

**Niyagama Pradeshiya Sabha
Galle District**

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit on 03 April 2017 and the financial statements for the preceding year had been presented on 08 April 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 17 October 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Niyagama Pradeshiya Sabha give a true and fair view of the financial position of the Sabha as at 31 December 2016 and its financial performance 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 in audit.

- (a) The balances of overpayments on behalf of salaries amounting to Rs.219,121 had been omitted in the accounts.
- (b) The capital aid received had been understated in the accounts by Rs.242,098

1.3.2 Unreconciled Control Accounts

A total difference of Rs.1,211,550 was observed between the total of 03 items of accounts amounting to Rs.12,507,305 as per financial statements and the balances appearing in the related subsidiary registers and reports.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken even during the year under review to recover the balances aggregating Rs.7,498,134 receivable on behalf of development projects executed during the year under review and the previous years within the authoritative area of the Sabha.

- (b) The balance of expense creditors totalling Rs.6,929,001 had increased up to Rs.17,065,803 during the year under review. Action had not been taken to settle the balances of work creditors of Rs.15,954,942 included in it even by end of the year under review.

1.3.4 Lack of Evidence for Audit

An updated register of fixed assets and schedules relating to a total sum of Rs.96,231,342, schedules for turnover tax and stamp fees totalling Rs.244,741 and register of stocks for the overseers field stores amounting to Rs.41,650 had not been furnished and as such those could not be satisfactorily examined in audit.

1.3.5 Non - compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with laws, rules and regulation were observed in audit.

Reference to Laws, Rules, Regulations etc.,

Non - compliance

- (a) 1988 Pradeshiya Sabha (Finance and Administration) Rules
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(i) Rule 33

A list of defaulters of rates and taxes and a list of distraining orders for properties had not been prepared.

(ii) Rules 180 to 184

Security deposits had not been obtained from 18 officers of the Sabha who deals with cash and stores and collection of revenue.

- (b) Financial Regulations 570 and 571 of the Republic of Sri Lanka

Action had not been taken with regard to 39 balances of deposits of over 02 years amounting to Rs.934,300 included in the balances of general deposits.

2. Financial Review

2.1 Financial Results

According to the financial statements presented to audit, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs.2,861,355 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.6,113,739 A deterioration in financial results amounting to Rs.3,252,384 had been observed during the year under review as compared with the preceding year.

2.2 Working Capital Management

Deterioration in current ratio and quick ratio was observed while comparing the previous year's position with the position of the year under review.

2.3 Revenue Administration

2.3.1 Rates and Taxes

The rates and taxes recoverable for the year under review and the previous year amounted to Rs.915,352 of which 53 per cent amounting to Rs.487,393 had been recovered during the year.

2.3.2 Lease Rent

Out of the balances of arrears of rent of Rs.592,006 at the commencement of the year, 17 per cent amounting to Rs.99,380 only had been recovered during the year resulting in an arrears of Rs.492,626 by end of the year.

2.3.3 Stamp Fees

The Stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2016 amounted to Rs.2,345,054.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) Action had not been taken to fill 11 vacancies in the approved cadre and to regularize the excess cadre of 08.
- (b) The recoveries on behalf of no pay leave as at end of the year under review amounted to Rs.30,896.
- (c) A total monthly average balance of Rs.18,023,710 existed in 3 bank current accounts maintained by the Sabha during the year 2016. A portion of the funds of the Pradeshiya Sabha could be invested in terms of Section 131 the Pradeshiya Sabha Act No.15 of 1987. However, the revenue from interest had been deprived of as a result of not acting in accordance with it.

(d) Assets Management

The following matters were observed.

- (i) Action had not been taken to acquire ownership of 04 vehicles used by the Sabha even by end of the year under review.

- (ii) No documents, whatsoever, pertaining to the tractor used by the Sabha were in possession of the Sabha and the registration number too was not available.
- (iii) Action had not been taken in terms of the circular No.02/2015 of 10 July 2015 of the Ministry of Finance with regard to 03 vehicles not being used by the Sabha at present.

3.2 Operating Inefficiencies

A sum of Rs.73,306 was due as at 31 December 2016 on behalf of the trade complex of the Sabha given on lease. Meanwhile, action had not been taken to enter into agreements for 03 stalls.

3.3 Solid Waste Material Management

The following matters were observed at an examination of disposal of garbage in the authoritative area of the Sabha.

- (a) The compost project operated by the Sabha had been stopped from June 2015 due to protests made by the people of the area. The building and the machinery installed therein at the compost plant premises had been affected by lightning in 2016.
- (b) At present, the garbage collected in the area gets separated and the degradable garbage is being disposed of in a land belonging to a private company by paying a monthly rent of Rs.5,000. Plastics and polythene which are not degradable are being given to private entrepreneurs free of charge and the rest of the garbage is kept in bags and placed in a corner of the compost plant.
- (c) Proper project plans had not been prepared with regard to Solid Waste Material Management.

4. Good Governance and Accountability

4.1 Budgetary Control

The entire provision of Rs.433,265 included in the budget for the year under review had been saved. Savings aggregating Rs.23,441,584 were observed in 05 items of expenditure. An expenditure of Rs.789,610 in excess of the approved limit had been incurred in two other items of expenditure. The targets not achieved with regard to 07 items of revenue aggregated Rs.22,076,846. As such, it was observed that the budget had not been utilized as an effective instrument of financial management.

4.2 Internal Control

Although an internal audit officer had been appointed in terms of Financial Regulations 133 and 134 and the circular of the Commissioner of Local Government (Southern Province) No.දපප/යහ/01/න.ව.ලේ of 24 February 2014, adequate internal audit had not been carried out.

4.3 Implementation of Audit and Management Committees

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

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha by audit queries from time to time. Special attention as needed in respect of the following areas of systems and controls.

System	Main Deficiencies in the System
(a) Accounting Deficiencies	(i) Certain revenue had been understated and overstated (ii) Journal entries had been furnished with printing errors.
(b) Fixed Assets	(i) A register of fixed assets had not been maintained with classification of assets. (ii) Annual board of survey had not been conducted.
(c) Collection of Revenue	(i) Proper procedures had not been adopted to recover arrears of revenue. (ii) An age analysis of arrears of revenue had not been prepared. (iii) Arrears of stamp fees had not been recovered in an updated manner.
(d) Staff Management	(i) The approved cadre had exceeded by 08. (ii) Action had not been taken to fill 11 vacancies in the posts.

- (iii) No-pay leave recoveries had not been made.
- (e) Control over Vehicles
 - (i) Fuel consumption of 05 vehicles of the Sabha had not been tested.
 - (ii) Action had not been taken to dispose of, 03 unused vehicles.
 - (iii) Action had not been taken to acquire ownership of 04 vehicles.
- (f) Budgetary Control
 - (i) The entire provision of an item of expenditure had been saved.
 - (ii) There were savings in 05 items of expenditure and the expenditure relating to 02 items of expenditure had exceeded its limits.
 - (iii) The targets of 07 items of revenue had not been achieved.