

**Kirinda Puhulwella Pradeshiya Sabha
Matara District**

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented to audit on 29 March 2018 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

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Kirinda Puhulwella 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 Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The sum of Rs.2,371,214 due from the Ministry of Provincial Councils and Local Government under the Strengthening of Pradeshiya Sabhas Programme for the year under review had been omitted in the accounts.
- (b) The sum of Rs.314,168 payable for the guard room of the Solid Waste Material Management Centre constructed during the year under review had not been brought to account.
- (c) The revenue from acreage tax for the year under review had been overstated by Rs.121,236.
- (d) The total of employees' loans register as at 31 December 2017 was less by Rs.99,910. This had been adjusted in the Accumulated Fund.
- (e) The revenue of Rs.261,975 obtained on hire of vehicles during the previous year had been brought to account as revenue of the year.
- (f) The value of work completed during the year under review aggregated Rs.537,711. This had not been capitalized.

- (g) The capital expenditure of Rs.49,410 payable on behalf of the work relating to previous years had been brought to account as expenditure of the year.
- (h) The expenditure of Rs.112,293 incurred on repairs to roads by using the vehicles of the Sabha had been brought to account as work creditors.
- (i) The amount payable for 02 work had been overstated by Rs.91,342 and the amount payable for 04 work had been understated by Rs.121,636 as at end of the year under review.
- (j) The billings of revenue from stalls for the year under review had been overstated by Rs.85,648.
- (k) The debit balance of Rs.513,447 generated by transfer of funds among accounts during the year under review had been shown under current liabilities in the financial statements.
- (l) Provision for audit fees for the year under review had not been made in the financial statements.
- (m) The stamp fees and court fines receivable as at end of the year under review had been understated by Rs.3,109,331.

1.3.2 Unreconciled Accounts

The total of balances of 15 items of accounts as per financial statements amounted to Rs.22,462,909. The difference between these and the balances appearing as per subsidiary registers/schedules aggregated Rs.5,742,496.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

The balances of work debtors as at end of the year under review aggregated Rs.3,517,545. Of these, 02 balances over 03 years aggregated Rs.389,051.

(b) Accounts Payable

The following matters were observed.

- (i) The balances of work creditors as at end of the year under review aggregated Rs.3,166,381. Of these, 07 balances over 03 years amounted to Rs.751,876.

- (ii) The balances of Value Added Tax and the Nation Building Tax which continued to be brought forward during the past years aggregated Rs.791,917. These had not been settled.

1.3.4 Lack of Necessary Documentary Evidence for Audit

Four items of accounts aggregating Rs.41,760,363 could not be satisfactorily vouched in audit due to non-mention of necessary information.

1.3.5 Non-compliance

1.3.5.1 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	Non - compliance
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<p>(a) 1988 Pradeshiya Sabha (Finance and Administration) Rules</p> <p>(i) Rule 164</p> <p>(ii) Rule 193</p>	<p>The accounting documents of the Sabha should be daily examined by the Secretary or by an officer authorized by him and should be initialled and confirmed accordingly. However, action had not been taken accordingly.</p> <p>The actual expenditure of Objects had not been reconciled with the budgeted and the supplementary approved expenditure and a statement for causes of surpluses and deficits had not been furnished.</p>
<p>(b) Letter of Instructions No.05/01/119/ ୧ix of 26 February 1992 issued by the Urban Development Authority.</p>	<p>Work should be performed for 02 hours in addition to the duty hours for payment of allowances for planning committees. However, a sum of Rs.24,000 had been paid as at 31 December 2017, contravening the instructions.</p>

- (c) State Accounts circular No.03/2014 of 30 December 2014 and the State Accounts Circular No. 03(i)/2014 of 25 October 2015. Telephone allowances of Rs.21,242 had been paid to a lady Community Development Officer, contravening the circular instructions.

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.4,270,046 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.3,729,662.

2.2 Revenue Administration

2.2.1 Estimated 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 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	1,036,500	1,364,486	1,228,367	702,361	906,500	999,626	1,067,916	566,242
Rent	2,841,900	4,834,421	3,689,625	1,267,937	1,158,000	1,418,509	2,361,513	123,141
Licence Fees	135,250	145,412	145,412	124,900	98,000	137,512	1,070,969	124,900
Other Revenue	4,758,500	6,788,274	8,608,683	5,053,713	3,597,500	8,402,134	3,319,268	6,874,122
Total	8,772,150	13,132,593	13,672,087	7,148,911	5,760,00	10,957,781	7,819,666	7,688,405

2.2.2 Performance in Collection of Revenue

The total estimated revenue of the year under review amounted to Rs.8,772,150 and the amount billed was Rs.13,132,593. The total arrears at the commencement amounted to Rs.7,688,405 along with which the total amount receivable amounted to Rs.20,820,998. However, the total revenue collected during the year amounted to Rs.13,672,087 resulting in a total arrears of Rs.7,148,911 as at end of the year.

2.2.3 Rates and Taxes

(a) Rates

The arrears at the commencement of Rs.602,119 had become Rs.1,028,109 after adding the amount billed, that is, Rs.425,990. The total recoveries amounted to Rs.419,899 and as such the arrears of balance had increased up to Rs.608,210 as at end of the year.

(b) Acreage tax

The arrears at the commencement amounted to Rs.130,726 and the amount billed was Rs.12,482. The total recoveries during the year amounted to Rs.10,599 resulting in an arrears of Rs.132,609 as at end of the year.

2.2.4 Lease Rent

The opening arrears of Rs. 164,783 added to the billings of Rs. 1,336,663 resulted in receivables of Rs. 1,501,446. The total recoveries amounted to Rs. 1,306,013 resulting in an arrears of Rs. 195,433 at end of the year.

2.2.5 Court Fines and Stamp Fees

Court fines amounting to Rs.207,450 and stamp fees amounting to Rs.7,955,594 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017.

3. Operating Review

3.1 Performance

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

A sum of Rs.3,453,535 had been approved to execute 21 projects under the Strengthening of Pradeshiya Sabhas Programme. Although the functions of the

project should have been executed before 30 November 2017, 15 projects valued at Rs.2,341,753 had not been completed as at 31 December 2017.

(b) Sustainable Development Target

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 Management Inefficiencies

The State Building Research Organization had warned that the soil cliff at the backyard of the Sabha may get affected by earth slips as it was not firm. Accordingly, it had been recommended to spread the broken soil evenly on the ground. However, the work had not been done even by 15 January 2018.

3.3 Human Resources Management

The following matters were observed.

- (i) Two vacancies existed in the approved cadre and there were 15 excesses in the actual cadre.
- (ii) Action had not been taken in terms of the Public Administration Circular No.25/2014 of 12 December 2014 with regard to 03 pre school teachers not belonging to the approved cadre.
- (iii) Nine employees had been recruited contravening the Management Services Circular No.3/2014 of the Secretary to the Treasury and a sum of Rs.4,304,241 had been paid as salaries since 2014 from the funds of the Sabha.

3.4 Assets Management

3.4.1 Safety of Assets not Ensured

Action had not been taken to ensure the safety of 17 blocks of land of the Sabha possessing 03 acres, 01 rood and 1.1 perches.

3.4.2 Idle / Under utilized Assets

- (a) Eight blocks of land of 02 acres, 01 rood and 15.37 perches belonging to the Sabha remained idle.
- (b) Three vehicles costing Rs.1,399,400 remained idle. But, action had not been taken to repair and utilize them or to dispose of them.

3.5 Uneconomic Transactions

Approval had been granted to incur expenditure on primary maintenance of machinery under the 2017 Strengthening of Pradeshiya Sabhas National Programme and 32 tyres valued of Rs.893,400 had been purchased accordingly. 26 tyres valued at Rs.819,400 remained idle at the stores as a result of purchasing without identifying the needs. Further, there were also 06 tyres valued at Rs.68,400 purchased before 2013. 10 tyres valued at Rs.364,200 had not been entered in the register of stock.

4. Accountability and Good Governance

4.1 Budgetary Control

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 efficient instrument of management control.

- (a) Savings in 06 items of expenditure aggregated Rs.7,512,566 which ranged from 17 to 44 percent.
- (b) An adverse variance of Rs.56,881 was observed in 01 item of expenditure which was 43 per cent.
- (c) Adverse variances in 02 items of revenue aggregated Rs.3,213,400 which ranged from 13 to 66 per cent.

4.2 Internal Audit

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.අපසා/යභ/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 had not been furnished to audit.

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.

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