Preparation of estimates and engaging with agreements had not been performed with relating to these 02 contracts and a sum of Rs. 129,496 had been overpaid to the contractor.

3.4 Environmental Issues

A sum of Rs. 6,333,600 had been spent for solid waste management, and it was observed that the environment consisting aquatic plants and animals are being polluted with regular floods due to disposing of remaining waste after utilizing the collected garbage from the area of the authority of the Sabha for compost manufacturing in to the marshy land belonging to a private party and adjoining to Nilwala river in the area of authority of the Sabha.

4. 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 management control due to remaining of the non-achieved target revenue of Rs. 31,210,906 in 05 items of revenue included in the budget for the year under review whilst there were savings totaling Rs. 30,830,124 in 07 items of expenditure.

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. However, a sum of Rs. 456,830 had been paid to the Internal Audit Officer as salaries and allowances in the year under review.

5. Systems and Controls

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

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