

## **Nivithigala 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 24 April 2014 while Financial Statements relating to the preceding year had been submitted on 17 June 2013. The Auditor General's Report relating to the year under review was sent to the Chairman of the Sabha on 13 October 2014.

##### **1.2 Disclaimer of Opinion**

It was not possible for me to obtain adequate and appropriate audit evidence, due to important matters referred to in paragraph 1.3.4 in this report to express an opinion. Accordingly, I do not express an opinion on these financial Statements.

##### **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.) Statement of Comparison between budgeted figures and the actual figures.
- (ii.) Cash Flow Statement.
- (iii.) Notes including a Summary of Important Accounting Policies
- (iv.)

###### **1.3.2 Accounting Deficiencies**

Following deficiencies are observed.

- (a.) Interest amounting to Rs.12,708 for the period from 06 October to 31 December 2013 relating to a Fixed Deposit belongs to the Sabah maintained in a State Bank had not been accounted.
- (b.) A difference of Rs.190,950 was observed between the Revenue and Expenditure Account and the Summary Revenue Register (P.S.19) relating to 02 Revenue Heads.
- (c.) Over provision of Rs. 84,513 made for Creditors for the year 2012, had not been adjusted through the Accumulated Fund.

- (d.) Although the Stamp Fees amounting to Rs.2,120,191 received exceeding the opening balance of Stamp Fees Debtors amounting to Rs.5,991,844 at the beginning of the year under review should be debited to the Stamp Fees Account, having credited the same amount to the Accumulated Fund through Journal Entries, such adjustments had not been made. Due to that, yearend balance of the Debtor Account had been understated causing an understatement of current Assets by that value and the balance of Accumulated Fund as well.
- (e.) Payment of arrears of salaries amounting to Rs.195,805 which should be adjusted to the Accumulated Fund had been adjured in the Members' Salaries Reimbursement Account causing an overstament of expenditure for the year under review of that account.

### **1.3.3 Non-reconciled Control Accounts**

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While a difference of Rs.3,832,924 was observed between the total of ledger balances relating to 27 Items of Accounts and the total of those accounts according to the relevant subsidiary registers as at 31 December 2013, action had not been taken to make necessary adjustments after examining reasons for that difference.

### **1.3.4 Lack of evidence for Audit**

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Following observations are made.

- (a.) Two external liabilities totalling to a value of Rs.7,340,290 could not be satisfactorily vouched in audit due to lack of written evidence.
- (b.) Purchases valued at Rs.796,541 relevant to 06 instances could not be satisfactorily vouched in audit due to lack of written evidence.
- (c.) Statements as at 31 December 2013 was Rs. 1,776,111, according to the physical examination of the Fixed Deposits Certificates that value had been Rs.565,473. Deposit Certificates or Bank Confirmation were not furnished for Investments valued at Rs.1,210,638.

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

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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.) Regulations published in the Extra Ordinary Gazette No.396/18 dated 08 June 2005 of the Republic of Sri Lanka	- A sum of Rs. 60,000 had been paid as allowances to 08 Members who did not participate at the meetings in 12 instances, contrary to the regulations referred.
(b.) Financial Regulations of the Republic of Sri Lanka	
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(i.) Financial Regulation 396 (d)	- Action in terms of the relevant Regulation had not been taken with regard to 07 cheques totalling Rs. 14,285 issued, but not presented for payment.

### 1.3.6 Unauthorized Transactions

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Expenditure amounting to Rs.2,142,623 had been incurred in excess of the provisions relating to 16 Items of Expenditure without obtaining budgetary or supplementary provisions.

## 2. Financial Review

### 2.1 Financial Results

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According to the Financial Statements presented, excess of recurrent expenditure over revenue for the year ended 31 December 2013 had been Rs.494,779 as against the excess of revenue over expenditure amounted to Rs.4,452,599 in the preceding year.

### 2.2 Analytical Financial Review

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While surplus of the financial operations for the year 2012 had been Rs. 4,452,599, operational deficiency for the year 2013 had been Rs. 494,779 showing a downfall by 111 percent. This was mainly due to higher rate of increase in expenditure than the rate of increase in revenue and decrease in revenue in Rent Income, License Fees and Other Revenue.

### 2.3 Revenue Administration

#### 2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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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	1,367	1,624	1,075
(ii.) Lease Rent	3,792	3,025	90
(iii.) License Fees	672	181	435
(iv.) Other Revenue	22,237	18,856	453

### 2.3.2 Performance in Revenue Collection

When the estimated revenue for the year under review is compared with the revenue collected, a decrease of 22 percent and 73 percent is shown relating to Rental Income and License Fees respectively.

### 2.3.3 Taxes

- (i.) While newly opened Mutton and Chicken Stall adjacent to the Nivithigala Fair leased out for sum of Rs.48,000 for the year under review, lease value had been decided without obtaining an assessment report. Therefore the basis of assessment of the lease value was not clear to the audit. The relevant lease agreement had been signed on 15 July 2013 after a delay of 6 ½ months and the lessee had not paid the relevant lease amount and the security deposit for the period from January to the date of signing the agreement. Action was being taken to set off the sum of Rs.30,625 paid by the lessee for getting electricity supply at the time of leasing out the stall, against the monthly rent.
- (ii.) While the Fish Board located in the Fair Groud No 01 had been given to the person who offered the second tender, that lessee had not paid the monthly rental of Rs.15,917 regularly. Signing the agreement had been delayed for 05 months up to 15 July 2013.
- (iii.) A sum of Rs. 23,500 was outstanding to be recovered as at 31 December 2013 for one trade stall in the Public Market and 03 stalls in the Weekly Fair belong to the Sabah, for period in arrears ranging from 02 months to 07 ½ months.

### **2.3.4 Other Revenue**

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Following observations are made.

- (a.) When renting out Sheds, a very small amount is being recovered and a very low amount such as Rs.200 for 07 days had been recovered due to non-revision of those charges timely. Such petty charge too had not been properly recovered and a sum of Rs. 31,200 was outstanding to be recovered relating to 110 instances
- (b.) from various individuals and institutions as at 26 February 2014, date of audit. In an examination of the Register relating to Renting out Sheds, lapses such as not recording clearly the places where goods were taken, not recording the date of return, not mentioning the number of sheds taken and storing the items in open air without security etc. were observed.
- (c.) While Tax Recoverable for all advertisements, banners and name boards displayed in the area of authority of the Sabha had not been recovered during the year under review, that revenue for the year under review had taken a very low value of about Rs.2,880.

### **2.3.5 Court Fines and Stamp Fees**

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Value of Court Fines and Stamp Fees receivable as at 31 December 2013 from the Chief Secretary to the Provincial Council and Other Authorities amounted to Rs.2,664,284.

## **3. Operating Review**

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### **3.1 Management Inefficiencies**

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Following observations are made.

- (a.) Although Members Provisions made available through the Annual Budget should be utilized for Development works and should not be used for welfare works, it was observed that welfare goods valued at Rs.1,450,050 had been purchased in 19 instances, contrary to that condition.
- (b.) It was observed in audit that revenue obtainable by engaging in field works such as Advisement Boards, Trade Licenses etc. had been lost to the Sabha, due to two vacancies of Revenue Overseers since June 2012.

### **3.2 Operational Inefficiencies**

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Following observations are made.

- (a.) Bako Loader Machine No. SGRS 0780 belong to the Sabah had been engaged in service for 1224 hours during the year under view and, an income of Rs.60,792 had been earned for 50 hours out of that. This time of 50 hours had taken a low value of 4 percent of the total time of service. When compared with the full time engaged in service, income derived had taken a very low value. In addition to the duties relevant to the Sabha, the machine had been engaged in service regularly on the instructions of the Chairman and the Members. Any estimate had not prepared by a technical officers and there had not been any supervision of those works. Action had not been taken by the Sabah to recover money for those works.
- (b.) A total sum of Rs. 975,580 including Rs. 196,749 as salaries for the Bako Machine Operator and Rs. 778,831 for repair works had been spent during the year under review. When this expenditure is compared with the sum of Rs. 60,792 earned during the year under review, Income Earning Percentage had taken a very low value of 06 percent.
- (c.) Necessary course of action had not been taken with regard to the balance of Electricity Stores Debtors amounting to Rs.47,526 which had been brought forward over a number of years.

### **3.3 Improper Transactions**

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Although the approval of the Minister in charge of the subject of Local Government had been received to incur expenditure out of Sabah Funds for a tour in Thailand from 26 February 2013 to 03 March 2013 for two members at the rate of Rs.90,000 per Member, the relevant expenditure had been incurred without transparency. Participation in foreign study tours should be made utilizing Local Government or Government Funds, only if such tours cause direct benefits to the Institutions through such tours. Although the relevant foreign Organization, Government or the Entity should bear all such expenses and provide facilities relating to the tour, without any mention of the purpose of the Foreign Training Programme, expenditure amounting to Rs.180,000 had been incurred on 19 February 2013. Although the permission of the Hon. Governor should be obtained to leave the country by individuals who participate in foreign tours, such permission had not been obtained. A report too had not been submitted with regard to local utilization of the knowledge gained at the end of the training.

### **3.4 Un-economic Transactions**

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- (a.) While repair expenditure amounting to Rs. 842,590 had been incurred during the year under review in connection with the Cab Vehicle No. 250-0584, a sum of Rs. 437,649 out of that had been commitments of Creditors. This cab vehicle was not in running condition and had been referred to the Development, Constructions, Machinery and Equipment Authority of the Sabaragamuwa Provincial Council for repairs even as at 26 February 2014, date of audit.

- (b.) While 04 tyres valued at Rs. 107,998 had been fitted to the vehicle mentioned above through voucher No.212 dated 18 February 2013, out of that one of the tyres had become not road worthy due to appearance of wires on the surface and another tyre had been purchased having spent a sum of Rs.16,500 through voucher No.1172 dated 21 October 2013. Incurring expenditure for tyres in this manner for a vehicle which was not running condition was a questionable issue.

### **3.5 Contract Administration**

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While plastering of the Ridma Ranga Art Centre Building in the Doloswala Temple had been done through the Doloswala Rural Development Society at an estimated value of Rs.98,479 under provisions of the Provincial Council, following matters were observed in that connection.

- (i.) According to the report for the final part payment, surface of the side walls under item 2 of the estimate had not been properly plastered by utilizing the cement and sand mixture properly, and as at 26 February 2014, date of inspection, plastering had been slacken off.
- (ii.) While Plastering of the Building Floor under Item 1 of the estimate had been completed by smoothing the surface with red and black cement after plastering with cement and sand mixture, number of places on the surface of the floor had been cracked. While about 05 such places had been repaired again, when certain places cracked were opened and examined, it was established that those plastering could be easily slacken off. Accordingly, parts of works performed amounting to Rs. 51,642 had been fruitless.
- (iii.) Additional bills had been prepared for plastering of wall under Item 2 of the estimate to a length of 12 feet and a width of 17.5 feet forming 209 square feet and payments amounting to Rs. 9,388 had been made for wok not performed.

## **4. Accountability and Good Governance**

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### **4.1 Internal Audit**

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

### **4.2 Budgetary Control**

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Provisions amounting to Rs. 3,950,597 relevant to 18 Items of Expenditure had not been utilized for any work and had been saved.

## **5. Systems and Controls**

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Special attention is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Budgetary control
- (iii.) Revenue Control
- (iv.) Financial Control
- (v.) Contract Administration