

Sooriyawewa Pradeshiya Sabha
Hambanthota District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 26 March 2014 while Financial Statements relating to the preceding year had been submitted on 23 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 14 November 2014.

1.2 Adverse Opinion

Because of the significance of matters described in paragraph 1.3 of this report, I am of opinion that the financial statements do not give a true and fair view of the financial position of the Sooriyawewa Pradeshiya Sabha as at 31 December 2013 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Following observations are made.

(a.) Although the accounts should be prepared by the Local Authorities with effect from 01 January 2011, according to the Sri Lanka Public Sector Accounting Standards, in terms of the Circular No. PED/54 dated 19 January 2010 of the Director General of Public Enterprises, those standards had not been followed.

(b.) Cash Flow Statements had not been submitted together with financial statements for the year under review.

1.3.2 Accounting Deficiencies

Following observations are made.

(a.) Although balance of the Accumulated Fund and Deficits Account as at the end of the year had been stated as Rs.11,872,890 in the financial statements, according to the Ledger Account, it had been Rs.10, 043,576 showing a difference of Rs. 1,829,314.

(b.) Although balance of the Rent Control as at the end of the year had been stated as Rs.1,385,911 in the financial statements, according to the Ledger Account, it had been Rs.1,145,600 showing a difference of Rs.240,311.

(c.) Following observations are made with regard to accounting for Creditors and Debtors.

(i.) While a sum of Rs. 15,588,004 had been credited and debited to the Work Creditors and Debtors Accounts, there was no journal entry for that.

(ii.) Although it had been shown that a sum of Rs. 4,710,019 was credited to the Works Creditors Account through Journal Entry No. 34, Creditors Account in the Main Ledger had been debited contrary to that while it had been shown that a sum of Rs. 1,205,216 was debited to the Works Debtors Account through Journal Entry No.14, Debtors Account in the Main Ledger had been credited contrary to that.

- (iii.) Although provisions had not been under Works Debtors as at 31 December 2012, a sum of Rs.925,897 received on 05 February 2013 for putting up the fence of the Compost Project relevant to the year 2012 had been credited to the Debtors Account.
- (iv.) Five Works valued at Rs.2,498,647 accounted under Debtors and Creditor as at 31 December 2012 and not reimbursed and not paid during the year 2013, had not been accounted under Creditors and Debtors at the end of the year under review and reasons for that had not been given.
- (v.) Although provisions had not been made under Works Creditors as at 31 December 2012, a sum of Rs.488,559 paid during the year under review had been debited to Works Creditors Account.
- (vi.) While there was difference of Rs. 234,810 in carrying forward the values shown under Creditors and Debtors as at 31 December 2012 relevant to 05 Works to the beginning of the year 2013, action had not been taken to make adjustments to accounts after giving reasons for the difference.
- (vii.) While a sum of Rs. 9,502,757 had been shown under Creditors and Debtors in respect of 18 works executed under Maga Neguma Programme as at 31 December 2012, payments had been made having received a sum of Rs. 9,295,098 for those works, during the year under review. Action had not been taken to adjust the over provision of Rs. 207,659 in accounts accordingly.
- (d.) Value of 27 Works amounting to Rs.13,308,418 executed during the year under review under Maga Neguma Programme had not been accounted as a Capital Income and a Capital Expenditure.
- (e.) Matters observed with regard to accounting for Court Fines and Stamp Fees are shown below.
 - (i.) The total of the Court Fines receivable as at 31 December 2012 relating to the period from May 2012 to 31 December 2012 amounted to Rs.1,721,315. While a sum of Rs. 1,278,715 had been received on 18 August 2013 relevant to this period, action had not been taken to adjust the over provision of Rs. 442,600 in the Court Fines Account.
 - (ii.) A sum of Rs.totalling Rs.41,083 due relevant to April, May, June and July 2013 from the Embilipitiya Courts as at the end of the year under review had not been accounted.
 - (iii.) While a sum of Rs. 27,500 had been shown as Stamp Fees Receivable at the beginning of the year, Stamp Fees totalling Rs.133,800 relevant to the years 2010 and 2012 had been received. While this amount had been credited to Debtors; action had not been taken to adjust the sum of Rs.106,300 under provided in the accounts.

- (iv.) According to the Stamp Fees file Stamp Fees totalling Rs.56,500 due for November and December months of the year under review, had not been accounted.
- (f.) Although the value of Fixed Deposits according to financial statements at the beginning of the year was Rs.5,419,263, it had been shown as Rs. 4,000,000 in the Main Ledger Account. The difference of Rs.1,419,263 between these two accounts had been shown as adjustment of Fixed Deposits Interest relevant to prior years in the Accumulated Fund through journal entry 17 and that amount had been debited to Fixed Deposits Investments Account and credited to the Accumulated Fund. While this amount had been taken to revenue relating to prior years, it had been taken to revenue during this year as well overstating the Accumulated Fund.
- (g.) Following observations are made with regard recovery of accounting for advertisements boards.
- (i.) A sum of Rs.223,782 had been received from a private entity on Receipt No.11981 dated 11 February 2013 as charges for advertisements boards relevant to the year 2012. Although this amount had not been accounted as revenue receivable as at 31 December 2012, it had been credited to debtors.
- (ii.) While a sum of Rs.603,913 had been received during the year as Advertisements Boards Charges Revenue, this entire amount should have been taken to revenue. However, without doing so a sum of Rs.72,513 only had been taken to revenue and the balance sum of Rs.531,400 had been credited debtors. While there was an outstanding balance of Rs.557,700 as Advertisements Boards Charges at the end of the year, it had not been accounted.
- (h.) Expenditure incurred totalling Rs.231,282 relevant to prior years had been accounted as expenditure for the year under review.
- (i.) Following matters are observed with regard accounting for Library Books.
- (i.) Although the value of books purchased and received as donations was Rs.220,453, only a sum of Rs.3,730 had been accounted as assets of the year.
- (ii.) Although the value of books purchased amounting to Rs.203,360 purchased during the year under review should be accounted under capital expenditure; it had been accounted under recurrent expenditure.
- (j.) Following matters are observed with regard to accounting for refundable deposits.
- (i.) Works Retention Money deposited during January and February 2014 totalling Rs.581,113, had been erroneously included in the amount of Rs.1,048,981 shown as Retention Deposits at the end of the year under review.
- (ii.) Although it had been shown in the journal entry No. 11 that a sum of Rs. 632,581 was credited to the Accumulated Fund having debited the Retention Deposits Account to adjust the difference between schedule and the account, both of these

accounts maintained in the Main Ledger had been credited in a sum of Rs. 632,581, while there was no debit entry.

- (iii.) Although it had been shown in the journal entry No.12 that a sum of Rs.88,500 was credited to the Accumulated Fund having debited the Tender Deposits Account to adjust the difference between schedule and the account, both of these accounts maintained in the Main Ledger had been credited in a sum of Rs. 88,500, while there was no debit entry.
- (iv.) Although the sum of Rs.111,056 received as at the end of the year as interest on Employees Security Deposits had been debited to the Employees Security Deposits Investments Account, it had been credited to a separate account as Employees Security Interest Account, without crediting that amount to Employees Security Liabilities Account. This amount had been shown added to the Investments in the Balance Sheet as a debit balance under Assets.
- (v.) Although the value of Employees Security Deposits Investments Account was Rs. 411,685 according to financial statements, the value of Employees Security Deposits Liability Account was Rs.337,057. Accordingly there was difference of Rs. 74,628 between these two accounts. While there was a credit balance of Rs.235,888 at the beginning of the year in the Employees Security Deposits Liabilities Account according to financial statements, the credit balance of the Employees Security Deposits in the Main Ledger at the beginning of the year had been shown as Rs.245,957. Accordingly, a difference of Rs.10,069 was observed.
- (vi.) While there was a credit balance of Rs. 24,309 in the Value Added Tax Account at the beginning of the year, when adjusting this balance to the Value Added Tax Account in the Main Ledger, a debit balance Rs.24, 399 had been brought forward.
- (k.) Although the lump sum amount totalling Rs.235,650 received for leasing out stalls received during the year under review should be accounted under Capital Income, disregarding that, it had been accounted under Rent Income.
- (l.) Although a sum of Rs.1,385,912 had been shown as arrears of revenue on account of Utility Services in the financial statements as at the end of the year under review, according to the Registers total amount in arrears was 1,729,712. Accordingly, it was observed that arrears of revenue had been understated in the accounts in a sum of Rs. 343,800.
- (m.) Following matters are observed with regard to accounting for Stationery and Electrical Equipment.
 - (i.) It had been shown that the value of Electrical Equipment amounting to Rs. 170,632 at the beginning of the year was credited to Value of Stocks Account having debited the Supplies and Equipment Account (503) through the journal entry No.28. Instead of debiting this amount to the Supplies and Equipment

Account (503) maintained in the Main Ledger, it had been credited erroneously, while crediting the Electrical Stocks. Account too had not been done.

- (ii.) While the value of Electrical Equipment Account at the end of the year amounting to Rs.111,582 had been debited to the Electrical Equipment Stocks Account, Supplies and Equipment Account (503) had not been credited. A Journal Entry too had not been made for accounting this transaction.

1.3.2 Lack of Evidence for Audit

A total sum of Rs.6,571,165 had been debited to the Accumulated Fund Account indicating as an adjustment of figures in the Ledger Account to tally with the figures in the relevant registers having credited the Creditors Account, Work Debtors Account and General Debtors Account. A further sum totalling Rs.1,366,361 had been credited to the Accumulated Fund having debited Retention Deposits, Tender Deposits, Security Deposits and Rent Control Accounts. Any schedule or details and clarification relating to these debits and credits made to the Accumulated Fund were not submitted and therefore those transactions could not be satisfactorily vouched in audit.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.1,445,876 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.5,396,253.

2.2 Revenue Administration

2.2.1 Performance in collection of Revenue

Information furnished by the Chairman 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	1,502	1,237	36
(ii.) Lease Rent	17,116	9,883	1,693
(iii.) Licence Fees	862	215	4
(iv.) Other Revenue	13,570	12,416	2,520

2.2.2 Rates and Taxes

Action in terms of Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to assess the values of prosperities located in the areas considered as developed and recover Rates.

2.2.3 Leasing out Weekly Fairs and Fish Stall

- (a.) Action in terms of Rule 177 of the Pradeshiya Sabha (Financial and Administrative) Rules of 1988 had not been taken to lease out the Sooriyawewa Weekly Fair and the Fish Stall and Wenivelarra Weekly Fair.
- (b.) Quotations had been received to take on lease this weekly fair as follows.

Name of the Applicant	Date of Receipt of the Application	Amount Offered to the Sabha	Other Matters
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		Rs.	
Mrs.D.F. Nilmini	02.01.2013	8,000,000	For the year
Mr. W.P. Chandrasena	09.01.2013	9,100,000	For 11 months from February
Mr.A.P.D. Ruwankumara	09.01.2013	7,300,000	- do -
Mr. N.H.S. Ajith Shamal	09.01.2013	8,300,000	- do -

- Applications submitted as above by the applicants had not been presented to the Sabha to take a decision.
- While the quotation submitted by Mr.W.P.Chandrasena to take on lease for the period from February 2013 had been Rs. 9,100,000 according to the above applications, the total revenue collected during the period from February to 31 December 2013 by the Sabha on commission basis was. R.7,791,260. A sum of Rs. 1,366,882 had been paid as commission to the person who collected the revenue. Accordingly, a loss of Rs. 2,675,622 had occurred to the Sabha due to failure in leasing out this Weekly Fair and the Fish Stall.

2.2.4 Meat Stalls Lease Rent

While the lease rent for the year under review had not been properly paid by the lessee of the Pork Stall belongs to the Sabha, payment of a sum of Rs. 11,125 had been defaulted. Action had not been taken to recover this lease rent in arrears.

2.2.5 Leasing out 26 Stalls in Sooriyawewa Weekly Fair

Following observations are made.

- (a.) Although all agreements should be renewed once in every 03 years in term of paragraph 05 of the Circular No.SLG/CLG/2010/1 effective from the date 01 January 2011, action had not been taken accordingly.
- (b.) Agreements or files relating to 10 stalls were not submitted.
- (c.) While the monthly lease rent was Rs. 100 according to the agreements relevant to 05 stalls; the present monthly rent had been Rs. 275. The amount of monthly rent had not been mentioned in the agreements relating to other 21 stalls.

- (d.) Although a sum totalling Rs. 332,675 was in arrears as at 31 December 2013, action in terms of Section 159(1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover with regard to the recovery of this amount.
- (e.) Although the monthly rent had been Rs. 1,000 according to the valuation report dated 23 May 2013 of the of the Valuation Department,
- (f.) While action in terms of paragraph 4 of the Circular No. SLG/CLG/2010/1 effective from the date 01 January 2011, had not been taken with regard to lump sum money, according to the letter dated 23 December 2008 issued to the stall holders, they had been informed to finalize the payment of lump sum amount in 12 installments. A total sum of Rs. 444,509 was outstanding to be recovered as lump sum money even as at 31 December 2013, date of audit. A proper course of action necessary had not been taken for recovery of that amount.
- (g.) While it was observed at the physical inspection carried out on 21 November 2013 that 02 additional constructions had been made in 02 places in addition to the 26 stalls registered, an approval of the Sabha had not been given for constructions of this nature, Action too had not been taken to recover rent from those stalls after entering into proper agreements.

2.2.6 Leasing out 07 Stalls in Sooriyawewa Weekly Fair

Following observations are made.

- (i.) Although agreements should entered into with the lessees in term of Section 173 of the of the Pradeshiya Sabah Act No. 15 of 1987, such action had not been taken even up to 31 December 2013, date of audit to enter into agreements with lessees of 07 stalls mentioned above.
- (ii.) Although a sum of Rs.28,200 was in arrears, action in term of Section 159(1) of the of the Pradeshiya Sabah Act No. 15 of 1987 had not been taken for recovery of these amounts in arrears.
- (iii.) Names of the lessees or amounts in arrears relating to stalls No. 06 and 07 had not been noted in the Register and therefore information relating to those two stalls were not revealed to audit.
- (iv.) Although the revised rent according to the valuation report of the Valuation Department dated 23 May 2013 was Rs.750, action had not been taken to recover those charges.
- (v.) While a lump sum amount of Rs.925,952 was outstanding to be recovered for those stalls without agreements as at 31 December 2013, date of audit, necessary course of action had not been taken to recover those amounts.

2.2.7 Leasing out 12 Stalls in Sooriyawewa Weekly Fair

Following observations are made.

- (a.) Non-updating Agreements and Non-recovery of Stalls Rent
Although every agreement should be updated once in three years in term of paragraph 05 of the Circular No.SLG/CLG/2010/1 dated 01 January 2011; action had not been taken

with regard this stall No. 12. While a total sum of Rs.2,400 was in arrears as at 31 December 2013, action had not been taken in terms of Section 159(1) of Pradeshiya Sabha Act No. 15 of 1987 to recover this amount.

(b.) Non-recovery of New Valuation Charges

Although the revised rent according to the valuation report of the Valuation Department dated 23 May 2013 was Rs.600, action had not been taken to recover those charges.

(c.) Leasing out 08 Stalls located near the Bus Stand

Following observations are made.

(i.) Although every agreement should be updated once in three years in term of paragraph 05 of the Circular No.SLG/CLG/2010/1 dated 01 January 2011; such action had not been taken. The last agreement signed relating to this Stall 08 had been made on 29 December 2008.

(ii.) Although a total sum of Rs. Rs. 104,900 should be recovered as lump sum amounts as at 31 December 2013, proper course of action had not been taken to recover those amounts. Although 42 monthly installments at the rate of Rs.3,000 commencing from 29 December 2008 should be paid, it was observed that payments had not made accordingly.

(iii.) While Rent in Arrears totalling Rs. 12,900 was outstanding from stalls as at the end of the year, action in terms of Section 159(1) of the of the Pradeshiya Sabah Act No. 15 of 1987 had not been taken for recovery of these amounts in arrears.

2.2.8 Other Revenue

Street Lamps Reimbursement Revenue totalling Rs. 117,456 relating to the period July to December 2013 was outstanding to be recovered from the Electricity Board as at the end of the year under review.

2.2.9 Court Fines and Stamp Fees

Court Fines and Stamp Fees totalling Rs. 2,402,795 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2013.

3. Operating Review

3.1 Performance Evaluation

Thirty one work proposals valued at Rs. 1,768,000 had been submitted to be executed through the Budget during the year 2013. Only 03 work proposals valued at Rs. 280,000 had been implemented out of these work proposals even up to 21 November 2013.

3.2 Management Inefficiencies

Although appointments on the basis of Public Service Provident Fund should be made in terms of Paragraph 4.1 of the Pension Payments Circular No. 02/2011 dated 24 February 2011 of the Director General of Pension, 06 Substitute appointments had been made by the Sabha contrary to the provisions in that circular.

3.3 Improper Transaction

Although Combined Allowance cannot be paid to the Chairman for travelling within the area of authority of the Sabha in terms of Paragraph 02 of the Circular No. 91/12 dated 02 September 1991 of the Southern Province Commissioner of Local Government, Combined Allowance amounting to Rs.31,750 had been made for travelling within the area of authority of the Sabha, contrary to those provisions.

3.4 Idle Assets

Following observations are made.

- (a.) Although 24 equipment valued at Rs. 156,874 had been received in October 2007 as donations from the Asia Foundation to maintain a Mobile Library, the Mobile Library had been maintained only up to December 2009. Those equipment had not been utilized for an effective purpose even up to 22 November 2013, date of audit. While 2132 books had been provided by the Asia Foundation, books had not been issued to the patrons after December 2009.
- (b.) Action had not been taken for disposal of 127 units of tube well equipment of 5 types of goods that had been kept idle for a number of years, value of which could not be ascertained.
- (c.) While the Cab Vehicle No. LE-7476 and the Tractor No. 270-0523 belong to the Sabha was in serviceable condition, action had not been taken to repair and use or for disposal.

3.5 Identified Losses

While 25 items of goods purchased for the erection of wire net fence of the proposed Compost Project had been lost, replacement cost of those had been Rs. 101,500. Although 04 individuals responsible for this loss had been identified, action had not been taken to recover the value of goods up to 21 November 2013, date of audit.

3.6 Contracts Administration

(a.) Construction of Pradeshiya Sabha Building

An expenditure totalling Rs. 13,088,834 had been incurred up to 21 November 2013 for this work commenced during the year 2006 having prepared three estimates under three stages and assigned the work to three contractors. Following observations are made.

- (i.) An expenditure amounting to Rs. 376,295 had been incurred for the construction of 08 concrete posts for formation of the veranda of the building. While only 06 posts out of these 08 posts had been used for making the roof, balance two posts had not been used. Expenditure incurred for two concrete posts amounting to Rs. 94,074 had become a fruitless expenditure, due to construction works done without proper planning.
- (ii.) The under mentioned job parts performed in the second stage had fallen into a futile condition due to carrying out the construction works of the building in stages and those parts had to be performed again.

- (iii.) Expenditure amounting to Rs. 216,268 had been incurred for smoothing white plaster of the columns, beam and slab. It was observed at the physical inspection carried out on 21 November 2013 that coloring had defaced with black spots.
- (iv.) An expenditure amounting to Rs. 190,843 had been incurred for applying paint inside and outside. Paint applied had been defaced had become dirty due to third stage constructions and lack of proper maintenance.
- (v.) Although a sum of Rs. 99,120 had been paid for supply and fixing 56 units of Pendant Lamps with CFL bulbs with one year guarantee period, it was revealed at the physical inspection carried out on 21 November 2013 that the bulbs had not been fixed. While electricity supply had not been made even up to 21 November 2013, reasons for the necessity in making payments for the supply of CFL Bulbs were not revealed.
- (vi.) The cement mixture joints made in the upper floor of the building had got dismantled.
- (vii.) While action had not been taken to maintain the cleanliness of the first floor of which work had been completed, the inside of the building had been badly unclean.
- (viii.) Construction works of this building commenced in 2006, had not been completed even up to 21 November 2013 Paint applied had been 2013, date of audit.

(b.) Construction of 04 New Stalls in the Sooriyawewa Town

Contract for the construction of 04 stalls utilizing Sabha Funds had been assigned on 09 December 2010 to two approved societies as 2 contracts for a sum totalling Rs.3,796,298. While parts of works amounting to Rs.1,419,128 had been completed, a sum of Rs.1,277,216 had been paid to the societies. Construction works had been abandoned after 31 December 2011 and parts of works amounting to Rs.1,789,160 remained to be performed. Any course of action had not been taken by the Sabha for completion of these stalls even up to 21 November 2013, date of audit, and places where stalls had been constructed, had been covered with wild plants.

3.7 Solid Waste Management

While selection of the location and purchase of material required for the erection of wire net fence had been done by the Pradeshiya Sabha for the Solid Waste Management Project, action had not been taken even up to 25 April 2014, to complete the relevant work by utilizing material purchased for a sum of Rs. 1,065,900 on 30 December 2011 for the erection of the wire net fence.

4. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management
- (d.) Staff Loans Administration
- (e.) Vehicle Administration