

Minipe Pradeshiya Sabha**Kandy District****1. Financial Statements****1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 01 July 2014 and the financial statements for the preceding year had been presented on 28 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 16 January 2015.

1.2. Opinion

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

1.3. Comments on Financial Statements**1.3.1. Suspense Accounts**

Action had not been taken to correct the credit balance amounting to Rs.13,369 in the suspense accounts.

1.3.2. Accounts Receivable and Payable**a) Accounts Receivable**

The value of total balances of accounts receivable as at 31 December 2013 amounted to Rs.29,873,508 and out of this, the total balances of accounts exceeding a period of 01 year, amounted to Rs.4,569,432.

b) Accounts Payable

The value of total balances of accounts payable as at 31 December 2013 amounted to Rs.24,931,102 and out of this, Rs.24,475,107 represents works creditors, and of this, total account balances over one year amounted to Rs.1,945,333.

1.3.3. Lack of Evidence for Audit

Transactions totalling to Rs.451,344 with relevant to 02 items of accounts, could not be examined satisfactorily, due to non-submission of required information to the audit.

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.12,102,564, as compared with the excess of revenue over recurrent expenditure amounting Rs.13,125,548 for the preceding year. Therefore the financial result had been deteriorated by Rs.1,022,984.

2.2. Analytical Financial Review

It was observed that the surplus for the year under review had been decreased by Rs.7,194,992, in comparison to the surplus for the preceding year, and the causes for this had been the decrease in income with respect to 05 items due to weaknesses in financial forecasts, and the increase of expenditure with respect to 04 items, in the year 2013.

2.3. Revenue Administration

2.3.1. Performance on Revenue Collection

Estimated Revenue, Actual Revenue and Revenue in Arrears

The information with respect to Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review, submitted by the Chairman are indicated below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	633	684	556
(ii) Lease Rent	5,478	2,550	1,489
(iii) Licence Fee	13,192	13,638	85
(iv) Other Income	3,801	5,724	3,535

A balance of revenue in arrears amounting to Rs.5,665,000 had been observed as at end of the year under review.

2.3.2. Rates and Taxes

The balance at the beginning of the year under review amounted to Rs.392,938 and the amount billed for the year was Rs.553,934. The percentage of collection during the year was around 53%, while the balance to be collected as at 31 December 2013 amounted to Rs.443,421. Out of this balance, Rs.364,330 was further due as at 31 December 2014. Action had not been taken, as stipulated in Articles 158 (1) and 159 (1) of the Pradeshiya Sabha Act No. 15 of 1987, to recover these balances of arrears.

2.3.3. Lease Rent

The following matters are observed.

- (a) The balance of stall rent and lease rents of sand collecting point due as at 31 December 2013 amounted to Rs.1,573,641 and out of this balance, the stall rent exceeding one year amounted to Rs.863,648. No action had been taken till 21 November 2014, to recover this income in arrears.
- (b) The stall rent had been decided based on the valuation relevant to the year 2009, and action had not been taken even as at the date of audit carried out on 26 November 2014, regarding the process relevant to new evaluations up to 2015.

2.3.4. Water Charges

The arrears at the beginning of the year under review had been Rs.1,583,616, and the percentage of collections out of the balance of arrears, during the year had been in a weak state of 57%. The balance of arrears as at 31 December in the year under review had been Rs.1,879,022 and out of this, value of balances exceeding 01 year amounted to Rs.687,222.

2.3.5. Business Taxes

- I. Action had not been taken to conduct a proper survey, with respect to the large scale businesses, such as brick and rice mills, operating within the area under the authority of the Sabha, and collect the charges due for the Sabha.

II. The Sabha had been deprived of an income of Rs.96,000, as business licences had not been issued to 27 businesses operating within the area under the authority of the Sabha.

2.3.6. Environment Licence Fees

Since the environmental licences relevant to the year 2013 had not been issued, the Sabha had been deprived of an income of Rs.133,200 relevant to 18 business organisations, at the rate of Rs.7,400 per business.

2.3.7. Hording Charges

Action had not been taken in the year under review to collect Rs.324,900, from 83 hoardings fixed within the area under the authority of the Sabha, as stipulated in Section iv (b) of the Gazette Notification No. 1839 dated 29 November 2013 of the Republic of Sri Lanka.

3. Operating Review

3.1. Working Capital Management

The ratio between total current assets and current liabilities was 1.65:1, and the ratio in the preceding year was 1.55:1. Hence it was observed that these ratios were not in a superior level. Further, 62% of the total current assets amounting to Rs.29.4 million represent works and sundry debtors, whilst 86% of total current liabilities amounting to Rs.24.5 million had been consisted of works and sundry creditors.

3.2. Operating Inefficiencies

The following matters are observed.

- (a) The balances in 05 accounts amounting to Rs.623,957 had been carrying forward for a long period, and action had not been taken either to inquire about the matter and settle, or to take suitable action.
- (b) The Central Province Local Government Commissioner's Circular No. 2014/4 dated 18 June 2014, stipulates that the Secretary of the Sabha, Revenue Inspectors, Revenue Administrator and Officer in Charge of the Subject are vested with the mandated responsibility of revenue collection. But the officers responsible had not performed adequately to collect the relevant income.

3.3. Contract Administration

(a) Development of Hasalaka Public Sports Ground

Ministry of Sports had provided provisions amounting Rs.4,165,000 in three stages, to develop the Hasalaka Public Sports Ground, according to the proposal made by the Pradeshiya Sabha. When the possibility exists to develop this work in one stage, action had been taken to get the provisions allocated in 03 stages, to avoid the adoption of open tender procedure.

(b) Development of Canal Waterway - 04

Work had been estimated at Rs.436,713 and the construction had been handed over to Hasalaka Multi-purpose co-operative Society on an agreement reached on 03 March 2014, and a sum of Rs.300,000 had been spent on 10 April 2014 for construction work. The following facts were observed in this connection.

- i. The construction work had been handed over to Hasalaka Multi-purpose Co-operative Society without following the tender procedure, as per the provisions stipulated in the Paragraph 178 of the Pradeshiya Sabha (Finance and Administration) Rules of 1988.
- ii. According to the estimate, the road development consists of excavation and filling of the road with earth, laying the approved type of earth on the road and using of the roller to compact the road. The construction work had been handed over and the first part-payment amounting to Rs.300,000 had been made to the contracted society on 10 April 2014 through Voucher Number 359. But during the physical inspection carried out on 27 November 2014, it was observed that the road had become an unusable muddy road with potholes.
- iii. Once the contracted society submits the bill for the work-done, the payments should be made after work-done is inspected and certified by the Supervising Technical Officer. But the first part-payment amounting to Rs.300,000 had been made to the contracted society on 10 April 2014 through Voucher Number 359, without submitting such bills.

4. **Accountability and Good Governance**

4.1. **Corporate Plan**

A corporate plan had not been prepared for the Sabha in the year under review.

4.2. **Procurement Plan**

Though capital expenditure amounting to Rs.32,255,547 had been incurred by the Sabha, a procurement plan had not been prepared for the year under review.

4.3. **Action Plan**

An action plan had not been prepared by the Sabha in the year under review.

4.4. **Audit and Management Committees**

Audit and Management Committee meetings had not been held, as Audit Management Committees had not been established by the Sabha during the year under review.

4.5. **Internal Audit**

Adequate internal audit had not been carried out by the Sabha during the year under review.

4.6. **Budgetary Control**

The following matters are observed.

- (a) When the estimated revenue and expenditure in the budget prepared for the year under review was compared with the actual revenue and expenditure, variances in the range of, 13% to 53% in respect of 03 items of revenue, and variances in the range of 28% to 100% in respect of 04 items of expenditure were observed. Therefore it was observed during the audit that the budget had not been made use of, as an effective tool of control.
- (b) The budgeted revenue of 05 sub items of revenue relevant to 04 revenue heads amounted to Rs.4,726,000 and relevant percentage of revenue collection was 22.7%.
- (c) The budgeted revenue of 06 sub items of revenue relevant to 04 revenue heads amounted to Rs.42,000 and action had not been taken to earn any revenue out of this amount.

5. Systems and Controls

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

- a) Accounting
- b) Internal Control
- c) Contract Administration
- d) Assets Management