

Welimada Pradeshiya Sabha
Badulla 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 2014 and the financial statements for the preceding year had been presented on 28 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 16 September 2014

1.2 Opinion

In my opinion, except for the effects on the financial statements of the matters referred to in paragraph 1.3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Welimada Pradeshiya Sabha as at 31 December 2013 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

- (a.) Pension contributions amounting to Rs.1,900,283 payable to the Local Government Service Pension Fund as at 31 December of the year under review had been shown under creditors as Rs.2,582,643 and as such, liabilities had been overstated in the financial statements by Rs.682,360.
- (b.) Provisions had been made under creditors in respect of work and purchases for which bills had not been submitted or works not completed as at 31 December of the year under review and therefore, the expenditure for the year and creditors as at 31 December had been overstated in the financial statements by Rs.209,000.
- (c.) Salary reimbursements amounting to Rs.86,762 relating to the year under review had been accounted in the income and expenditure account under rent income and as a result revenue aid had been understated by Rs.86,762 in the financial statements and the rent income had been overstated by a similar amount.
- (d.) Salary reimbursements amounting to Rs.401,841 relating to the year under review had been accounted under capital aid and therefore, revenue aid in the income and expenditure account had been understated by Rs.401,841 and the capital aid had been overstated in the financial statements by a similar amount.
- (e.) Rent income amounting to Rs.859,365 relating to the year under review had been accounted under income from service charges and as a result, rent income in the income and expenditures account had been understated by Rs.859,365 and the service charges had been overstated in the financial statements by a similar amount.

1.3.2 Accounts Receivable and Payable

According to the financial statements presented, the balance of accounts receivable as at 31 December of the year under review amounted to Rs.27,603,372 and balance of accounts payable amounted to Rs.52,288,987.

1.3.3 **Lack of Evidence for Audit**

Transactions totaling Rs.22,484,057 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

1.3.4 **Non-compliance with Laws, Rules and Regulations**

The following instances of non-compliance with laws, rules and regulations were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Section 149 of the Pradeshiya Sabha Act No.15 of 1987	- Although licence fees not exceeding 01 percent of the income of the preceding year should be charged from the lodges approved by the Tourism Promotion Board of Sri Lanka, licence fees had not been charged from 05 lodges.
(b.) <u>Financial Regulations of the Republic of Sri Lanka</u>	
(i.) F.R. 343	- Action had not been taken in terms of the Financial Regulation in respect of non-returning of counter-foil books issued to the Revenue Collection Officers (Field) after use.
(ii.) F.R.371	- Advances amounting to Rs.721,578 paid to the officers of the Sabha and outside parties at 21 instances from 1999 to 2013 for various purposes had not been settled.
(iii.) F.R. 571	- Deposits amounting to Rs.2,638,826 kept in the Sabha at 497 instances had not been taken to revenue, even though 02 years had lapsed.
(c.) Section 04 of Chapter xxiv of the Establishments Code of the Republic of Sri Lanka	- Employees loans amounting to Rs.40,503 due from six employees of the Sabha that had deceased or left the service had not been recovered.

2. **Financial 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 2013 amounted to Rs.10,564,207 as compared with the excess of revenue over recurrent expenditure amounting to Rs.7,855,566 for the preceding year. As such a favourable variance of Rs.2,708,641 was observed.

2.2 Analytical Financial Review

An analytical review of the net increase of the financial results is shown below.

<u>Recurrent Revenue</u>	<u>2013</u>	<u>2012</u>	<u>Variance</u>	
	Rs.	Rs.	Rs.	
Rates and Taxes	3,525,769	3,400,996	124,773	
Rent	7,902,655	8,684,265	(781,610)	
Licence Fees	2,332,024	1,999,702	332,322	
Service Charges	10,941,890	6,638,790	4,303,100	
Warrant Charges and Fines	1,262,755	1,543,908	(281,153)	
Other Revenue	5,934,703	2,713,536	3,221,167	
Revenue Aid	19,653,945	20,532,256	(878,311)	6,040,288

<u>Recurrent Expenditure</u>				
Salaries	28,175,177	28,608,448	433,271	
Travelling Expenses	521,029	798,057	277,028	
Supplies and Equipment	3,159,128	2,737,750	(421,378)	
Repairs and Maintenance of Capital Assets	1,153,707	628,153	(525,554)	
Transport and Utility Services	3,511,166	3,474,450	(36,716)	
Payment of Interest, Dividends and Bonus	3,355,703	581,205	(2,774,498)	
Aid	39,678	33,260	(6,418)	
Pensions and Gratuities	1,073,947	796,565	(277,382)	3,331,647

			Favourable Variance	2,708,641
				=====

2.3 Revenue Administration

2.3.1 Performance of Collection of Revenue

The progress of recovery of revenue in arrears as at beginning of the year was poor.

2.3.2 Lease Rent

- (a.) Lease rent in arrears amounting to Rs.742,092 payable by the lessees who had obtained lease of trading rights of the No.58 mutton stall and No.59 Beef Stall owned by the Sabha for year 2011 had not been recovered.
- (b.) A sum of Rs.922,690 due on default of payment of stall rent by the lessees who had obtained the lease of stalls of the New Trade Complex had not been recovered up to December 2013.

2.3.3 Court Fines and Stamp Fees

Court fines and stamp fees receivable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
Court Fines	4,473,220
Stamp Fees	4,700,350

	9,173,570
	=====

3. Operating Review

3.1 Sewerage Project

The following observations are made.

- (a.) The sewerage project had been completed and handed over to the Pradeshiya Sabha on 14 January 2013 at a value of Rs.99,205,979 under Local Government Infrastructure Development Project. However, the connection had been provided only to 10 consumers even by May 2014.
- (b.) As the connection pipes had not been laid at the relevant places it had been unable to give the connection and as a result the project could not be implemented. Even the money charged from certain had been refunded.
- (c.) A loan amounting to Rs.34,142,123 had been obtained from the Local Loans and Development Fund for this project and an income to meet the respective interest expenses even could not be earned from the project.

3.2 Management Inefficiencies

The following observations are made.

- (a.) A part of an unauthorized building had been constructed on a part of “Uda Demodara” land owned by the Sabha and the relevant building application had been approved by the Chairman without the approval of the Planning Committee.
- (b.) Five Lands within the limits of Head Office of the Welimada Pradeshiya Sabha had been given on 30 years lease and according to Section 1.3 of the lease agreement, the lease rent should be decided once in 05 years after an assessment done by the Department of Valuation. The lease rent had not been decided accordingly and the recovery of lease rent had been continued to be neglected. Action had not been taken in terms of the conditions of the respective agreements and the Circular No.SP/RD/02/10 dated 03 February 2010 of the Secretary to the President in respect of 05 properties of which the lease period had been expired in July 2011 and May 2014.
- (c.) The Sabha had deprived of significant revenue that could have been earned by the Sabha due to recovery of a nominal lease rent which is less than the market value without obtaining a Government Assessment Report for the Karagaswagura and Ketamilla Gaha lands within the area of the Keppetipola Sub-office.

3.3 Operating Inefficiencies

- (a.) Action had not been taken to levy by-laws and recover charges in respect of operating communication towers within the area of the Sabha.
- (b.) Salaries amounting to Rs.1,719,355 and Members’ allowances amounting to Rs.156,500 reimbursable during the period 2006 to 2012 had not been get reimbursed.
- (c.) Electricity bills in arrears amounting to Rs.25,670 for the year 2012 due from the Fisheries Corporation in respect of fish selling at stall No.56 of the New Trade Complex had been paid from the funds of the Sabha, without being recovered from the Fisheries Corporation.

3.4 Idle/ Underutilized Assets

The following assets had been lying idle.

- (a.) The Three Wheeler bearing No.204 - 8982 purchased at Rs.138,650 during 1993.

- (b.) The following assets lying in the premises of the Keppatipola Sub-office.
 - (i.) Suntec Hand Tractor
 - (ii.) Tractor No.270-0431
 - (iii.) Trailer
 - (iv.) Roto Master Hand Tractor and Plough
- (c.) The Store Building of 20'×12' at the Keppatipola Sub-office
- (d.) Uda Demodara land

3.5 **Solid Waste Management**

Collection, disposal and management of solid waste within the area of the Sabha is not properly done and therefore an adverse situation had arisen on environment.

4. **Accountability and Good Governance**

4.1 **Non-compliance with the Sri Lanka Public Sector Accounting Standards**

The financial statements for the year under review prepared and submitted by the Sabha had not been prepared in compliance with the Sri Lanka Public Sector Accounting Standards.

4.2 **Budgetary Control**

Significant variances were observed between the budget prepared by the Sabha for the year under review and the actual income and expenditure. Therefore, it was observed that the budget had not been made use of as an effective tool of control.

<u>Recurrent Revenue</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Percentage of</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Variance %</u>
Rates and Taxes	3,190,220	3,525,769	335,549	10.5
Rent	11,335,040	7,902,656	3,432,384	30.1
Licence Fees	2,692,600	2,332,023	360,577	13.4
Service Charges	18,792,510	10,941,888	7,850,622	41.8
Warrant Charges and Fines	1,971,000	1,262,756	708,244	35.9
Other Revenue	3,025,220	5,934,700	2,909,480	96.2
Revenue Aid	20,780,690	19,653,945	1,126,745	5.4
<u>Recurrent Expenditure</u>				
Salaries and Wages	35,036,830	28,175,177	6,861,653	19.6
Travelling Expenses	943,600	521,029	422,571	44.8
Supplies and Equipment	4,318,100	3,159,128	1,158,972	26.8
Repairs and Maintenance of Capital Assets	2,941,500	1,153,706	1,787,794	60.7
Transport and Utility Services	3,855,650	3,511,165	344,485	8.9
Payment of Interest , Dividends and Bonus	511,000	3,355,702	2,844,702	556.6
Aid Contributions and Subsidies	114,000	39,678	74,322	65.2
Pensions, Pensionery Benefits and Gratuities	2,168,290	1,073,947	1,094,343	50.5

5. **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