

Lahugala Pradeshiya Sabha
Ampara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 12 April 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 19 October 2018.

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 Lahugala Pradeshiya Sabha give a true and fair view of the financial position as at 31 December 2017 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 Policies

The accounting policy adopted in furnishing the financial statements had not been disclosed in the financial statements.

1.3.2. Accounting Deficiencies

The following matters were observed.

- (a) The surplus of Rs.1,419,263 in the Income and Expenditure Account of the year under review had not been added to the Accumulated Fund and as such the equity shown in the Balance Sheet had been understated by the above amount.
- (b) The expenditure on construction of a vehicle park amounting to Rs.2,873,007 had been brought to account as Rs.2,498,267 resulting in an understatement of fixed assets by Rs.374,740.
- (c) The sum of Rs.423,675 and the sum of Rs.3,890,204 payable to contractors for 04 projects executed prior to 2017 and 03 capital projects executed during the year under review respectively had not been brought to account as creditors and as such the current liabilities had been understated by those amounts.

- (d) The sum of Rs.18,435 directly deposited in the bank by the revenue inspector had not been brought to account.
- (e) Five vehicles valued at Rs.59,719,729 that are being used by the Sabha at present and 03 other vehicles without the values being assessed had been shown in the financial statements. As a result, the exact value of fixed assets had not been depicted.
- (f) Action had not been taken to bring to revenue the stamp fees of Rs.497,000 and Rs.630,500 respectively receivable for the year under review and from the year 2013. As a result, the revenue of the year and the current assets had been understated respectively. The stamp fees of Rs.404,718 received for 2016 had been brought to account as revenue of the year under review. As such, the operating surplus had been overstated by a similar amount.
- (g) Court fines of Rs.352,521 receivable for September, October and November of the year under review had not been brought to account. As such, the operating surplus and the current assets of the year under review had been understated by similar amounts.
- (h) The value of the Panama Multipurpose Building vested by the Lanka Minor Fisheries Association on 15 February 2015 had not been assessed and brought to account under fixed assets.
- (i) Action had not been taken to identify and write-off from the accounts the value of 75 items destroyed and auctioned on 08 December 2017 as per board of survey report of 2016 and years prior to it.

1.3.3 Unreconciled Accounts

The cash book balance of account No.6162300 as per bank reconciliation statement amounted to Rs.3,713,370 whereas the balance amounted to Rs.3,653,273 as per bank statement. Accordingly, the difference amounted to Rs.60,097.

1.3.4 Suspense Account

The balance sheet prepared for the year ended 31 December 2017 showed a difference of Rs.1,966,628 between the net assets and the equity. Action had not been taken to identify the balance of the Suspense Account and to make final adjustments in the accounts.

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

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
	Rs.	
(a) Pradeshiya Saba Rule 180	-	Security deposits had not been furnished by officers dealing with collection of revenue, stores control and issued of cheques of the Pradeshiya Sabha.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) Financial Regulation 396(d)	8,620	Action had not been taken regarding 06 cheques valued at Rs.8,620 which had not been presented for payments for over 06 months.
(ii) Financial Regulation 371	86,066	Action had not been taken even by 31December 2017 to settle advances amounting to Rs.86,066 granted on 10 instances during the period 1988 to 2012.
(iii) Financial Regulation 571	546,494	Action had not been taken regarding 06 deposits over 02 years which amounted to Rs.546,494 as at 31 December of the year under review.
(iv) Financial Regulation 1647(e)	-	A register of vehicles had not been maintained for 21 vehicles of the Sabha.
(v) Financial Regulation 1646	-	Daily running charts and monthly performance summaries of 12 vehicles had not been furnished to the Auditor General.

- (c) Treasury Circular No.1A1/2002/02 of 28 November 2002 - A separate register of fixed assets had not been maintained for computers and computer accessories.
- (d) Public Administration Circular

- (i) Circular No.30/2016 of 29 December 2016 - Consumption of fuel by 12 vehicles of the Sabha had not been tested.
- (ii) Circular No.09/2009 of 16 April 2009 - A finger print machine had not been maintained to mark arrivals and departures.

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 2017 amounted to Rs.346,946 as against the excess of expenditure over recurrent revenue of the preceding year amounting to Rs.647,966.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.
Rates and Taxes	-	-	-	-	-	-	-	-
Rent	1,100,000	946,558	946,558	200	750,000	912,292	912,292	200
Licence Fees	205,000	219,960	219,960	26,783	200,500	138,500	138,500	26,783
Other Revenue	2,535,000	180,216	1,802,166	-	3,425,000	1,164,638	1,164,638	-

2.2.2 Performance in collection of Revenue

The revenue to be collected by the Sabha as at 31 December 2017 amounted to Rs.2,995,667 of which Rs.2,968,684 had been recovered during the year. Accordingly, it was observed that the percentage of recovery of revenue was 99 per cent..

2.2.3 Licence Fees

The unpaid licence fees as at 31 December 2017 amounted to Rs.26,783 as per ledger. Action had not been taken to recover it.

2.2.4 Other Revenue

The minimum amount recoverable for granting approval for a telecommunication tower is Rs.20,000 in terms of the Gazette Notification No.1597/8 of 17 April 2009. However, a sum of Rs.160,000 had not been recovered for 08 telecommunication towers operating in the area of the Sabha.

2.2.6 Court Fines and Stamp Fees

The court fines of Rs.352,251 and stamp fees of Rs.630,500 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) The work relating to the construction of the building with 08 rooms at the Panama Public Park by spending Rs.9,254,688 had been completed on 26 December 2017. However, It remained closed even by 20 July 2018.
- (b) The building with 04 air conditioned rooms constructed on 26 December 2017 by spending Rs.8,056,903 remained closed by 20 July 2018. It was observed that the guaranteed period of the air conditioners installed in the building was nearing the stipulated date of guarantee.
- (c) The Panama Multipurpose Building completed on 26 December 2017 by spending Rs.6,049,901 had not been opened even by 20 July 2018.
- (d) Although there were buildings valued at Rs.85,812,081, the Sabha had no land with legal ownership within its authoritative area and as such the ownership of above buildings had become questionable.

- (e) Action had not been taken regarding 1,537 library books misplaced according to the board of survey report and the library books destroyed during the floods in December 2014.

3.2 Human Resources Management

The following are the observations.

- (a) Nine vacancies in 06 posts including the Secretary and the Development Officer existed in the staff of the Lahugala Pradeshiya Sabha as at 31 December 2017.
- (b) Action had not been taken to recover the employees' loans of Rs.8,000 due from 02 employees who had been employed in the Sabha.
- (c) The annual rate of interest recovered from employees' loans is 4.2 per cent. However, due to an erroneous computation of loan instalments, the list prepared contained recovery in excess amounting to Rs.200,518 from 20 employees. Such recoveries made in excess of the amount during the year under review itself amounted to Rs.54,379.

3.3 Operating Inefficiencies

Two stalls of the shopping complex at Lahugala had not been given on rent or used for any other purpose as at 26 July 2017.

3.4 Assets Management

3.4.1 Unattended Maintenance and Repairs

Eleven out of 21 vehicles of the Sabha needed repairs. These remained parked at the Sabha premises without being repaired and used.

3.4.2 Assets not Acquired

The following observations are made.

- (a) The Sabha had acquired ownership of only 08 out of 21 vehicles. The Sabha had not taken action to acquire ownership of the remaining 13 vehicles.
- (b) Necessary action had not been taken to acquire ownership of the entire 16 blocks of land of 54.75 acres which is being used by the Sabha at present.

3.4.3 Vehicle Utilization

The following observations are made.

- (a) Revenue licences for 21 vehicles of the Sabha had not been obtained for the year review.
- (b) Action had not been taken to obtain insurance certificates for 15 out of 21 vehicles of the Sabha.

3.5 Procurement Plan

The Sabha had not prepared an annual procurement plan for 2017 in terms of the National Budget circular No.128 issued on 24 March 2006.

4. Accountability and Good Governance

4.1 Budgetary Control

Variations ranging from 07 to 80 per cent existed between the budgeted and actual expenditure of the year under review showing that the budget had not been used as an effective instrument of management control.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of control.

System	Deficiency
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(a) Accounting	(i) Books of accounts and registers had not been updated. (ii) Non reconciliation of the general ledger.
(b) Assets and properties	(i) Not entered in registers (ii) Safety not ensured. (iii) Not used beneficially.
(c) Stock	(i) Not entered in registers (ii) Irregular control over stock.

- (d) Debtors and Creditors
 - (i) Non preparation of schedules
 - (ii) Non preparation of age analysis.
- (e) Personnel Management
 - Vacancies not filled.
- (f) Projects and Contracts
 - (i) Non preparation of estimates.
 - (ii) Lack of adequate supervision.
- (g) Revenue Administration
 - Estimation of revenue and non recoveries.