

Kahawatta Pradeshiya Sabah

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 27 February 2015 while Financial Statements relating to the preceding year had been submitted on 31 January 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabah on 22 June 2015.

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 Kahawaththa Pradeshiya Sabha as at 31 December 2014 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 Accounting Deficiencies

Following deficiencies are observed.

- (a.) Instead of accounting the loan of Rs. 13,800,000 obtained during the period from the year 2013 to the end of the year under review for construction of the market complex as a loan repayable, it had been accounted under Capital Grants. Due to this, the balance of the Accumulated Fund Account had been overstated to the extent of that value.

- (b.) Although the interest relevant to the loan obtained for the construction of the market complex for the year under review according to the confirmations of the Local Loans and Development Fund was Rs. 790,800 a sum of Rs. 986,780 had been adjusted to the Expenditure Head. Accordingly, expenditure for the year under review had been overstated in a sum of Rs. 195,950 in the accounts.

- (c.) In terms of the agreement entered into with a private entity for the construction of the Pradeshiya Sabha Market Complex during the year 2013, further amount payable as at the end of the year under review was Rs. 5,840,784. While a sum of Rs. 6,829,830 had been provided as part payment outstanding to be paid, a further sum of Rs. 11,000,000 had been provided for Creditors without any basis or entering into an agreement.
- (d.) Fixed Assets valued at Rs. 220,450 purchased during the year under review had not been accounted.
- (e.) Instead of recording the assets valued at Rs. 13,045,000 received as donations under Reserves, it had been accounted under the Contribution from Revenue to Capital Outlay Account.
- (f.) Audit Fees amounting Rs. 58,501 relevant to the year under review had not been provided under Creditors and adjusted to the expenditure for the year.
- (g.) Although the Court Fines Revenue in arrear at the commencement of the year under review was Rs. 5,310,416, according to the Court Fines Ledger Account it was Rs. 4,367,932 and accordingly there was a difference of Rs. 942,484. While a sum of Rs. 2,076,625 had been identified as Court Fines for the period from January to September of the year under review, budgeted revenue estimate of Rs. 4,000,000 had been accounted as revenue for the year.
- (h.) Although a sum of Rs. 2,706,940 had been identified as Stamp Fees Revenue in Arrears at the commencement of the year under review, according to the Ledger Account opening balance had been Rs. 1,637,080, indicating that the revenue in arrear had not been properly accounted.

(i.) The items valued at Rs. 18,834 recommended by the Board of Survey for the year under review had been removed through the accounts before disposal or approving the Board of survey Report.

(j.) Rates amounting to Rs. 160,510 received for the ensuing year had been accounted as revenue for the year under review.

1.3.2 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations etc.

Non-compliance

(a.) Pradeshiya Sabha Act No. 15 of 1987

(i.) Section 132 (a)

- Although prior written approval of the Minister should be obtained for total annual expenditure to be incurred exceeding Rs. 1,000 connected with civic receptions or public work or occasion or incident, contrary to that, a sum totalling Rs. 40,300 had been Incurred in 04 instances.

(ii.) Section 132 (k)

- Although prior written approval of the Minister should be obtained for total annual expenditure to be incurred exceeding Rs. 1,000 in granting

assistance to Charitable or Welfare Institutions, without considering those provisions, expenditure amounting to Rs. 140,000 had been incurred out of the Sabha Fund in 04 instances for development work of religious places without approval of the Minister during the year.

(b.) Financial regulations of the Republic of Sri Lanka - 1992

- (i.) Financial Regulations from No. 101 to 110
 - Action in terms of the Regulations referred to in had not been taken even up to the time of audit in February 2015, with regard to the Tractor Trailer No. 46-4075 shown as missing according to the Board of Survey Report for the year 2013 and Double Cab Vehicle met with an accident.

- (ii.) Financial Regulations No. 371
 - Action had not been taken to settle Advances granted totalling Rs. 119,149 in 14 instances during the years from 2006 to 2012, even up to February 2015.

- (iii.) Financial Regulations No. 571 - Action in terms of the Regulation referred to in had not been taken with regard to 136 Deposit Balances totalling Rs. 1,252,003 which were being brought forward since the year 1981.
- (c.) Schedule V in Extra Ordinary Gazette Notification No. 1597/8 dated April 17 2009 of the Secretary to the Ministry of Urban Development and Sacred Lands - Although a survey should be carried out with regard to the telecommunication tower in the area of authority of the Sabha and specified charges should be recovered, such action had not been taken even up to February 2015.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure for the year ended 31 December 2011 amounted to Rs. 3,005,086 as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 3,199,287.

2.2 Analytical Financial Review

While the surplus in the Financial Operations for the year under review had been decreased by Rs. 194,201 it was decrease of 6 percent. The increase in the recurrent expenditure 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	2,523	2,690	2,712
(ii) Lease Rent	4,310	3,009	2,207
(iii) License Fees	1,026	756	-
(iv) Other Revenue	9,657	9,772	4,888

2.3.2 Rates

While the value of Rates in Arrears as at 31 December 2014 was Rs. 2,408,386, 93 per cent out of that had been balances in arrears for more than a year.

2.3.3 Lease Rent

While steps should be taken to lease out the Meat and Fish Stalls annually in terms of paragraph 04 in Circular No. C.L.G. 2009/01 dated 09 March 2009 of the Commissioner of Local Government, tenders should be called for having considered the amount leased out during the preceding year as the minimum bid for the ensuing year. Although the tendered amounts for the Beef Stall in the Kahawatta Public Market from the year 2009 to year 2010 had been Rs. 903,000 and Rs. 905,000 respectively, according to the Letter No.CLG 611 dated 09 February 2011 of the Commissioner of Local Government; it had been decided to award the stall to the same applicant for Rs.

500,000. Accordingly, tender had been awarded to the same individual for the sums of Rs. 513,000, Rs. 515,000 and Rs. 519,000 respectively for the years from 2012 to 2014 on the basis of lesser values. Accordingly it was not revealed that auction was taken to get the maximum benefit to the Sabha by allowing the tender for proper competition.

2.3.4 Other Revenue

Action had not been taken generate revenue through advertisement boards exhibited and the three wheeler parks in the area of authority of the Sabha having imposed by-laws

2.3.5 Court Fines and Stamp Fees

Following observations are made

- (a.) While Court Fines receivable amounting to Rs. 1,827,875 for the period from January to September 2014 had not been recovered, any step had not been taken to identify the amount of Court Fines receivable for the period from October to December 2014.
- (b.) While any amount had not been received as Stamp Fees for the year under review, any course of action had not been taken to get the money receivable to the Sabha by making inquiries with regard to that.

3. Operating Review

3.1 Management Inefficiencies

3.1.1 Foreign Travel Expenses

A sum of Rs. 392,800 had been paid out of the Sabha Fund to a private Institution, at the rate of Rs. 98,200 per Member for 05 days from 10 November 2014 to 15 November 2014 on behalf of 04 Members of the Sabha for a foreign tour organized by a private Institution. Following matters are observed in this connection.

- (i.) Relevant leave had not been approved before going abroad.
- (ii.) Training Programme was not made available to audit.

- (iii.) A report indicating how to impart the knowledge obtained through the training had not been submitted within a month after the training.
- (iv.) Although all expenditure to be incurred and facilities to be provided should be born by the relevant organization, foreign government or foreign institution in the event of selection of Head, Deputy Head or Member of a Local Authority, in terms of the Circular No.PL/07/02/05/26 dated 09 September 2010 of the Secretary to the Ministry of Local Government and Provincial Councils, payments referred to above had been made disregarding those provisions.
- (v.) Although advances totalling Rs. 80,000 at the rate of Rs. 20,000 had been provided to the 04 participant Members as incidental expenses for the tour, those advances had not been settled up to February 2015, date of audit.

3.1.2 Improper Transactions

- (a.) When purchasing 03 Computer Machines, 03 Printers, Electrical Equipment, Equipment, Chairs and Tables for Libraries valued at Rs. 835,707 during the year under review, laid down specifications or Technical Evaluation Committee recommendations had not been obtained in terms of Clause 2.84 of the Procurement Guidelines 2006. According to requirements in Clause 8.12.3, it has to be certified by a person possessing knowledge in the subject, that the Computers and Printers were purchased according to the relevant specifications. However such certification had not been made.
- (b.) While hire charges amounting to Rs. 337,000 had been paid by the Sabha for private vehicles in 21 instances during the year under review, particulars relating to nature of duties performed, distance travelled and particulars of the journeys were not furnished to audit. Although the approval of the Minister had been received for payment of Rs. 210,000 out of the expenditure mentioned above, there was no evidence to support that such approval was received for the balance payment of Rs.127,300.

3.1.3 Un-authorized Transactions

Following observations are made.

- (a.) Revenue in Arrears amounting to Rs. 40,075 as Acreage Tax amounting to Rs.2.363 and as Rates amounting to Rs. 37,712 had been written-off through journal entries without any approval.
- (b.) While allowances amounting to Rs. 45,500 had been paid to Pradeshiya Sabha Members and Officers who participated in the meetings of Finance and Policies during the year under review, any approval for that was not furnished to audit.

3.1.4 Un-economic Transactions

While an expenditure amounting to Rs. 197,692 had been incurred for repairing the Tractor bearing Registration No. 49-9781, it had been examined by the Godakawela Depot Engineer and confirmed that the repairs had been successfully done. While it was not revealed through the running charts or files that the Tractor referred to in had run after the repairs, Tractor had been kept idle and was not in running condition.

3.2 Operational Inefficiencies

- (a.) There was no an adequate and properly maintained stores to store drugs of the Ellagewaththa Ayurvedic Dispensary.
- (b.) Water Pipes valued at Rs. 400,320 had been purchased for the Endana Water Project without a certificate to the effect that goods were purchased according to technical evaluation or laid down specifications. Improvement Works of the Water Project had not been commenced even at the time of audit in February 2015. Water Charges in Arrears amounting to Rs. 169,741 were outstanding from 251 consumers as at 31 December 2014.
- (c.) Running Charts relevant to the Cab Vehicle No. LE 7471 for the period from January to December 2014 were not furnished to audit.

3.3 Idle/Under-utilized Assets

Tipper Vehicle No. RD 7991 and the Gully Bowser No. RX 1985 received to the Sabha had been parked in Sabha Premises without being used even as at 13 February 2015, date of audit.

3.4 Contracts Administration

While an agreement had been entered into for a sum of Rs. 493,415 on the basis of an estimate of Rs. 500,000 for the completion of concreting work of the balance part of the Nugawela East -Karavita Road under provisions of the Ministry of Provincial councils, a sum of Rs. 492,196 had been paid for the work. Although the height of the concrete layer of the road should be 05 inches according to the measurement report relevant to the work, at the physical inspection carried out on 19 February 2015 it was revealed that the height of the road in number of places from the end of the road to 40 meters back was 04 inches.

3.5 Solid Waste Management

While there was no proper procedure for management of garbage accumulating in the area of authority of the Sabha, disposal of garbage accumulating daily in the town is done through un-safe methods such as dropping into a land in Houpewaththa area or burying in pits. Due to this, strong protests of the people living in the area had arisen. Expenditure amounting to Rs.140,990 had been incurred during the year for cutting pits for disposal of garbage.

5. Systems and Controls

Special attention is needed in the following areas of controls.

- (a) Accounting
- (b) Budgetary control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contracts Administration
- (f) Solid Waste Management