

Kahawatta Pradeshiya Sabah

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Following observations are made. Financial Statements for the year under review had been submitted to Audit on 31 January 2014 while Financial Statements relating to the preceding year had been submitted on 20 February 2013. The Auditor General's Report relating to the year under review was sent to the chairman of the Sabah on 22 September 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 Kahawatta Pradeshiya Sabha as at 31 December 2013 and 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

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. Comparative Statement of Budgeted and Actual Figures.
- ii. Summary of Important Accounting Policies.

1.3.2 Accounting Deficiencies

Following deficiencies are observed.

- (a) Commitments amounting to Rs. 139,251 relevant to Items of Expenditure of the year 2013, paid during the year 2014 had not been taken to Creditors balance for the year 2013 and due to that year end Creditors balance and the expenditure had been understated to that extent.

- (b) Interest Receivable amounting to Rs. 141,282 for July to December of the year under review for money invested on a Fixed Deposit in a State Bank had not been accounted.
- (c) Stamp Fees amounting to Rs. 1,114,980 received in excess of the opening balance in respect of prior years had been credited to the Debtors account. Although adjustments should be made to the Stamp Fees Revenue Account by debiting the Debtors Account and crediting the Accumulated Fund Account through Journal entries, entries had not been made accordingly. Due to this, Stamp Fees Debtors Account and the Accumulated Fund Account had been understated.

1.3.3 Non-reconciled Control Accounts

Differences between the total of balances relating to 05 Assets Accounts, 02 Liabilities Accounts, and 07 Items of Expenditure according to Control Accounts and balances according to relevant subsidiary registers observed had been Rs. 739,571, Rs. 52,652 and Rs. 283,384 respectively.

1.3.4 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.) Pradeshiya Sabha Act No. 15 of 1987 ----- Clauses 132 (j) and (k)	- Expenditure totalling Rs.41,116 had been Incurred out of the Sabah Funds in connection with a cricket match organized on 04 February 2013, Independence Day, amounting to Rs 26,716 and for the purchase of 18 chairs valued at Rs. 14,400 for the Kahawatta, Palansooriyagama Funeral Assistance Society on 12 February 2013, without prior approval of the Minister.
(b.) Financial regulations of the Republic of Sri Lanka - 1992 ----- Financial Regulation No. 260, 384 (2) and 385	- Cheques valued at Rs. 1,864,707 had been encashed in 45 instances over the bank counter. It was observed in audit that continuous habits of this nature leads to improper financial practice and huge risk in the financial management.

- (c.) Section 07 of the Management Audit Circular No.D.M.A./2010 (4) dated 19 February 2010 of the Department of Management Audit - Salary payments amounting to Rs.3, 765,074 for the year 2013 had been made by cash to permanent and casual employees of the Sabha, contrary to the provisions in the circular.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of operational revenue over recurrent expenditure for the year ended 31 December 2013 amounted to Rs. 3,199,287 as compared with the excess of operational revenue over recurrent expenditure for the preceding year amounted to Rs. 4,545,796.

2.2 Analytical Financial Review

While the surplus in the Financial Operations for the year under review had been decreased by 30% percent amounting to Rs.1,346,509 when compared with that for the preceding year, increase in the recurrent expenditure and the decrease in the rates and taxes during the year under review had been the main reasons for that when compared with 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.

	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	2,497	2,772	(275)
(ii)	Lease Rent	5,396	3,189	2,207
(iii)	License Fees	691	753	(62)
(iv)	Other Revenue	4,040	4,095	(55)

2.3.2 Performance in Revenue Collection

When revenue collected during the year under review is compared with the estimated revenue, revenue collected relating to Lease Rent, had been reduced by 41 percent.

2.3.3 Rates

While a sum of Rs. 2,952,644 was due to be recovered from 838 tax payers over a period exceeding from 01 year to 04 years, as at 31 December 2013 proper course of action had not been taken to recover the amounts in arrears in terms of Sections 158 and 159 of the Pradeshiya Sabah Act No. 15 of 1987.

2.3.4 Industrial Taxes, Business Taxes and Trade License Fees

An annual survey had not been carried out in order to identify the business entities liable to pay the above mentioned taxes up to 10 February 2014, date of audit. It was observed that the Revenue Register relating to above mentioned taxes had been maintained on the basis of payment received to the Sabah from the various business categories. It was also observed that there were 172 instances of arrears in the payment of Industrial Taxes, Business Taxes and Trade License Fees amounting to Rs.118,850 relevant to the years 2012 and 2013.

2.3.5 Acreage Tax

While a sum of Rs. 53,794 was outstanding from 01 to 04 years as arrears of Acreage Tax from 38 individuals as at 31 December 2013, necessary course of action had not been taken to recover the amounts in arrears.

2.3.6 Stall Lease Rent

Although it is required to renew the agreements annually in leasing out stalls in terms of the Circular No. 2009/1 dated 09 March 2009 of the Commissioner of Local Government, in leasing out the Stalls belong to the Sabah such annual renewals had not been made. Similarly, it is required to assess the lease amounts at least once in 05 years; such action too had not been taken for that.

2.3.7 Advertisement Board Charges

While a large number of advertisements and banners were observed within the area of authority of the Sabah, a Register of Permanent and Temporary Advertisement Boards had not been maintained in that connection. Action had not been taken to record adequate and correct information relating to income to be earned through granting permission to display advertisements and banners in order to recover the specified charges.

2.3.8 Telecommunication Tower Charges

While any charge had not been recovered for the Telecommunication Towers erected in the area of authority of the Sabha, a proper register had not been maintained relevant to the specific permissions granted.

2.3.9 Other Revenue

Although haphazard Three Wheeler Parks were seen to a large extent within the area of authority of the Sabah, a Scheme to derive a monthly or annual income by imposing by-laws after marking places and providing facilities had not been implemented up to 18 February 2014, date of audit.

2.3.10 Court Fines and Stamp Fees

Value of Court Fines and Stamp Fees receivable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other Authorities was Rs.6,005,012.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- (a) Instead of reconciling the Cash Book balance with bank balance in the preparation of the Bank Reconciliation Statement relevant to Bank Account No. 4390931 in the Bank of Ceylon, deposits of monthly cash collections had been added to opening bank balance and only expenses had been recorded in the cash book from October 2013 onward. Receipts relating to this bank account had been recorded in the main Cash Book. The sum of Rs. 4,786,667 received as cash collection during October to December 2013 had been shown as the bank balance in the Balance Sheet while that amount was not confirmed through the cash book.
- (b) The Office had no adequate scheme for the recovery of arrears of water bills due from the water consumers relating to the Water Project implemented through the Sabah to meet the water requirements of the people in the Andana area. A large number of water meters fixed relevant to this Water Projects had been out of order as at 18 February 2014, date of audit.
- (c) It was revealed in audit that the Tractor Trailer bearing No.46-4075 belongs to the Sabah is not in the possession of the Sabha at present, although it had been physically identified according to the Board of Survey Report for 2012 and Inventory Register. An adequate explanation was not furnished by the relevant parties with regard to disappearance of that.

3.2 Improper Transactions

Following observations are made.

- (a) In spite of the fact that the approval had been refused to grant loans for the purchase of Laptops in terms of the Letter dated 10 April 2013 of the Commissioner of Local Government, a sum of Rs. 420,000 had been paid to 06 Members out of Sabah Fund

during April 2013. Adequate evidence had not been furnished to confirm that the loans were utilized for the purchase of laptops.

- (b) On 17 July 2013, a sum of Rs. 534,000 had been paid to a private institution at the rate of Rs. 89,000 per Member for 06 Members, out of the Sabha Funds for 05 days work shop relating to 3R Concept and Disaster Management to be held for representatives of Local Government of Sri Lanka in Thailand commencing from 07 June 2013 to 11 June 2013 on the basis of a private invitation. The members had not participated in the Workshop referred to above even up to 18 February 2014, date of audit.
- (c) Although a new cab vehicle had been obtained on rental basis during the year under review on approval of the Chief Minister for duty requirements, as the Mahendra Cab Vehicle No. LF 7471 own by the Sabha had been out of order; an engineer's report had not been obtained to support that the Cab belongs to the Sabah had gone out of order. Instead of obtaining a vehicle suitable to the requirements, having identified the qualities to be expected in the vehicle, and having called for opened quotations according to the accepted methodology by following the procurement process, the Cab Vehicle No.53-6322 had been obtained on the basis of paying a monthly rental of Rs. 70,000, without entering into any agreement. A sum of Rs. 465,634 had been spent out of the Sabah Fund for a period of October 2013 to December 2013 as Rs. 210,000 vehicle rent, a sum of Rs.190,878 for fuel expenditure and a sum of Rs. 64,756 for the driver.
- (d) While a sum of Rs. 64,500 had been paid as Festival Advances to 4 Pradeshiya Sabha Members, any approval had not been obtained for that.

3.3 Environmental Management

There had been obstacles to transportation due to large scale fish trade carried on either sides of the Embilipitiya-Ratnapura Main Road during a number of years. Accidents, road blocks as well as very bad smell are observed over the whole area. Rotten parts and material are being washed into the water stream flowing near the fish stalls causing an Environmental damage. Although the Fish Trading should be done on a proper license obtained from the Chairman, in terms of powers vested in the Sabha under Sub Section (i) of Section 3 of Local Government (Standard By-laws) Act No. 6 of 1952- Chapter 261 adopted by the Sabah on 24 October 2007 and published in the Government Gazette dated 07 May 2010, the fishing trade is carried on disregarding those provisions.

4. Accountability and Good Governance

4.1 Internal Audit

An adequate internal audit had not been conducted in terms of Rule 5(7) of the Pradeshiya Sabah Rules (Finance and Administration) Series of 1988, with regard to Finance and Stores.

4.2 Budgetary Control

Provisions amounting to Rs. 40,400,500 made available for 35 Items of Expenditure for the year under review, had been saved entirely, without incurring any expenditure.

5. Systems and Controls

Special attention is needed in the following areas of controls.

- (i) Accounting.
- (ii) Revenue Administration.
- (iii) Budgetary controls.
- (iv) Contract Administration.