

Thamankaduwa Pradeshiya Sabha
Polonnaruwa District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 30 March 2015 while Financial Statements relating to the preceding year had been submitted on 01 April 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 30 July 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 Thamankaduwa Pradeshiya Sabha as at 31 December 2014, its financial performance for the year then ended in accordance with Generally accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies are observed.

- (a) Although the value of Motor Grader Machine purchased under the Local Government Infrastructure Facilities Project was Rs.13,950,000, it had been accounted as Rs.1,468,000. Due to that, value had been understated in a sum of Rs.12,482,000.
- (b) The Bako Loader Machine valued at Rs. 8,200,000 purchased during the year 2009 under the Local Government Infrastructure Facilities Project had been shown as Rs.9,700,000 in the financial statements. Due to that, value of Machinery and Equipment had been overstated in a sum of Rs. 1,500,000.
- (c) The Loader valued at Rs.551,000 included in the Fixed Assets Register had been omitted in the financial statements.

- (d) Value of fertilizer manufactured under the Pilisar Project had not been computed and accounted.
- (e) Books valued at Rs.328,929 received to the Libraries during the year under review and value of books lost amounting to Rs.8,050 had not been accounted.
- (f) The expenditure incurred amounting to Rs. 949,691 during the year 2014 for the Crematorium, Garbage Recycling Unit and Development of Cemeteries had not been accounted under Fixed Assets.

1.3.2 Lack of Evidence for Audit

Transactions valued at Rs.148,681,315 could not be satisfactorily vouched in audit due to non-submission of required information to audit.

1.3.3 Non-compliances

Following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to laws, rules, regulations and management decisions -----	Non-compliance -----
(a) Pradeshiya Sabha Act No. 15 Of 1987 -----	
(i) Section 132 (a)	A sum of Rs. 24,790 had been spent in 05 instances without prior written approval of the Minister.

- (ii) Section 143 Where physical an alteration affecting the annual value of any property is made, Pradeshiya Sabha may, prepare a new assessment or verification for such premises. However, such assessments had not been made with regard to development works of lands and buildings carried out in the area of authority of the Sabha.
- (iii) Sections 147 and 149 License Fees had not been recovered from certain business places in the area of authority of the Pradeshiya Sabha.
- (iv) Sections 150(1), 152(1) and 153(1) Lists of Industries, Business Enterprises and Professions and Undeveloped Lands had not been prepared.
- (v) Section 152(2) By-laws had not been imposed to recover tax from the professionals.
- (b) Assessments and Rates Act
- (c) Entertainment Ordinance No. 43 of 1947. Although assessments of properties should be made once in five years, Rates had been recovered on the basis of the assessment made during the year 2006.
- (d) Rule 203 of the Pradeshiya Sabha-1988 (Financial and Administrative) Rules Series and Rule 476.1 of the Provincial Financial Rules Code. Percentage of Entertainment Tax to be recovered had not been decided having imposed By-laws.
- (e) Rule 1(iii) in the Extra Ordinary Gazette Notification No. 1528/21 A Survey of Goods had not been carried out even up to the end of April 2015.

- dated 19 December 2007 of the
Chief Minister of the North
Central Province
- (f) Financial Regulations of the
Republic of Sri Lanka

(i) F.R. 571
- (g) Circular No.1980/46 dated 31
December 1980 of the
Commissioner of Local government
- (h) Letter No. PC/LG/2/2/6 dated 17
November 1993 of the Secretary to
the Ministry of Provincial Councils
and Local Government
- (i) Public Finance Circular No. PF/443
dated 22 May 2010
- Although expenditure could be incurred for private
vehicles when a vehicle is not available in the Sabha
having obtained the permission of the Commissioner
of Local Government, a sum of Rs.35,245 had been
spent in 03 instances without obtaining such
permission.
- Action had not been taken with regard to lapsed
deposits amounting to Rs.703,150 relevant to the
period from the year 2009 to 2012.
- Rent of 240 stalls belong to the Sabha had not been
revised at least once in 05 years.
- Although Cinema Hall Tickets are sold without
approval of the Local Government Body,
Entertainment Tax Revenue to be received to the
Sabha had been lost due lack of supervision with
regard to it.
- Although Public Institutions should take action to
obtain fuel from fuel filling stations belong to Co-
operative Societies after keeping a deposit with the
Co-operative Society depending on the monthly
requirement of fuel, contrary to that, fuel advances
had been given to private filling stations and fuel
amounting to Rs.6,583,384 had been purchased
during the year under review.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure for the year ended 31 December 2014 amounted to Rs.6,278,191 as against the excess of recurrent expenditure over revenue for the preceding year amounted to Rs.8,001,848.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review is shown below.

	<u>Item of Revenue</u>	<u>Estimated</u> <u>Revenue</u> Rs'000	<u>Actual</u> Rs'000	<u>Cumulative Arrears as</u> <u>at 31 December</u> Rs'000
(i)	Rates and Taxes	6,956	8,080	5,815
(ii)	Lease Rent	20,070	16,273	3,067
(iii)	Licence Fees	4,205	4,571	--
(iv)	Other Revenue	150,701	72,819	77,633

2.2.2 Court Fines and Stamp Fees

Courts Fines amounting to Rs.5,727,487 and Stamp Fees amounting to Rs.10,533,200 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014.

2.2.3 Stall Rent

(a) While the number of stalls belong to the Sabha was 240, it was revealed at the test inspection carried out on 24 June 2015 that the stalls are being sub-leased by the individual who obtained the stalls contrary to the relevant lease agreements.

However, the Sabha had not taken action to identify such sub-leasing and to terminate the relevant agreements.

- (b) When 03 installments are in arrears it is it is required to get back the relevant stalls according to the lease agreements of the relevant stalls. However, the recovery of rent amounting to Rs.657,190 and lump sum money in arrears amounting to Rs.207,906 due to the Sabha from 108 stalls belong to the Sabha had been delayed over a number of years.

3. Operational Review

3.1 Idle and Underutilized Physical Assets

Following matters are observed.

- (a) Balances totaling Rs.1,025,805 relevant to 3 bank accounts remained dormant throughout the year.
- (b) Two Library Buildings valued at Rs. 33,957,267 constructed under the Local Government Infrastructure Facilities Project during the year 2011 had not been utilized for the relevant objective.

3.2 Contracts Administration

- (a) A sum of Rs.52,000 had been paid out of the Sabha Fund during the year under review due to a court case filed for non-payment of fees as per agreement to the consultancy firm appointed to supervise contract works relevant to an agreement entered into during the year 2010 for implementation of a road development project under the Local Government Infrastructure Facilities Project.
- (b) Thamankaduwa Pradeshiya Sabha had entered into an agreement during the period 2010 to 2013 for a sum of Rs.53,107,118 on 02 August 2010 with the Local Government Infrastructure Facilities Project to implement 6 Pradeshiya Sabha Road Development Projects. While action had not been taken to get settled a sum of Rs. 6,546,030 out of the advances amounting to Rs. 53,107,118 paid on

02 August 2010 to the contractor, any legal action had not been taken against the contractor who did not performed the contact works in terms of the contract, out of the Supervision and Planning Charges amounting to Rs. 8,141,056 paid to the establishment appointed for supervision of contract works, the fees paid for the 3 roads not constructed and parts of works not performed of the balance 3 roads had become a fruitless expenditure.

- (c) While a request had been made to the Manager of Borella, Bank of Ceylon Second Branch on 20 April 2012 by the Thamankaduwa Pradeshiya Sabha to get the advance money amounting to Rs. 6,546,030 relevant to the Performance Bond for defaulting contract works referred to above, a case had been filed by the contractor in the Western Provincial Commercial Court to suspend the relevant payment in that connection. Although an opportunity had arisen to get the relevant money back to the Sabha according to the judgment given on 28 June 2013, it had been failed to make a request to the bank before expiry of the validity period of the relevant bond on 31 July 2013. It was observed that the Secretary of the Sabha, Chairman and the responsible officers had neglected work relating to appointment of an officer in charge of the subject responsible for this case, appointment of lawyers for legal works, to be alert on case dates and keep informed the Sabha with regard to the case.

3.3 Management Inefficiencies

- (a.) When providing a building belongs to the Sabha to carryon a pre-school according to a decision taken by the Sabha, an agreement had not been entered into.
- (b.) Although the building belongs to the Sabha situated in the Kaduruwela Town that had been given on a monthly rental of Rs.35,000 had been demolished and removed, acceptable reasons for that were not furnished for that. Although this building had been given for a rental of Rs.14,000,000 after calling for tenders during the year 2012, the relevant amount had been refunded during the year under review to the person who got the building. While evidence was not

furnished to support that the agreement entered into when awarding the tender was cancelled, the revenue lost to the Sabha after demolishing and removing the building amounted to Rs.1,260,000 by the end of the year under review.

3.4 Internal Audit

While an internal audit had not been carried out in the Sabha during the year under review and the preceding year, an adequate internal audit had not been carried out by the Local Department as well.

4. Systems and Controls

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

- (a) Accounting
- (b) Internal Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contracts Administration