

Passara Pradeshiya Sabha
Badulla District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 30 April 2015 while Financial Statements relating to the preceding year had been submitted on 08 May 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 13 August 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 Passara Pradeshiya Sabha as at 31 December 2014 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

Financial Statements relevant to the year under review had not been prepared in accordance with the Sri Lanka Public Sector Accounting Standards.

1.3.2 Accounting Policies

- (a.) Accounts had not prepared according to the Accounting Standard to be followed for Property, Plant and Equipment and disclosed it.

- (b.) Accounting Standard for Stock Costing had not been disclosed.

1.3.3 Accounting Deficiencies

Following matters are observed.

- (a.) Employees Security Deposits amounting to Rs. 29,232 recovered from 08 employees by the Sabha during the year under review had not been shown in the financial statements.
- (b.) Acreage Tax and License fees amounting to Rs. 45,540 and Rs. 23,580 respectively relating to the year under review had not been accounted. Due to that, revenue had been understated in a sum of Rs. 69,120.
- (c.) Although the sum of Rs. 10,000 granted as assistance for kidney treatment to an individual should be accounted under Expenditure Head for Reliefs, Contributions and Subsidies, it had been accounted as Capital Expenditure.
- (d.) Although a sum of Rs. 10,000 had been provided under Creditors as Capital Expenditure to be incurred for construction works for the year under review, such expenditure was not revealed in audit.
- (e.) While a sum of Rs. 11,536,995 had been shown as the amount payable by the Sabha for the value of construction works completed during the year under review, a sum of Rs. 1,414,946 had been overprovided in that value.
- (f.) Although a sum of Rs. 40,000 spent for fuel during the year under review should be debited to Transport and Utility Services, it had been debited to Travelling Expenses Account.
- (g.) It was revealed that the value of deposits shown in the financial statements was more than the value as per ledger accounts and registers in a sum of Rs.502,585.
- (h.) Although a sum of Rs.256,605 had been shown in the accounts as the amount payable for value of work completed for a Project named Aralugolla Water Scheme during the year under review, that Project had not been implemented.

1.3.4 Accounts Receivable and Payable

According to the financial statements submitted, the value of Accounts Receivable balances as at 31 December of the year under review was Rs. 20,756,450 and the value of Accounts Payable balances had been Rs. 17,439,387.

1.3.5 Lack of Evidence for Audit

Required information were not made available with regard to 04 items of accounts valued at Rs. 21,052,781 and therefore those could not be satisfactorily vouched in audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with laws, rules and regulations observed in audit are shown below.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) <u>Pradeshiya Sabha (Financial and Administrative) Rules - 1988</u> Rules 217 and 218	- The Chairman had not taken action during the year under review, to get examined all Land and Buildings belong to the Sabha and used by the Sabha once in every year.
(b.) <u>Financial Regulation Democratic Socialist Republic of Sri Lanka</u>	
(i.) Financial Regulation No. 371	- Action had not been taken to get settled Advances amounting to Rs. 113,496 granted during the year 2006.
(ii.) Financial Regulation No. 1646	- Monthly Running Charts relating to 05 vehicles used during the year 2014 had not been furnished to audit.
(c.) Value Added Tax Act No. 14 of 2002	- Value Added Tax amounting to Rs.13,821 recovered from the Construction Contractors during the year 2012 had been kept in the Deposits account without being remitted to the Commissioner General of Inland Revenue.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabah for the year ended 31 December 2014 had been Rs.2,609,095 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 8,783,025 in the preceding year reflecting a net decrease of Rs. 6,173,930 in the financial results.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

(a.) During the preceding year arrears of revenue had been collected as 53.9 % per cent, 62.9 % per cent, 28.6 % per cent, 34.6 % per cent and 49.3% per cent of Rates , Water Charges, Acreage Tax, Stalls Rent and Tendered Stalls Rent respectively. Position relating to progress of recovering the revenue in arrears was unsatisfactory.

(b.) During the year under review recovery of revenue billed had been 19.6 %, 38 %, 53 %, and 71.7 % of Weekly Fair Stalls Rent, Acreage Tax, Water Charges and Rates, respectively. Accordingly, a progress in the recovery of revenue in arrears during the year was not observed in audit.

2.2.2 Rates

(a.) Although Rates should be revised once in every five years and rates should be recovered accordingly, Rates for the year 2014 were being recovered based on assessment made during the year 2005.

(b.) While Rates in Arrears amounting to Rs. 364,499 remained outstanding continuously, action had not been taken to recover amounts in arrears in terms of Section 158(1) of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.3 Stalls Lease Rent

- (a.) Although the Lease Rent should be assessed once in every five years in terms of provisions in the Circular No. 1980/46 dated 31 December 1980 of the Commissioner of Local Government, without taking such action, monthly lease rent at the rate of Rs. 500 had been recovered based on the assessment made during the year 2005 for 20 stalls.
- (b.) While Rent for 13 stalls situated in the Weekly Fair Ground was in arrears for 14 to 107 months, those arrears amounted to Rs. 72,675 as at 31 December 2014. Actions had not been taken in terms of Section 159(1) of the Pradeshiya Sabha Act No. 15 of 1987 and provisions in the lease agreements or to vest the ownership of stalls to the Sabha and re-lease.

2.2.4 Water Charges in Arrears

While water charges receivable in arrears as at 31 December 2014 amounted to Rs.1,763,925, the number of consumers who were in arrears exceeding Rs. 1,000 per unit had been 484. Although Sabha sanction had been obtained on 30 October 2014 to disconnect water connections in arrears for more than Rs. 1,000, it had not been implemented even as at 31 December 2014.

3. Operating Review

3.1 Management Inefficiencies

- (a.) Action had not been taken in terms of Financial Regulation 189 of the Republic of Sri Lanka and to make recoveries with regard to 02 cheques valued at Rs. 43,212 dishonored during the year 1996.
- (b.) Two Samsung Mobile Phones valued at Rs. 36,908 used by the Chairman and the Vice Chairman had not been returned back to the Sabha although their term of office ended on 15 May 2015.

- (c.) While payment of Electricity Charges for 03 stalls leased out by the Sabha amounting to Rs.56,626, defaulted by the lessees had been paid out of the Sabha Fund to the Electricity Board, it had not been recovered from the relevant parties even as at the end of the year under review.

3.2 Improper Transactions

A Bache Machine had been purchased for Rs. 782,325 without calling for tenders, contrary to the provisions in the Code of Government Procurement Guidelines for 03 Programmes for Removal of Garbage and Waste Materials.

3.3 Environmental Influences

- (a.) Out of 58 Business Entities in operation in the area in authority of the Sabha which are involved in nature of work liable to obtain Environmental Permits in terms of provisions in the Environmental Act No 47 of 1980 as amended by Act No. 56 of 1988 and Act No. 53 of 2000, only 10 Environmental Permits had been granted.
- (b.) Although the Sabha should act according to the objectives of the Sabha for recycling garbage in terms of the Environmental Act No 47 of 1980, garbage had been dumped in an opened area causing environmental influence.

4. Systems and Controls

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

- (a.) Revenue Administration
- (b.) Accounting
- (c.) Vehicles Control