

## **Kegalle Pradeshiya Sabha**

### **Kegalle District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 31 March 2014 and the financial statements for the preceding year had been presented on 28 February 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 24 September 2014.

##### **1.2 Opinion**

In my opinion except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kegalle Pradeshiya Sabha as at 31 December 2013 and the financial results of its operations for the year then ended.

##### **1.3 Comments on Financial Statements**

**1.3.1** According to Circular No.PED/54 dated 19 January 2010 of the Director General of Public Enterprises, the financial statements of all the Local Authorities should be prepared according to the Sri Lanka Public Sector Accounting Standards with effect from 01 January 2011. However, the above Standards had not been followed.

##### **1.3.2 Accounting Deficiencies**

- (a.) A sum of Rs.309,556 payable to the Local Government Pensions Fund as at 31 December of the year under review had been omitted from the accounts.
- (b.) Although the value of the Ayurvedic drugs issued during the year under review amounted to Rs.89,111; the value of purchases amounting to Rs.162,782 during the year had been shown under expenditure. Therefore, the expenditure of the year had been overstated by Rs.73,671.
- (c.) Incentive allowances amounting to Rs.82,575 paid for computing the revenue from stamp fees for the preceding years had been brought to account as an expenditure of the year under review. As such, the excess for the year had been understated.
- (d.) A loan balance of Rs.136,300 of an officer came on transfer during the year under review and a loan of Rs.126,150 of a female officer left on transfer had not been settled and also had not been disclosed in the financial statements.

- (e.) Five vehicles valued at Rs.5,888,000 belongs to the Chief Security of the Sabaragamuwa Province had been brought to accounts without being vested with the Sabha.
- (f.) Incentive allowances amounting to Rs.45,854 payable for computing court fines for the period September to November of the year under review had been omitted from the accounts.
- (g.) Although the balance of the contractor deposits account included in the refundable deposits account should be a credit balance; there was a debit balance of Rs.234,868 as per the financial statements of the year under review.

### **1.3.3 Unreconciled Control Accounts**

The total of the balances of 05 items of accounts was Rs.13,851,763 as per the financial statements and the total of the balances of accounts as per subsidiary registers/ records was Rs.9,467,112 and the difference amounted to Rs.4,384,651.

### **1.3.4 Accounts Receivable and Payable**

- (a.) The value of the balances of accounts receivable as at 31 December 2013 amounted to Rs.6,319,915 and the total of the balances of accounts over 01 year amounted to Rs.2,402,081.
- (b.) The value of the balances of accounts payable as at 31 December 2013 amounted to Rs.7,160,908 and the total of the balances of accounts over 01 year amounted to Rs.363,922.

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

Replies had not been furnished for 03 audit queries by 13 June 2014 and quantifiable value of those queries amounted to Rs.11,796,260.

### **1.3.6 Non-compliance with Laws, Rules and Regulations**

Non-compliance with the following laws, rules, regulations and management decisions were observed in audit.

<b><u>Reference to Laws, Rules, Regulations and Management Decisions</u></b>	<b><u>Non-compliance</u></b>
<ul style="list-style-type: none"> <li>(a.) <u>Financial Regulations of the Republic of Sri Lanka</u> F.R 371 (2)(c)</li> </ul>	<ul style="list-style-type: none"> <li>- The advance of Rs.25,000 obtained by the Chairman on 19 January 2005 for relief work relating to the victims of Tsunami had not been settled even by 20 June 2014.</li> </ul>

(b.) Financial Rules of the Sabaragamuwa Provincial Council  
Rule No. 422.2

- 80 sets of street lamps and a Digital Camera had been purchased for Rs.604,525 only on a decision taken by the Sabha without following procurement procedures.

(c.) Pradeshiya Sabha Act No.15 of 1987 and the Circular No.2005/14 dated 01 June 2005 of the Commissioner of Local Government of the Sabaragamuwa Provincial Council

(i.) 3 (ii)

- Legal action had not been taken in respect of non-payment of 1% tax on 5 lands to the extent of 18 Acres, 02 Roods, 32 Perches sold at public auction.

(ii.) 3 (iii)

- When lands more than 01 Hectare are sold by public auction; 10% of the said lands should be vested with the Sabha by a title deed. However, action had not been taken accordingly in respect of 05 lands over 01 Hectare to the extent of 18.5 Acres. Therefore, the Sabha had lost lands to the extent of 331.28 Perches.

## **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 2013 amounted to Rs.16,077,745 as compared with the excess of revenue over recurrent expenditure amounting to Rs.8,972,423 for the preceding year.

### **2.2 Analytical Financial Review**

The increase of the other revenue had been mainly contributed to the improvement of financial result by Rs.7,105,322 during the year under review as compare with the preceding year. It was observed that an actual expenditure of Rs.2,085,000 had been incurred in excess of the limits of recurrent and capital expenditure estimated for the year under review.

## **2.3 Revenue Administration**

### **2.3.1 Performance of Collection of Revenue**

Information on the estimated revenue actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.'000	Rs.'000
(i.)	Rates and Taxes	1,394	829	363
(ii.)	Lease Rent	1,005	957	277
(iii.)	Licence Fees	1,132	1,460	14
(iv.)	Other Revenue	3,350	40,020	14,463

### **2.3.2 Court Fines and Stamp Fees**

Court Fines and stamp fees receivable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other authorities amounted to Rs.11,764,742

### **2.3.3 Hoarding Charges**

Action had not been taken to recover charges from 05 hoardings as information on hoardings furnished by the Revenue Controller and therefore, the Sabha had deprived of revenue amounting to Rs.16,800.

## **3. Operating Review**

### **3.1 Operating Inefficiencies**

The following observations are made.

- (a.) The total of the employees loans balances recoverable as at 31 December 2013 amounted to Rs.4,772,205 and action had not been taken to recover a total sum of Rs.58,965 in arrears for over 01 year.
- (b.) Salary including all allowances should be taken into consideration in computing recoveries for no-pay leave. But, the Sabha had to incur a financial loss of Rs.49,938 during 2012 to the Sabha fund due to consideration of only the consolidated salary. A sum of Rs.33,808 recoverable for 44 days of no-pay leave obtained by an employee during the year under review had not been recovered.
- (c.) The Sabha had received 819 applications during the 04 years from 2010 to 2013 to fell and remove harmful trees and the Field Officers who had been assigned to carry out investigations had not returned 91 of the above applications.

- (d.) The Sabha had taken a decision on 28 September 2012 to pay Rs.750 as Building Plans Committee Members' allowance per each day. But, the approval of the Commissioner of Local Government had not been obtained for the above. A sample check revealed 05 instances where the above allowances had been paid for the Building Plan Committee even for a half an hour from 4.15 to 4.45 p.m.
- (e.) An examination carried out on Building Plans considered by the Housing Planning Committee at 20 meetings revealed that 167 applications had been approved without the participation of Public Health Inspector.
- (f.) A two storied building at Moronthota owned by the Sabha had been leased out for the year 2010 at a monthly rent of Rs.6,100 based on an agreement after calling for tenders and the above lessee was allowed to use this building up to 2013 without re-tendering or entering into a new agreement. The Sabha had deprived of an income which could have been earned by increasing the annual lease rent and action had not been taken to assess the building again though 08 years had passed from 2006 to 2013.
- (g.) According to the lease agreements relating to the lease of stalls of the General Market owned by the Sabha, the lease rent of each month should be paid before the 10<sup>th</sup> of the relevant month and in case of non-payment of lease rent the arrears should be recovered from the deposit and remove the lessee. However, proper action had not been taken until the security deposits were completely written-down and therefore, the Sabha was unable to recover a sum of Rs.49,365 from 04 stalls.
- (h.) A sum of Rs.1,014,550 payable for 75 credit balances included in the creditors account for over 08 years had been written-off without any authority.

### **3.2 Idle/ Underutilized Assets**

- (a.) The tar boiler valued at Rs.70,000 owned by the Sabha had remained idle or underutilized throughout 08 years.
- (b.) The value of assets non-moving for over 01 year as at 31 December 2013 amounted to Rs.504,440.

### **3.3 Identified Losses**

The land dispute case No.7027 filed at the Kegalle District Courts on 24 March 2004 to recover damages amounting to Rs.50,000 from an occupant of Hettimulla Meedeniya in respect of construction of a retaining wall narrowing the Meedeniya, Gaunagaldeniya Gamsabha Road had been withdrawn on 06 March 2013 subject to payment of opponent's charges. The Sabha had to suffer a loss due to the withdrawal

of the case subject to payment of opponent's charges, without action being taken to remove the retaining wall or to recover the loss of Rs.50,000.

### **3.5 Contract Administration**

Deficiencies observed at field inspections on construction works are shown below.

(i.) Pre-mix project

A pre-mix project had been operated assigning the employees of the Sabha for road repair activities within the area of the Sabha. Although 71.75 cubes of "pre-mix" produced had been issued for road repair activities during the 02 years 2012 and 2013; measurement sheets and cost estimates had not been prepared, indicating the usage of pre-mix.

(ii.) Progress reports had not been prepared comparing the production cost incurred for pre-mix manufactured by this project and the cost of works estimates prepared for road repairs/ constructions.

(iii.) An agreement had been signed for Rs.968,888 with the Pussella Mahasen Farmers' Organization on 22 May 2012 for laying concrete on the Kirikohuthenna Road and the construction of the Retaining Wall. A sum of Rs.97,475 had been paid for supplying 23 3/4 cubes of soil at Rs.4,099 per cube and compact soil as instructed, under Item of Work No.5 of the agreement. However, soil had not been filled and levelled to a depth of 01 feet width of 2 1/2 feet and length of 30 feet for the column between the concrete road and the retaining wall.

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

#### **Internal Audit**

An adequate internal audit had not been carried out in respect of finance and stores in terms of 5(7) of the Pradeshiya Sabha (Financial and Administrative) Rules-1988.

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

Special attention of the Sabha is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management