

Ratnapura 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 02 May 2014 while Financial Statements relating to the preceding year had been submitted on 11 April 2013. The Auditor General's Report relating to the year under review was sent to the Chairman of the Sabha on 20 November 2014.

1.2 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 Ratnapura Pradeshiya Sabha as at 31 December 2013 and its financial performance 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

Following statements which should be submitted along with the set of Financial Statements in accordance with Paragraph 21 of Sri Lanka Public Sector Accounting Standard 01 had not been submitted.

- i. Cash Flow Statement.
- ii. A Comparative Statement of Budgeted and Actual Figures or showing the budgeted figures under separate column in the Financial Statements.

1.3.2 Accounting Policies

Accounting Policies adopted in preparation of financial statements had not been disclosed in the financial statements.

1.3.3 Accounting Deficiencies

Following lapses are observed.

- (a.) Although the income to the Sabah by engagement of the JCB Machine belongs to the Sabah for work performed direct through the Sabah during the year had been assessed as Rs.2,542,100 that value had not been disclosed as an income of the Sabha.

- (b.) Commitments amounting to Rs.222,138 relevant to expenditure items for the year 2013 for which payments had been made during the year 2014, had not been taken to creditors as at the end of the year 2013. Due to that, the yearend balance of the Creditors as well as the expenditure for the year under review had been understated to the extent of that value.
- (c.) Unsettled advances amounting Rs. 338,848 had been provided as Creditors and adjusted to the Expenditure Head due to erroneous accounting.
- (d.) Although arrears of revenue (Debtors) relating to Court Fines for the year under review had been overstated in a sum of Rs. 2,481,359 due to over billings during prior years, action had not been taken to adjust that through the Ledger Accounts.
- (e.) While any Stamp Fees Revenue had not been received to the Sabah since November 2012, only the Stamp Fees Revenue billed amounting to Rs. 5,000,000 for the year 2013 had been shown as arrears of Stamp Fees Revenue resulting an understatement at the end of the year under review.
- (f.) While the Plant and Machinery valued at Rs. 10,000 purchased during the year under review had been understated, the value of Furniture had Fixtures valued at Rs. 10,000 had been overstated in accounting through the Journal entries.
- (g.) Course Fee amounting to Rs.40,000 for the Higher Diploma in Local Government conducted in the preceding year paid on behalf of a Member had been adjusted to the expenditure for the year under review, instead of adjusting that to the Accumulated Fund, resulting an overstatement of the deficit for the year under review.
- (h.) Fixed assets valued at Rs. 204,745 purchased during the year under review had not been debited to the Fixed Assets Account and credited to the Contribution from Revenue to Capital Outlay Account.
- (i.) Variations in the Cash Account balance of the Pradeshiya Sabah as at 31 December 2013, were observed as Rs. 1,795,768 according to the Cash Book, as Rs.1,785,868 according to the Bank Reconciliation Statement and as Rs. 2,142,405 according to the Main Ledger.

1.3.4 Non-reconciled Control Accounts

 According to the Control Account, the total of balances relating to 08 Items of Accounts as at 31 December 2013 had been Rs.17,253,858, while the total of those balances according to the relevant subsidiary records had been Rs. 14,791,323. Accordingly, there was a difference of Rs. 2,462,535.

1.3.5 Lack of Evidence for Audit

Any information were not furnished to audit with regard to 07 items of Assets and Liabilities of the Sabha totalling Rs. 218,746 which had been remained dormant over a long period in the Main Ledger.

1.3.6 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 Republic of Sri Lanka ----- Financial Regulation 371	- Advances totalling Rs. 215,048 paid in 12 instances during the period from the year 2005 to the year 2013 , had not been settled even up to 08 April 2014.
Financial Regulation 371(2)	- Advances totalling Rs. 653,500 had been released in 10 instances during the year under review disregarding the limit of Rs. 20,000.
Financial Regulation 1645	- Daily Running Charts relevant to 03 vehicles were not furnished to audit.
(b.) Regulations published in the Extra Ordinary Gazette dated 08 June 2005 No.1396/18 of the Republic of Sri Lanka.	- A sum of Rs. 140,000 had been paid in 28 instances as Members' Allowance on behalf of 15 Members who did not participate in the Sabha Meetings during the year under review.
(c.) Order No. 22(1) of the Order Series No. 392/9 dated 10 March 1986 by the Minister of Local Government, Housing Constructions, in terms of the Urban Development Authority Act No. 41 Of 1978.	- Although 10 percent of the extent of land sold should have been published in the Extra Ordinary Gazette obtained to the Sabah through a deed for common activities, such action had not been taken in the auction of 4 Acres and 25.64 Perches of Vilakoladeniya State.

1.3.7 Improper Transactions

Following observations are made.

- (a.) While a sum of Rs. 500,000 had been given as Fuel Advances to the Chairman in 10 instances, contrary to the provisions in the Regulation 371(2) of Financial Regulations of the Republic of Sri Lanka, an approval granted for granting those advances were not furnished to audit.
- (b.) Adjustments had been made through the Financial Statements for goods totalling Rs. 1,881,708 which had been recommended to be removed by the Board of Survey Report, but no removed up to the time of approval of the Financial Statements.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of operational revenue over operational expenditure of the Sabah for the year ended 31 December 2013 had been Rs. 3,916,769 as compared with the corresponding excess of operational revenue over operational expenditure amounted to Rs. 4,192,313 in the preceding year.

2.2 Analytical Financial Review

When compared with the preceding year surplus of financial operations for the year under review had been reduced by 65 percent mainly due to decrease in Rate and Taxes and Rent Income and the overall increase in the recurrent expenditures when compared with those for the preceding year.

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.

	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	131	37	-
(ii)	Lease Rent	1,500	14	-
(iii)	Licence Fees	637	531	207
(iv)	Other Revenue	13,898	13,856	-

2.3.2 Court Fines and Stamp Fees

Following observations are made.

- (a.) While Courts Fines Revenue amounting to Rs.4,894,458 had been received during the year under review for the period from April 2012 to October 2012, revenue up to July 2013 only had been identified.
- (b.) Although Stamps Fees Revenue of Rs. 12,660,076 receivable relevant to the period from January 2011 to October 2012 from the Registrar General of Land had been received during the year under review, any course of action had not been taken either to identify or get down any revenue from October 2012 onward.

2.3.3 Processing Charges

While a sum of Rs. 300,000 at the rate of Rs. 150,000 only had been recovered as Processing Charges, any charge had not been recovered in connection with 14 Fixtures.

2.3.4 Other Revenue

- (a.) By-laws had not been prepared for the recovery of revenue relating to Three Wheel Vehicles. Although applications had been received from 02 Associations of Owners of the Three Wheel Vehicles, any action had not been taken in that connection up to 09 April 2014, date of audit. Although By-laws had been prepared and published in the Gazette Notification in 2013 for the collection of Advertisements Publication Revenue, Sabha had not taken action earn any income.
- (b.) Instances of issuing Licenses on applications received for Industrial Taxes, Trade Licenses, and Business Taxes without the recommendation of the Medical Office of Health and the inspection report of the place of business together with the recommendation of the Public Health Inspector were observed in audit. A Register too had not been maintained with regard to the industries relevant to the area of authority of the Sabah after carrying out a survey.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- (a.) Action had not been taken up to 30 May 2014, date of audit, with regard to the items of stores valued at Rs. 1,857,500 to be auctioned, destroyed and repaired pointed out in the recommendations of the Board of Survey Report as at 31 December 2013.
- (b.) Although 241 units of goods were not made available at the Board of Survey for the year 2013, any course of action had not been taken with regard to that.

3.2 Operational Inefficiencies

Following observations are made.

- (a.) Although expenditure amounting to Rs. 2,769,943 had been incurred for the JCB Machine during the years 2012 and 2013, it was observed that the machine had been engaged in service only for 614 and 941 machine hours respectively. While the maximum capacity of the fuel tank had been 110 litres, discrepancies were observed among the entries relating to input of fuel, purchase of fuel, receipts in the running charts.
- (b.) At the physical verification carried out on 09 April 2014, it was observed that only 06 cubes of sand were available in the Sabah premises, out of 26 cubes of sand purchased for the Premix Project, having spent a sum of R. 247,000 during the preceding year. Accordingly, information relating to the work performed by using 20 cubes of sand valued at Rs. 190,000 was not revealed in audit.

3.3 Foreign Tours

- (a.) Although all expenses relating to foreign tours should be borne by the foreign organizations, a sum of Rs. 1,170,000 had been spent for 13 Sabah Members at the rate of Rs. 90,000 per head, for the tour in Thailand from 26 February to 03 March 2013.
- (b.) Although the participants in foreign tours should obtain permission of His Excellency the President in terms of the Circular No. CSA/1/1/16 dated 11 June 2012 of the Secretary to the President to go out of the country, Action had not been taken accordingly. A report too had not been submitted explaining the manner in which the knowledge gained at the end of the training is to be used locally.
- (c.) Although duty leave should be approved duly to obtain foreign travel allowances and other connected expenses, in terms of the Clause 2 (i) of the Circular No. F.P.M. 01/2010/1 dated 11 October 2010 of the Secretary to the Ministry of Finance and Planning and Secretary to the Treasury, it was observed that a sum of US \$ 2340 or Rs. 297,882 had been paid out of Sabah Funds on behalf of 13 Members at the rate of US \$

30 per day per head, who participated in the training work-shop in Thailand without any approval for leave.

- (d.) On the basis of the information given by the Commissioner of Local Government that the approval of the Chief Secretary was received to incur expenditure out of the Sabah Funds for a tour in Indonesia to a Member of the Sabha during 20 October 2013 to 25 October, expenditure amounting to Rs. 150,000 had been incurred vide voucher No. 950 dated 10 October 2013. A further sum of Rs. 112,914 had been spent as travelling expenses for the tour in Thailand during 26 February 2013 to 03 March 2013 on behalf of this Member. While permission of his Excellency the President had not been obtained go abroad, leave to be approved before going abroad had not been approved. Any document to confirm his participation in the above tour was not furnished to audit.

A report had not been submitted explaining the manner in which the knowledge gained with regard to the Indonesian Local government System to be used locally, although 06 months had elapsed after the end of the training.

3.4 Idle/Under-utilized Assets

It was revealed in the inspection that the Lorry registered under No. 60-6849 which was not in running condition since the year 2012 had been parked in the Sabha Premises.

4. Accountability and Good Governance

4.1 Internal Audit

An adequate Internal Audit had not been carried out with regard to Finance and Stores in terms of Regulation 5(7) of the Set of Financial Administration Regulations (Pradeshiya Sabah) of 1988.

4.2 Budgetary Control

While a sum of Rs. 295,500 made available relating to 20 Items of Expenditure for the year under review had been saved without incurring any expenditure, a sum of Rs. 4,743,409 had been saved out of the provision made available for 23 Items of Expenditure.

5. Systems and Controls

Special attention of the Sabah is needed in the following areas of controls.

- (i) Accounting
- (ii) Revenue Administration
- (iii) Budgetary control