

Pelmadulla Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 28 March 2014 while Financial Statements relating to the preceding year had been submitted on 27 March 2013. The Auditor General's Report relating to the year under review was sent to the Chairman of the Sabha on 24 September 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Pelmadulla Pradeshiya Sabha as at 31 December 2013, its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

A summary of important Accounting Policies followed in the preparation of accounts had not been submitted together with the Financial Statements, in accordance with paragraph 21 in Standards No.01 of the Public Sector Accounting Standards of Sri Lanka.

1.3.2 Accounting Deficiencies

Following deficiencies are observed.

- (a.) While the sum of Rs. 5,955,357 paid relating to the Cab Vehicle acquired under lease installments during the year 2012 had been capitalized, the true value of Rs. 6,670,000 of the vehicle referred to above had been capitalized again through the accounts for the year 2013. Due to that, the balances in the Motor Vehicles and Carts Account and the Revenue Contribution to Capital Outlay Account had been overstated in a sum of Rs.5,955,357. Interest payable to the Leasing Company relevant to the above mentioned vehicle as at 31 December 2013 amounting to Rs.701,462 and Value Added Tax amounting to Rs.409,422 had not been taken to accounts although those amounts had been identified.
- (b.) Payments made totalling Rs. 251,946 during the year 2014 relevant to the expenditure for the year under review had not been identified and accounted under Creditors and

therefore the expenditure for the year under review had been understated in a similar amount.

- (c.) Actual revenue on account of Court Fines had been Rs.1,032,166 and arrears of revenue therein had been identified as Rs.615,916. However, the amount billed as revenue on account of Court Fines had been shown as Rs.2,500,000 and the same amount had been shown as revenue receivable as at 31 December 2013. Due to that, Courts Fines Revenue for the year under review had been overstated in a sum of Rs.1,467,834 while the Debtors Balance as at the end of the year under review had been overstated in a sum of Rs.1,884,084.

1.3.3 Un-reconciled Control Accounts

While the total of balances relating to 07 Items of Accounts as at 31 December 2013 had been Rs. 23,514,801, the total of those accounts according to the relevant subsidiary registers had been Rs. 11,521,282 and the difference had been Rs.11,993,519.

1.3.4 Lack of Evidence for Audit

While an asset balance of Rs. 480,930 according to General Stores Account and Premix Project General Stores Account had been shown in the Balance Sheet over a long period, a physical balance or any register was not made available to audit.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i.) Financial Regulation 371(2)	- Advances issued amounting to Rs. 93,000 in 05 instances had not been settled even up to the date of audit.
(ii.) Financial Regulation 502 and Index II	- Detailed Registers of Fixed Assets were not available to confirm the balance of Fixed Assets valued at Rs. 38,111,235.
(iii.) Financial Regulations 570 and 571	- Action had not been taken with regard to Deposits amounting to Rs.2,680,074 which had exceeded six months since the year 2007, according to the Deposits Register.

1.3.6 Improper Transactions

Following observations are made.

- (a.) Expenditure amounting to Rs. 1,861,461 had been incurred in excess of the provision of Rs.7,596,600 made available under Expenditure Head 101.
- (b.) A sum of Rs.144,000 had been paid out of the Sabah Fund, as Festival Advances to 12 Sabha Members at the rate of Rs. 12,000 per Member to recover on instalments basis from the Fuel Allowance, according to a Sabha decision dated 21 March 2013, without any prior approval from the Minister in charge of the Subject.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of operational revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.2, 077,172 as compared with the corresponding excess of operational revenue over recurrent expenditure for the preceding year amounted to Rs. 341,861.

2.2 Analytical Financial Review

While surplus of the financial operations for the year under review had been increased by 507 percent, increase in Rates and Other Income when compared with those for the preceding year was the main reason for that.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

Item of Revenue	Estimated	Actual	Cumulative arrears as at 31 December
-----	-----	-----	-----
	Rs '000	Rs '000	Rs '000
(i.) Rates and Taxes	3,304	3,679	5,627
(ii.) Lease Rent	1,791	1,705	1,738
(iii.) License Fees	1,342	1,275	4
(iv.) Other Revenue	11,653	12,012	9,950

2.3.2 Performance in Revenue Collection

Opportunities available for improving the revenue position of the Sabah had been avoided due to lack of suitable procedures to enhance the existing revenue sources and to identify new sources and, also due to weaknesses relating to supervision over officers involved in revenue collection.

2.3.3 Court Fines and Stamp Fees

- (a.) Although a sum of Rs. 28,833 only had been identified relating 111 Grama Niladhari Divisions in the area of authority of the Sabah as Court Fines for January, August, September and October 2013, it was observed in audit that any revenue on account of Court fines had not been identified and accounted relating the balance 08 months relevant to jurisdiction in the above area.

- (b.) Although the Stamps Fees receivable through the Registrar General amounting to Rs.3,680,559 for the period from November 2012 to March 2013 had been received to the Sabah, action had not been taken to identify the Stamp Fees entitle to the Sabah for the period from March 2013 onward.

2.3.4 Rates

Arrears of Rates amounting to Rs. 3,173,395 due from 5246 units for a number of years in the past had not been recovered in terms of provisions in Clause 134(1) of the Pradeshiya Sabah Act No. 15 of 1987.

2.3.5 Acreage Tax

Although Acreage Tax should be recovered from land subject to permanent or continues cultivation, arrear of Tax outstanding from 118 units amounting to Rs.55,055 was due to be recovered in terms Clause 134(3) of the Pradeshiya Sabah Act No. 15 of 1987.

2.3.6 Professional Charges

Although it has been stated that charges ranging from Rs. 900 to Rs. 3,000 should be recovered relating to 20 professions Practiced in the area of authority of the Sabah in terms of Sub- clause 152(2) of the Pradeshiya Sabha Act No. 15 of 1987 and Orders in the Gazette Notification of the Republic of Sri Lanka dated 20 December 2013, such charges had not been recovered.

2.3.7 Lease Rent of Market Stalls

In terms of provisions in the Circular No.2009/01 dated 09 March 2009 of the Commissioner of Local Government, lease agreements should be renewed annually and assessment of Lease Rent should be done at least once in five years. While the Sabah had not renewed the agreements annually, arrears of lease rent amounting to Rs. 129,589 had not been recovered from 04 lessees.

2.3.8 Charges for Telecommunication Towers

Although charges should be recovered for Telecommunication Towers constructed within the area authority of the Sabah, in terms of the Schedule V of the Extra Ordinary Gazette Notification dated 17 April 2009 of the Republic of Sri Lanka, any such charge had not been recovered for the telecommunication towers constructed within the area authority of the Sabah. Any information relating to the telecommunication towers established in the area of authority of the Sabah was not available in the Sabha too.

2.3.9 Business Tax

A survey had not been carried out with regard to the Business Enterprises situated in the area of authority of the Sabha for recovery of Industrial Taxes, Business Taxes and Trade Licenses up to 27 March 2014, date of audit. It was observed that Revenue Registers had been maintained only on the basis of the revenue received to the Sabah. A commendable procedure had not been established to recover business tax from all business enterprises situated in a wide area of authority including the Pelmadulla Town and a part of the Kahawaththa Town.

2.3.10 Advertisement Boards Charges

According to the Part IV (b) of the Standard By-laws published in the Extra Ordinary Local Government Gazette No. 520/7 dated 23 August 1988 adopted by the Sabah, approval of the Sabah should be obtained for the display of Advertisement Boards and the relevant charges should be recovered by the Sabah on the basis of the method published in the Gazette. It was revealed in the field examination carried out on 27 March 2013 that a large number of advertisements and banners are displayed within the area of authority of the Sabah and that charges are not recovered for all those. It was also observed in audit that the Sabah had not introduced a satisfactory procedure for the recovery of those charges beyond the acceptance of payments alone made by the parties on visits to the Sabah Office. Adequate and accurate information relating to the charges recovered for the display of advertisements and banners were not available in the Sabah due to non-maintenance of a Register of Advertisements.

2.3.11 Lease Rent of Weekly Fair

Weekly Fair belongs to the Sabah is conducted on every Saturday and Revenue Officer recovers charges ranging from Rs. 30 to Rs.130 from the stalls. Any information was not furnished to audit to ensure that a responsible officer is involved in supervision of this process beyond the banking of collections handed over by the Revenue Officer.

2.3.12 Entertainment Tax

An income of Entertainment Tax amounting to Rs. 30,058 had been received from the Gankanda Cinema Hall situated in the area of authority of the Sabah for the year under review. It was observed that the tickets sold in the Cinema Hall are not sealed by the Sabah and the recovery of Entertainment Tax through the cinema hall is done haphazardly.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- (a.) A Bako Machine had been hired for cutting pits for disposal of garbage and payments had been made accordingly. At the physical examination carried on 27 March 2014 it was observed that the machine was in use for the same work without an officer of the Sabah in that place and meter reading of the machine had not been taken. Under these circumstances, preparation of a voucher for 297 machine hours for the year 2013 for 93 days and payment of Rs.724,490 on that was a questionable issue in audit.
- (b.) The Cab Vehicle bearing No. PD 7614 had been repaired through a private entity having paid a sum of Rs589,759 after the accident took place on 20 May 2013. While a sum of Rs. 561,532 had been paid as insurance compensation, balance sum of Rs. 28,227 had been paid out of the Sabah Fund. The sum of Rs.28,227 born out of the Sabah fund had been a direct charge to the Sabah Fund, as action had not been taken to identify the parties responsible for the accident.
- (c.) Although a large number of Three Wheeler Vehicle parks are seen in the area of authority of the Sabah, the Sabha had not introduced a scheme to obtain a monthly or annual income by imposing by-laws after providing the required facilities.
- (d.) A shortage of 1129 books valued at Rs. 107,861 in the libraries under the management of the Sabha at Pelmadulla and Pathakada was observed as at 26 March 2014, date of audit.

3.2 Operational Inefficiencies

Following observations are made.

- (a.) While action had not been taken to account for the Stocks of General Stores purchased and utilized by the Sabha through the General Stores Account, those purchases had been accounted by debiting the Expenditure Heads at the time of purchase. Due to that, stock as at the end of the year had not been reflected in the accounts, and it had been accounted as the whole stocks were consumed during the year.
- (b.) Any course of action had not been taken with regard to the sum of Rs.8,915 not banked relevant to the years 2003 and 2004 through the Marapana Sub Office of the Sabah, in terms of Financial Regulations 182(2), 187(3) and Regulation 3 of the Pradeshiya Sabha (Financial and Administration) Rules of 1988, made under the Pradeshiya Sabah Act No.15 of 1987. Similarly, it was observed that any course of action had not been taken with regard to cash and direct remittances not banked amounting to Rs. 517,448 relating to the year 2004, pointed out in audit continuously.
- (c.) Arrears of balances amounting to Rs. 149,133 relating to loans granted to staff who had been in service of the Sabah had not been recovered up to the date of audit.

3.3 Transactions of Contentious Nature

Following observations are made.

- (a.) In the running charts of the Cab Vehicle bearing No.PD 7614 belongs to Sabah, the number of kilo meters shown in the milometer had not been recorded and fuel consumption had been balanced on the assessment made by the driver himself. Although the fuel consumption of the vehicle should be tested at least once in 03 months, such tests had not been done throughout the year 2013. Under these circumstances it was not possible to confirm in audit, whether 5199 Liters value of Rs .624,041 of fuel obtained was genuine.
- (b.) A sum of Rs. 540,000 had been spent out of the Sabah Fund for the tour in Thailand during the period from 26 February to 03 March 2013 on behalf of six members. It had been informed that the approval of the Minister in charge of the subject was received for this, vide letter number CLG/436(1) dated 13 February 2013 of the Sabaragamuwa province Commissioner of Local Government. Further observations relating to this tour are shown below.
 - (i.) Information relating to the Foreign Training Programme had not been recorded.
 - (ii.) Although it has been instructed to all Chief Secretaries by the Secretary to the Ministry of Local Government and Provincial Councils that the Funds of the Local Government Institutions should not be utilized contrary to the Government policies and that when Head of a Local Government, a Representative or a Member is selected for foreign training, all expenses relating to that should be born by the relevant Organization, Foreign Government or Foreign Institution, attention had not been paid to those instructions.

- (iii.) A report too had not been submitted regarding the utilization of the knowledge obtained in foreign training on local basis, within one month after the foreign training.
- (iv.) Although the Participants in foreign travel should obtain permission from the Hon. Governor for that, such approval had not been obtained. Although it is possible to pay at the rate of US \$ 50 per day subject to a maximum of 15 days to meet expenses on account of travel, airport taxes visa charges etc. in spite of the payment of Rs. 540,000 already made to a private entity out of the Sabha Funds during the year under review to meet such expenses, a sum of US \$ 300 at the rate of US \$ 50 per day per Member totalling US \$ 1800 or Sri Lanka Rs. 230,382 had been spent again out of the Sabha Funds.

3.4 Contract Administration

Following observations are made.

- (a.) Two agreements had been entered into with the Gonakumbura Samurdhi Society for the construction of a culvert across the Kehelbaddara Canal on 22 December 2011 for a sum of Rs.883,743 and on 22 February 2012 for a sum of Rs.419,231 for the second time. A sum of Rs.836,667 had been paid in two instances during the year 2012, after deduction of retention money on the recommendation of the Technical Officer that the work has been satisfactorily completed in terms of the agreements. Further, a sum of Rs.158,113 had been released to the Society as retention money and agreement security. While this culvert had been constructed by formation of a dam across the water way utilizing Hume Pipes, the Hume Pipes used had not been adequate for the water flow of the stream. Hume Pipes had been blocked by parts of debris, timber etc. floating with water. At the physical inspection carried out on 27 March 2014, it was revealed that water way had been blocked due to the dam erected across the natural waterway and the natural route of water flow had been changed due to the pressure and the banks of the canal had been breached with the culvert and water was flowing across a nearby land causing a large environmental damage.
- (b.) A sum of Rs. 8,357,103 had been approved for the first stage of the construction of the Environmental Protection (Garbage Management) Centre of the Sabah. The contractor selected for the work mentioned above to whom the contract was awarded after calling for tenders had not worked according to the agreement and defaulted. Therefore the Procurement Committee had decided to cancel the agreement entered into with the contractor and to entrust the work to the Sabah on the basis of a work expenditure of Rs. 8,357,102 following the Procurement Guidelines and had informed to complete the work before 15 December 2012 through letter No. CM/DE/03 dated 08 October 2012 of the Secretary to the Chief Ministry. However, the Commissioner of Local Government had given permission to do the work on the basis of calling for limited quotations according to a decision taken by the Sabah on 12 October 2012. Although an agreement had been entered into complete the work within 06 months having assigned the work to a private contractor on 22 November 2012 after calling for limited

quotations, it was observed at a physical examination carried out by the audit officers with the officers of the Sabah on 27 march 2014, that work of the Garbage Management Centre had not been finalized.

- (c.) While Bills amounting to Rs.5,929,590 had been prepared on the recommendations of the Technical Officers for the construction of the Garbage Management Centre as at 27 March 2014, contract work had been stopped after payment of Rs.4,843,575. Although the construction works of Employees' Rest and the Guard Room proposed to be constructed for an expenditure of Rs.1,031,402 had been finalized to a certain level, any construction work had not been made relating to the Office Building proposed to be constructed for an expenditure amounting to Rs.425,471.

3.5 Solid Waste Management

Following observations are made.

While a Section of Garbage Management Centre had been constructed having incurred expenditure amounting to Rs. 4,843,575, garbage dropped out in the area of authority of the Sabah had been brought and dumped at this premise spreading bad smell, garbage pits had been cut and berried utilizing a Bako Machine during the year 2013 having spent a sum of Rs. 724, 490. At the physical inspection carried out on 27 March 2014 it was observed that building premises in progress is getting covered with growth of wild plants, 02 tanks are filled with polluted water spreading bad smell, making room for spreading infectious deceases like dengue from flies and mosquitoes and that garbage had been dumped in the premises of the concrete yard in progress. The whole area gives bad smell due to messing up of the garbage by animals. It was also observed that, all garbage and wastes including solid wastes buried are getting into underground causing a huge environmental damage.

4. Accountability and Good Governance

4.1 Internal Audit

An adequate Internal Audit had not been conducted with regard to Finance and Stores in terms of Rule 5(7) of the Series of Financial and Administrative Rules (Pradeshiya Sabha) of 1988.

4.2 Budgetary Control

Following observations are made.

- (a.) Although provisions mounting to Rs. 1,000,000 and Rs. 55,000,000 totalling Rs.56,000,000 had been made for the construction of Drinking Water Project (Marapana, Rajanaella, and Kirindiella) and the new Market Complex respectively, it had been failed to implement or plan the relevant Projects during the year under review.
- (b.) Out of provisions made available for 17 Items of Expenditure, provisions amounting to Rs. 8,349,873 had not been utilized during the year under review.

5. Systems and Controls

Special attention is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Budgetary Control
- (iii.) Revenue Administration
- (iv.) Contract Administration
- (v.) Solid Waste Management