

Laggala – Pallegama Pradeshiya Sabha

Matale District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 22 May 2014 while Financial Statements relating to the preceding year had been submitted on 04 April 2013. The Auditor General's Report relating to the year under review was sent to the Chairman of the Sabha on 09 September 2014.

1.2 Opinion

I am of opinion that except for the effect on the financial statements of the matters referred to in paragraph 1.3 of my report sent to the Chairman, that the financial statements had been prepared in accordance with Generally Accepted Accounting Principles, give a true and fair view of the state of affairs of the Laggala – Pallegama Pradeshiya Sabha as at 31 December 2013 and financial results of its operation for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Financial Statements had not been prepared in accordance with Public Sector Accounting Standards of Sri Lanka.

1.3.2 Accounting Policies

- (a.) Accounting Policies adopted in preparation of the financial statements had not been disclosed with the financial statements.
- (b.) Stocks of Stores purchased had been debited direct to the provisions for expenditure without following Stores Advance Account System.

1.3.3 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a.) Revenue Receivable at the end of the year under review, under 04 Revenue Items amounting to Rs.83,894 and a sum of Rs.70,983 payable to the Local Loans Development fund Pension Fund had not been accounted.
- (b.) Provision had not been made for Audit Fees in the Financial Statement for the year under review.
- (c.) Value of cheques issued by the Sabha, but cancelled subsequently, over payments recovered, refunds and the amount recovered in connection with losses in 05 instances totalling Rs.175,804 had been accounted under Other Revenue, but that value had been shown as a balance receivable under Current Assets disregarding the entries already made.
- (d.) A sum of Rs.4,000,000 receivable to the Sabha for 08 Works in Progress under Maga Neguma in the area of authority of Sabha and payable to the contractor by the Sabha had been accounted as Rs.400,000 resulting an understatement of Rs.3,600,000 in the Debtors and Creditors Accounts.
- (e.) Debtors and Creditors relating to Madumana Water Project had been understated in a sum of Rs.16,890 as at the end of the year under review.
- (f.) According to Note No. 11 in the Statement relating to the Financial Position, value of Cash and Cash Equivalents was a minus balance of Rs.71,833, but it had been accounted as a favorable balance under Current Asset and due to that Current Assets had been overstated in a sum of Rs.143,667.
- (g.) A difference of Rs.4,146,848 was observed between the balance in the Property, Plant and Equipment Account and the balance in the Contribution from Revenue to Capital Outlay Account.
- (h.) A Cash Flow Statement and a Statement of Changes in the Net Assets had not been submitted along with the Financial Statements for the year under review.

1.3.4 Non-reconciled Control Accounts

The total of balances relating to 13 Items of Accounts shown in the Financial Statements was Rs. 14,815,197. When those balances are compared with relevant subsidiary registers and records, differences totalling Rs.18,216,911 was observed.

1.3.5 Suspense Account

Yearend balance of the preceding year was Rs. 1,838,725 and a further sum of Rs. 4,144 had been credited to that during the year under review, showing a sum Rs. 1,842,869 as balance in the Suspense Account as at the end of the year under review. Action had not been taken to identify and settle those balances.

1.3.6 Accounts Receivable and Payable

Following matters were observed.

(a.) Accounts Receivable

While the total of Accounts Receivable balances as at 31 December 2013 of the year under review amounted to Rs.4,192,396, balances that had elapsed more than a year included herein amounted to Rs.715,131.

(b.) Accounts Payable

While the total of Creditors' Balances Payable as at 31 December 2013 of the year under review amounted to Rs.5,819,551, balances that had elapsed more than a year included therein amounted to Rs.1,933,932. Balances that had elapsed more than 3 years amounting to Rs.277,257 too had been included in that.

1.3.7 Lack of evidence for audit

Transactions totalling Rs. 5,000,066 relating to 09 Items of Accounts could not be satisfactorily vouched in audit, due to non-submission of required information to audit.

1.3.8 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>
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(a.) Pradeshiya Sabha Act No. 15 of 1987	
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(i.) Clause 170	
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	- A sum of Rs. 1,100,800 had been transferred among Expenditure Heads without approval of the Chairman in 11 instances during the year under review.
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- (ii.) Clause 175(1)
 - Salaries and Allowances amounting to Rs. 1,420,400 had been paid to 12 employees who had been recruited on casual, substitute and daily pay basis without obtaining a decision from the Commissioner of Local Government.

- (b.) Establishments Code

Clauses 4.5 in Chapter XXIV

 - Action had not been taken to recover loan balances totalling Rs. 133,695 of three employees' defaulted repayment, from the guarantors.

- (c.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

 - (i.) Financial Regulation 261 (3)
 - A minus balance of Rs. 71,900 had arisen in the Cash Book due to non-compliance with provisions referred to, when issuing the cheques.
 - (ii.) Financial Regulation 395
 - Steps had not been taken to settle 05 balances totalling Rs. 19,222 which had not been identified for more than a year according to the Bank Reconciliation Statement for December.
 - (iii.) Financial Regulation 756
 - The Board of Survey for the year under review had not been conducted even up to 31 may 2014.

1.3.9 Transactions not confirmed with Adequate Authority

A sum of Rs.5,533 had to be paid out of Sabha funds due to non-submission of reports relating to remittance of contributions to the Employees Trust Fund relevant to the period from May 1997 to October 2012.

2. Financial Review

2.1 Financial Results

Following matters were observed.

- (a.) According to the Financial Statements presented to Audit, excess of expenditure over revenue of the Sabha for the year ended 31 December 2013 had been Rs.2,643,943 as against the excess of revenue over expenditure amounted to Rs.2,924,092 in the preceding year. When compared with the preceding year, a downfall of Rs.5,568,535 was shown in the financial results for the year under review.
- (b.) When Income and Expenditure compared on the basis of Programmes, excesses of expenditure over revenue were observed except the Programmes 01, 04 and 05, in all other 03 Programmes.

2.2 Analytical Financial Review

While the Working Capital had come down when compared with year 2012, it was observed that Current Assets and Current Liabilities were not in material level although there were Current Assets to meet the Current Liabilities.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Following matters were observed.

(a.) Lease Rent

When arrears of rent at the beginning of the year under review are added with the revenue billed for the year, revenue to be collected amounts to Rs. 1,607,187. However, a sum of Rs. 805,047 or 50 Percent only had been recovered.

(b.) Water Charges

When arrears of water Charges at the beginning of the year under review are added with the revenue billed for the year, revenue to be collected amounts to Rs.952,965. However, a sum of Rs.528,608 or 55 Percent only had been recovered.

3. Operating Review

3.1 Operational Inefficiencies

Following matters were observed.

- (a.) Although the Bolero Vehicle belongs to the Sabha had been repaired incurring expenditure amounting to Rs.265,425, Minister's approval had not been obtained for that in terms of Clause 9:3:1 (a) of the Procurement Guidelines.
- (b.) A Cab Vehicle had been repaired during the year under review incurring expenditure amounting to Rs. 98,700 without selecting garages after calling for quotations.
- (c.) Action had not been taken to transfer the ownership of the Cab Vehicle, 02 Motor Cycles and the Kubota Tractor used by the Sabha, in favour of the Sabha even as at the end of the year under review.
- (d.) The two tractors and the jeep belong to the Sabha had been engaged for running without obtaining Revenue Licenses for the year under review, while insurance cover too had not been obtained for the tractor and the trailer.
- (e.) An unfavorable situation had arisen for the efficient function of the Sabha due to 20 vacant posts, although the approved cadre for the year under review had been 42 and non-appointment of a qualified Secretary.
- (f.) Action in terms of Clause 52 of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken by the Sabha with regard to 11 unauthorized constructions.
- (g.) Contributions on behalf of employees retired prior to 03 September 1993 had not been paid to Local Government Service Pension Fund regularly and due to that, the balance payable as at the end of the year under review had been a to high value such as Rs.2,003,715.

3.2 Idle/Under-utilized Assets

Three units of assets value of which totalling to Rs. 664,300 and 04 units of assets of which value could not be assessed remained idle or underutilized for a period of more than four years.

3.3 Un-economic Transactions

The Kivulevadiya Water Project which was completed on 29 December 2011 having spent a sum of Rs.1,400.000 under the Jathika Saviya Maga Neguma Scheme was not in operation due to lack of water.

3.4 Contract Administration

Following matters were observed.

- (a.) In making payments for 07 contracts totaling Rs. 3,496,500 awarded by the Sabha during the year under review, cheques had been written in favour of the name of the Manager of the Samurdhi Bank in the area, without issuing the cheque in favour of the secretary of the Samurdhi Society with whom the agreements had been entered into for the contracts.

- (b.) All functions such as preparation of estimates, taking measurement reports, inspections, recommendations for payment relating to works performed by the Sabha during the year under review had been fulfilled by the Technical Officer alone.

- (c.) Full payment had been released when making payments for 07 works performed under Maga Neguma Project during the year under review, without keeping retention money.

3.5 Solid Waste Management

While a proper methodology had not been followed for the disposal of garbage in the area of authority of the Sabha, accumulated garbage had been dumped into an open land in the Balagollayaya area without sorting out, by utilizing the tractor belongs to Sabha. It was observed in audit that the Sabha should pay attention for Garbage Recycling Programmes.

4. Accountability and Good Governance

4.1 Budgetary Control

Although it had been estimated to collect revenue amounting to Rs. 4,908,468 under 12 items of Revenue in the Budget for the year under review, any revenue had not been collected under those items. Recovery Percentage of another 03 items of revenue was in range between 10 Percent and 35 Percent. Accordingly, it was observed that the Budget had not been used as an effective tool of financial management.

4.2 Audit Queries not replied and un-resolved

Replies had not been submitted to 08 audit queries out of the audit queries issued to the Sabha. The value of transactions which could be assessed, subject to those queries amounted to Rs. 542,706.

5. Systems and Controls

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

- (a.) Budgetary control
- (b.) Recovery of revenue in arrears
- (c.) Debtors and Creditors Control
- (d.) Financial Control
- (e.) Stores Control