

Hanguranketha Pradeshiya Sabha

Nuwara-Eliya 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 2013 and the financial statements for the preceding year had been presented on 09 April 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 11 July 2013.

1.2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Hanguranketha Pradeshiya Sabha for the year ended 31 December 2012 presented for audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) The value of the multi-purpose building amounting to Rs.52,664,129 had not been to account and therefore, the balances of fixed assets account as at 31 December of the year under review and the revenue contribution to capital out-lay account had been understated in the financial statements by a similar amount.

- (b.) Loans amounting to Rs.16,915,039 obtained from the Local Loans and Development Fund for the construction of the multi-purpose building had been accounted as capital aid at the time of receipt of the loan, instead of being credited to the Local Loans and Development Fund account. As such, the loan balance of the Local Loans and Development Fund as at 31 December of the year under review had been understated and the balance of the accumulated fund account had been overstated in the financial statements by a similar amount.

- (c.) The loan installment of Rs.943,369 paid during the year under review for the loans obtained from the Local Loans and Development Fund for the construction of the multi-purpose building had been treated as a capital expenditure of the year under review and therefore, expenditure had been overstated in the financial statements by a similar amount.
- (d.) Interest amounting to Rs.1,405,397 paid during the year under review to the Local Loans and Development Fund in respect of the previous years had been brought to account as an expenditure of the year under review. Therefore, the expenditure for the year had been overstated in the financial statements by a similar amount.
- (e.) Fixed assets valued at Rs.7,185,313 owned by the Sabha as at 31 December 2012 had not been included in the financial statements. As such the fixed assets account and the revenue contribution to the capital outlay account had been understated in the financial statements by a similar amount.
- (f.) There was a difference of Rs.10,606 between the balance as per cash book and the balance shown in the financial statements in respect of 03 bank current accounts of the Sabha.
- (g.) The balance of the employees loans account as at 31 December 2012 amounted to Rs.1,627,860; but the balance of the loan account shown in the financial statements amounted to Rs.1,919,299 thus indicating a difference of Rs.291,439.
- (h.) Works debtors amounting to Rs.3,800,852 and works creditors amounting to Rs.3,492,922 arisen with regard to the works performed during the year under review by utilizing the provisions received from the external institutions had been entered in the ledger; inter-changing the figures. Therefore, the creditors and debtor's balances had been overstated and understated by Rs.307,930.

1.3.2 **Lack of Evidence for Audit**

Transactions totaling Rs.70,785,501 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

2. **Financial and Operating 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 2012 was Rs.3,997,173 as against the excess of revenue over recurrent expenditure amounting to Rs.941,859 for the preceding year.

2.2 **Revenue Administration**

2.2.1 **Estimated Revenue, Actual Revenue and the Arrears 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.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.000'	Rs.000'	Rs.000'
i. Rates and Taxes	1,966	801	1,165
ii. Lease Rent	2,765	1,963	802
iii. Licence Fees	1,031	1,031	-
iv. Other Revenue	1,768	846	922

2.2.2 **Rates and taxes**

Arrears of rates and taxes as at 31 December 2012 amounted to Rs.524,531. But action had not been taken in this connection in terms of Rule 33 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988.

2.2.3 Lease Rent

- (a.) Legal action had not been taken to recover lease rent amounting to Rs.542,527 due as at 31 December 2012 on lease of 16 stalls and the ground floor of the weekly fair building owned by the Sabha. An agreement had not been entered into in respect of leasing these stalls.
- (b.) According to Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government, lease rent should be assessed by a Valuer and should be revised once in 05 years. Nevertheless, 29 stalls owned by the Sabha had been leased out for a fixed value for over a long period without being get assessed by an accepted Valuer.

2.2.4 Licence Fees

- (a.) According to Rule 59 of the Pradeshiya Sabha (Financial and Administrative) Rules -1988 a survey on industries should be carried out and licence fees should be charged accordingly. However, these instructions had not been followed.
- (b.) A sample audit examination revealed that action had not been taken to recover licence fees from 25 businesses located within the Hanguranketha Town itself during the year 2012.
- (c.) The progress of the recovery of trade licence fees within the area of authority of the Pradeshiya Sabha during 2011 and 2012 amounted to Rs.427,610 and Rs.297,028 respectively indicating a decrease of income by 31%.
- (d.) According to Section 152(2) of the Pradeshiya Sabha Act No.15 of 1987, tax should be recovered from every one carrying out a trade within the area of authority of the Pradeshiya Sabha. But, action had not been taken to recover tax as such.

2.2.5 Other Revenue

- (a.) According to Sub-section (d) of Section 108 and Section 119 of the Pradeshiya Sabha Act No.15 of 1987 and Sub-section 33(16) of the Pradeshiya Sabha By-law No.520/7 dated 23 August 1988, only the Pradeshiya Sabha owes the legal right to conduct weekly fair within the area of the Sabha. Nevertheless, without taking action according to the said legal rights, it had been allowed the Rikillagaskada Muliti Purpose Co-operative Society to conduct the weekly fair and as such, the Sabha had deprived of an income of Rs.533,620 approximately per year.
- (b.) According to By-law of the Sabha dated 06 October 2011, a licence should be obtained for parking hiring vehicles. But, the powers of this By-law had not been properly implemented and 42 out of 424 Three Wheelers registered within the area of authority of the Pradeshiya Sabha during the year 2012 had obtained licence only for 06 months. As such, an income of about Rs.483,600 receivable for parking Three Wheelers had been lost. Action had not been taken to register lorries, vans, tractors, motor vehicles and hand tractors and to recover parking charges.

2.2.6 Court Fines and Stamp Fees

Money receivable as at 31 December 2012 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
(i.) Court Fines	572,151
(ii.) Stamp Fees	1,764,550

2.3 Assets Management

2.3.1 Idle and Underutilized Physical Resources

- (a.) The tractor bearing No.49-1980 owned by the Sabha had been handed-over to a garage at Rikillagaskada for repairs since 2010 and the vehicle had not been taken-over after repairs although 02 years had been passed. The Honda Motor Cycle bearing No.146-1715 was not in running condition.
- (b.) Five stalls owned by the Sabha had remained closed without action being taken to lease out them.
- (c.) Although a large amount of money is spent annually to pay loan installments and interest on loans obtained for the Pradeshiya Sabha Multi-Purpose Building; the ground floor of the Pradeshiya Sabha Office had remained closed nearly for one year without being leased out or without being put to any effective use.

2.4 Operating Inefficiencies

The following observations are made.

- (a.) Action had not been taken to recover loan balances amounting to Rs.171,761 remained uncovered for over several years from officers transferred, interdicted, retired and vacated posts as at 31 December 2012.
- (b.) On-account sub-impressts amounting to Rs.14,440 given to the officers of the Sabha during the year 2010 had not been settled.
- (c.) The milo-metre of the Tractor bearing No.270-0497 had been out of order since 01 February 2010 and action had not been taken to repair it even by 11 February 2013.
- (d.) Although there were 18 vacancies in posts of approved cadre of the Sabha, action had not been taken to fill the above vacancies.

- (e.) The debris of the old Pradeshiya Sabha building had been transported by using a hired Tipper without being used the vehicles of the Sabha and hire charges amounting to Rs.17,500 had been paid for it.
- (f.) An investigation in terms of F.R. 104 (1) had not been carried out in respect of the accident occurred to Cab No-252-6568 owned by the Sabha and out of the sum of Rs.276,800 spent for the repairs of the Cab; only a sum of Rs.133,983 had been reimbursed by the Insurance Corporation. Action had not been taken to recover the loss of Rs.142,817 from the parties responsible.

2.5 Transactions Not Supported by Adequate Authority

- (a.) Seventeen employees had been recruited during the year 2012 and salaries amounting to Rs.2,446,591 had been paid out of the Sabha funds contravening Section 19(1)(1) of the Pradeshiya Sabha Act No.15 of 1987 and instructions of the Circular No.DMS/17/2/28 dated 25 Many 2009 of the Secretary to the Treasury.
- (b.) Goods to the value of Rs.522,000 had been purchased at 02 instances contrary to Paragraph 3:4 of the Procurement Guidelines-2006 and Rule No.177 of the Pradeshiya Sabha Rules-1988.

2.6 Contract Administration

The following observations are made.

- (a.) The roof of the building constructed for sorting waste under the provisions of the Ministry of Agriculture and Environment of the Central Province at an expense of Rs.397,324 had been come downward at a certain place. The valance boards had been properly fixed to the roof and had decayed due to rain water.
- (b.) A sum of Rs.438,480 had been paid for laying concrete blocks in front of the new building of the Sabha. However, an examination carried out on 18 October 2012 revealed that the surface on which the concrete blocks are laid had not been rolled

properly. Further, the gap between the concrete blocks was only 05 m.m. whereas it should have been 02 m.m. Kerbs had not been made for concrete blocks laid parallel to the building and some places had been sunked.

2.7 Solid Waste Management

- (a.) Two compost yards have been constructed according to the construction of semi aerobic covered trench under the provisions of the Ministry of Agriculture and Environment and the Department of Local Government for the years 2009 and 2012 at an expense of Rs.6,645,626. This project had become stand-still due to the problems of not having a proper plan and Methodology for the project; impracticable to operate and not providing proper knowledge and training about the project.

- (b.) According to Section 95 of the Pradeshiya Sabha Act No.15 of 1987 the waste should be properly disposed of. However, an examination carried out on 12 February 2013 about the Wegama Solid Waste Management Centre revealed that the waste collected had been dumped around the centre and there was a bad smell within the area and there is a possibility of environmental pollution and water pollution in consequent of the above. The Sabha had not taken proper action on the above issue.

3. Systems and Controls

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

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