

**Hakmana Pradeshiya Sabha  
Matara District**

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**1 Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year 2017 and the report of the Auditor General on the financial statements had been forwarded to the Chairman of the Sabha on 31 July 2018.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Hakmana 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**

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**1.3.1 Accounting Deficiencies**

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The following accounting deficiencies were observed in audit.

- (a) The capital expenditure of the year had been overstated by Rs.5,818,142.
- (b) Provision for creditors for 16 work had been overstated and provision for creditors for 02 work had been understated in respect of the previous year and as such the net provision for creditors had been understated by Rs.1,887,447.
- (c) Provision for creditors had not been made for the sum of Rs.952,336 payable on behalf of 11 development work proposed for the previous years.
- (d) The receivables and payables of Rs.8,123,222 relating to the construction of the Solid Waste Material Management Centre had been omitted in the financial statements.
- (e) The sum of Rs.1,962,387 receivable for 02 development projects of the previous years had been overstated.
- (f) The previous assessment value had not been identified and deleted from the accounts while showing the new assessment value of Rs.7,650,000 of the crematorium building in the accounts.

- (g) Two land valued at Rs.200,000 had not been shown under fixed assets in the financial statements.
- (h) Fixed assets totalling Rs.1,901,449 purchased during the year under review had not been capitalized.
- (i) The value of the multi purpose building constructed in a land belonging to the Sabha and the value of land received by the Sabha had not been assessed and brought to account.

### **1.3.2 Unreconciled Accounts**

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Differences totalling Rs.6,666,045 existed between the balances of 18 items of accounts totalling Rs.20,506,233 as per financial statements and the related subsidiary registers/schedules.

### **1.3.3 Suspense Account**

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Action had not been taken even during the year under review to identify and make adjustments for the debit balance of Rs.873,211 in the Suspense Account which continued to be brought forward in the accounts without action being taken to settle.

### **1.3.4 Accounts Payable**

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The following matters were observed.

- (a) The balances of work creditors as at end of the year under review aggregated Rs.14,873,739. 91 balances amounting to Rs.4,721,448 exceeding 03 years had been included in this.
- (b) Action had not been taken even during the year under review to settle 04 balances of refundable deposits totalling Rs.361,434 which continued to be brought forward from previous years without being settled.

### **1.3.5 Lack of Necessary Documentary Evidence for Audit**

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Eight items of accounts totalling Rs.56,267,658 could not be satisfactorily vouched in audit due to non- rendition of necessary information.

### **1.3.6 Non-compliance**

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#### **1.3.6.1 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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

**Reference to Laws, Rules, Regulations and  
Management Decisions**

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**Non - compliance**

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| (a) 1988 Pradeshiya Sabha (Finance and Administration) Rules   |   |
| (i) Rule 143   | The monthly totals of refundable deposits had not been reconciled with the Main Ledger Account.   |
| (ii) Rule 212  | The number of the paid voucher and the date had not been noted while entering receipts in the stock ledger.   |
| (iii) Rule 213   | The approval of the Secretary of the Sabha had not been obtained for goods issued from the stores.  |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka - 396 (d)                |   |
|  | Action had not been taken regarding 16 cheques totalling Rs.41,453 issued and remaining unrepresented for payment, the validity period of which had expired.                      |
| (c) State Accounts Circular Nos. 2014/3 and 2014/3(1)  |   |
|  | A sum of Rs.18,750 had been paid to the Community Development Officer during the year without reimbursement of bills.   |
| (d) Letter of Instructions No.05/01/119/Ⓔ(ix) of 26 February 1992 of the Urban Development Authority |   |
|  | Two hours of duty should be performed in addition to the official duty hours to pay planning committee allowances. However, a sum of Rs.51,750 had been paid on 31 December 2017. |

## **2. Financial Review**

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### **2.1 Financial Results**

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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.6,773,619 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.7,636,949.

### **2.2 Financial Control**

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The following matters were observed.

- (a) The sum of Rs.15,910 deposited in the General Account had not been realized up to end of the year under review. This had not been investigated.
- (b) Necessary action had not been taken to invest the sum of Rs.2,433,370 in the revenue collected for Kurundu Piyase Water Scheme as at 31 December 2017 in a fixed deposit so as to earn revenue.

## 2.3 Revenue Administration

### 2.3.1 Estimate Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

The 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	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
Rates and Taxes	1,032,500	1,579,059	1,416,768	1,098,593	422,500	1,048,155	856,363	936,302	
Rent	6,078,586	5,973,118	5,846,340	494,010	5,430,885	5,166,564	5,025,462	367,232	
Licence Fees	789,000	378,910	373,560	11,050	961,000	758,725	753,025	5,700	
Other Revenue	8,023,550	11,270,260	7,831,657	14,036,728	34,334,002	11,471,175	6,860,712	10,598,125	
Total	15,923,636	19,201,347	15,468,325	15,640,381	41,148,387	18,444,619	13,495,562	11,907,359	

### **2.3.2 Performance in Collection of Revenue**

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The total estimated revenue of the year under review amounted to Rs.15,923,636 and the amount billed was Rs.19,201,347. The total arrears at the commencement amounted to Rs.11,907,359 along with which the total amount receivable amounted to Rs.31,108,706. However, the total revenue collected during the year amounted to Rs.15,468,325 resulting in a total arrears of Rs.15,640,381 as at end of the year.

### **2.3.3 Rates and Taxes**

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#### **(a) Rates**

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The arrears at the commencement of Rs.673,385 added to the billings of the year of Rs.1,048,097 had resulted in receivables of Rs.1,721,482. The total recoveries during the year amounted to Rs.891,776 resulting in an arrears of Rs.829,706 as at end of the year.

#### **(b) Acreage tax**

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The arrears at the commencement of Rs.49,630 added to the billings of the year of Rs.7,100 had resulted in receivables of Rs.56,730. The total recoveries during the year amounted to Rs.9,130 resulting in an arrears of Rs.47,600 as at end of the year.

#### **(c) Water Charges**

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The arrears at the commencement of Rs.344,970 added to the billings of the year had resulted in receivables of Rs.1,047,732. The total recoveries during the year amounted to Rs.470,692 resulting in an arrears of Rs.577,040 as at end of the year.

### **2.3.4 Lease Rent**

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The arrears at the commencement of Rs.374,927 added to the billings of the year of Rs.2,301,575 had resulted in receivables of Rs.2,676,502. The total recoveries during the year amounted to Rs.2,174,797 resulting in an arrears of Rs.501,705 as at end of the year.

### **2.3.5 Court Fines and Stamp Fees**

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Court fines of Rs.2,486,304 and stamp fees of Rs.10,600,848 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017

### **3. Operating Review**

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#### **3.1 Performance**

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The following matters were revealed with regard to duties to be fulfilled by the Sabha in terms of Section 3 of the Pradeshiya Sabha Act, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

##### **(a) Non achievement of the expected output level**

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Although approval had been obtained to execute 29 development schemes from the funds of the Sabha according to the budget of the year under review, one scheme worth Rs.662,000 only had been executed during the year.

##### **(b) Non achievement of the Expected Outcome.**

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A provision of Rs.2,900,000 had been made to construct an environmental path by the Ministry of Environment. However, a sum of Rs.1,998,229 had been spent on 22 February 2017 to construct a pathway only. The remaining amount had been retained by the Office of the Commissioner of Local Government. The pathway constructed could not be used for walking. There was no way for the water to flow down. As such, the expected objective could not be attained.

##### **(c) Solid Waste Material Management**

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The following matters were observed.

- (i) The Sabha had purchased a land for Rs.1,000,000 in 2012 to construct a carbonic fertilizer manufacturing centre with regard to Solid Waste material Management by utilizing the funds of the Sabha. The Ministry of Provincial Councils and Local Government had approved Rs.9,411,898 in 2016 to execute the work. But, the project had not been commenced even by end of 2017.
- (ii) Action had been taken to dispose of the garbage collected in an external place by filling it with soil without separating it.
- (iii) The expenditure incurred on collection of garbage during the year under review amounted to Rs.4,341,750. But, the Sabha could not earn any revenue, whatsoever.

**(d) Sustainable Development Target**  
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The Sabha had not prepared the long term plan for sustainable development target and the objectives in order to uplift the living standards of the public within the area of the Sabha through the global indicators relating to sustainable development objectives and targets as per 2030 agenda of sustainable development.

**3.2 Human Resources Management**  
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**(a) Vacancies and Excesses of Employees**  
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The following observations are observed.

- (i) Action had not been taken to fill 02 vacancies in the approved cadre and to regularize the excess cadre of 13.
- (ii) Ten out of nineteen employees recruited as field and sanitary labourers had been assigned with other duties within the office instead of their relevant duties and salaries and allowances of Rs.1,538,384 had been paid.
- (iii) Five employees had been recruited contrary to the Management Services. Circulars No.3/2014 and 25/2014 and salaries and allowances amounting to Rs.1,412,508 had been paid during 2016 to 31 December 2017.

**(b) Employees' Loans**  
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Employees' loan balances as at end of the year under review amounted to Rs.4,882,131. This included instalments and interests of Rs.93,329 over 03 years which had not been recovered.

**3.3 Operating Inefficiencies**  
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Out of the street lamp equipment purchased for Rs.315,090, equipment worth Rs.219,850 had been handed over to the electrician during the year under review for maintenance of street lamps. The Sabha had not carried out any supervision over the maintenance of street lamps. Nine sets of street lamps worth Rs.103,185 and equipment worth Rs.21,396 given for installation were in the possession of the electrician. The street lamp posts approved by the Electricity Board was 102. However, the Sabha had maintained 612 lamp posts, in contravention.



### **3.4 Assets Management**

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#### **3.4.1 Assets not entered in the Register**

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The Sabha had not entered in a register the particulars of 02 land that it had received.

#### **3.4.2 Idle / Under utilized Assets**

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The following matters were observed.

(a) **Land and buildings**

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Seven land and buildings valued at Rs. 352,500 remained idle and under utilized.

(b) **Machinery**

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The block stone machine purchased at a value of Rs.130,862 from the funds of the Sabha on 19 March 2010 remained idle without being used even by end of the year under review.

(c) **Motor Vehicles and Carts**

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Five vehicles of the Sabha amounting to Rs.470,000 remained idle for over 05 years. Action had not been taken to repair and make use of them or to dispose of them.

### **3.5 Uneconomic Transactions**

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The following observations are made.

(a) A road had been constructed by spending Rs.488,931 under the Maga Neguma Rural Road Development Programme only to reach a private house.

(b) A pot manufacturing centre had been renovated by spending Rs.2,281,032 on 31 December 2017 with the objective of improving the financial necessities and livelihood of families. However, the expected objective of the project had not been achieved.

## **4. Accountability and Good Governance**

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### **4.1 Budgetary Control**

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Significant variances were observed between the budgeted and actual revenue and expenditure of the year under review as shown below. It was thus observed that the budget had not been utilized as an effective instrument of management control.

- (a) Savings in 06 items of expenditure amounting to Rs.5,499,980 ranged from 02 per cent to 59 per cent.
- (b) Adverse variances in 02 other items expenditure totalling Rs.124,867 ranged from 02 per cent to 52 per cent.
- (c) Adverse variances in 03 items of revenue totalling Rs.3,347,157 ranged from 02 per cent to 09 per cent.

#### **4.2 Internal Audit**

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Adequate internal audit had not been carried out in terms of Financial Regulations 133 and 134 of the Republic of Sri Lanka and the circular No.දපසා/යන/01/න.ව.ලේ of 24 February 2014 of the Southern Commissioner of Local Government. The internal audit programme had not been prepared in consultation with the Auditor General in terms of Financial Regulation 134. Meanwhile, copies of internal audit reports had not been furnished to audit.

#### **4.3 Audit and Management Committees**

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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 Management Audit Circular No.DMA/2009(i) of 09 June 2009.

#### **5. Systems and Controls**

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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.

- (a) Fixed assets
- (b) Collection of revenue
- (c) Budgetary control
- (d) Accounting