

Meerigama Pradeshiya Sabha

Gampaha District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 24 March 2016 and the financial statements for the preceding year had been presented on 03 April 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 29 June 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters referred in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Meerigama Pradeshiya Sabha as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments of Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a) A sum totaling Rs. 25,203,362 relating to the over provision for creditors and the cancelled projects of the preceding year had been removed from the creditors by Journal Entry No. 26. The amount removed as above amounted to Rs. 43,349,700 and therefore, the creditors account had been understated and the accumulated fund account had been overstated by a sum of Rs. 18,146,338.
- (b) The above total sum of Rs. 25,203,262 relating to the over – provision for creditors and the cancelled projects had been removed from the capital aid account and it had been brought to account as a sum of Rs.43,349,700. As such, the Capital Aid Account and the Accumulated Fund had been understated by a sum of Rs.18,146,338 and by a similar amount respectively.
- (c) Even though provisions had been made for creditors in 2014, the creditors account had been credited while making payments. The sum of Rs. 47732 paid for creditors during the year 2015 and the deposits amounting to Rs. 69,868 paid had been debited to the accumulated fund account from Journal Entry 29 and credited to the sundry creditors account. Therefore creditors account had been overstated by Rs. 235,200 and the accumulated fund account had been understated by Rs. 117,599.
- (d) The motor vehicles and carts account had been credited by Rs. 4,174,909 and the revenue contribution to capital outlay account had been debited through the Journal Entry No. 02 in order to correct the error made due to accounting the insurance value of the cab. Therefore, the Account had been understated by Rs.353,133.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs. 82,367,036 could not be satisfactorily vouched in audit due to the non – submission of necessary information to audit.

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 2015 amounted to Rs. 10,615,690 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 32,151,625 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information relating to the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as submitted by the Secretary of the Sabha is shown below.

<u>Item of Revenue</u>	<u>Estimated</u>	<u>Actual</u>	<u>Cumulative Arrears as at</u>
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	Rs.'000	Rs.'000	31December
			Rs.'000
Rates and Taxes	16,866	13,957	9,725
Lease Rent	6,416	6,046	655
Licence Fees	511	511	71

2.2.2. Rates and Taxes

The following observations are made.

- (a) Adequate action had not been taken to recover the balance of rates and taxes in arrears amounting to Rs. 2,145,343 due from 39 units of rates exceeding Rs. 10,000 for over 01 year.
- (b) The balance of rates and taxes in arrears amounted to Rs. 8,976,141; the balance of rates and taxes in arrears for periods of 03 – 05 years amounted to Rs. 4,352,065 and the balance of rates and taxes in arrears for over 05 years amounted to Rs. 757,642.
- (c) The Sabha had not taken action to recover rates and taxes on a temporary assessment until a formal assessment is obtained from the government in respect of 8249 units of rates and taxes that had been identified in 23 areas under Udugaha sub-office and Pallewela sub-office declared as developed areas by Gazette dated 05 September 2008 in terms of Section 134 (1) of the Pradeshiya Sabha Act No. 15 of 1987. Therefore the Sabha had deprived of a significant amount of revenue since a number of years.

- (d) It is emphasized by Section 134 of the Pradeshiya Sabha Act No. 15 of 1987 and Paragraph 4(b) of the Circular No. WP/LPD/10/2008 dated 19 August 2008 of the Commissioner of Local Government of the Department of Local Government (W.P) to take most possible action to identify and declare the areas which can be publish as developed areas in order to recover a maximum amount of rates and taxes to the Local Authorities However, the Sabha had not taken action accordingly.

2.2.3. Stall Rent

The following observations are made.

- (a) Stall rent amounting to Rs. 30,600 receivable as at 31 December 2015 from stall No. 15 of the General Market belongs to the Meerigama Sub – Office had remained unrecovered since 2 ½ years and rent amounting to Rs. 30,000 relating to 30 months had remained unrecovered from stall No. 13 in front of the play – ground.
- (b) Stall rent amounting to Rs. 97,500 had been receivable from stall Nos. 8,9,16 and 25 nearly for 02 years.

2.2.4. Licence Fees

According to the Trade Licence Register – 2014/2015 of the Pallewela Sub – Office, trade licence fees amounting to Rs. 136,585 are recoverable from 135 trade locations in respect of the years 2012 and 2013. But, action had not been taken to recover this amount even up to 23 November 2015, the date of audit examination.

2.2.5. Transmission Tower Charges

Adequate steps had not been taken to identify all the transmission towers located within the area of the Sabha, to pass by – laws, to publish it in the Gazette and recover charges relevant to the area of the Sabha in terms of Gazette – Extraordinary No. 1597/8 dated 17 April 2009.

2.2.6. Environmental Licence

The following observations are made.

- (a) Issue of environmental licence was in a minimum level and only 19 environmental licence had been issued during the year under review and the previous 02 years. A reconciliation with the licence Registers of the sub – offices revealed that the industries obliged to obtain environmental licence had not obtained the said licence.
- (b) A survey had not been carried out in respect of industries for which the Pradeshiya Sabha has been empowered to collect revenue from environmental licence in terms of Section 23(a) of the Gazette Notification No. 1533/10 dated 25 January 2008.

- (c) An examination of the environmental licence issued by the Sabha from 2011 to 30 October 2015 and the Registers of licence and Industries for the years 2014 and 2015 revealed that the Sabha had deprived of revenue amounting to Rs. 1,252,000 on 307 environmental licence due to action not being taken in terms of Environmental Act No. 47 of 1980 and the above Gazette Notification.

3. Operating Review

3.1. Idle and Underutilized Assets

- (a) The Bacho Loader (Holland) valued at Rs. 4,999,500 owned by the Pradeshiya Sabha had been lying idle for about 02 years. A physical check carried out on 01 April 2016 revealed that this had been exposed in the Pradeshiya Sabha premises without being repaired or any action being taken.
- (b) The Cubota Hand Tractor valued at Rs. 38,750 owned by the Sabha had been exposed in the Sabha premises underutilized for about one year due to non – availability of a Trailer.

3.2. Uneconomic Transactions

The approved cadre of the Sabha included 03 watcher posts and although there had been no vacancies, a payment of Rs. 975,658 had been made to a private security service for the period January to September 2015 for carrying out a security service in the Sabha during the year 2015.

3.3. Identified Losses

According to the Board of Survey Reports of 03 Libraries for the year 2015, it was observed that 307 books valued at Rs. 49,588 had been misplaced and 302 books valued at Rs. 21,589 were unusable.

3.4. Contract Administration

The following observations are made.

3.4.1. Delayed Projects

Action had not been taken even by 31 December 2015 to implement 13 works valued at Rs. 5,476,798 of which the contracted period had lapsed during the year under review and 04 works valued at Rs. 1,213,325 for which agreements had not been entered into. The Secretary informed me on 19 May 2016 that it was decided not to carry out these works during the ensuing year and cancelled them due to the financial problems of the Sabha.

3.4.2. Construction of the Library Building – Meerigama

The following matters were observed at the examination carried out on 14 April 2016 in respect of the construction of the library building – Meerigama for which a sum of Rs. 13.6 Million had been approved under Flexible Fund during 2013.

- (i) According to letter No. 2/6/NA/2013 dated 26 June 2013 of the Deputy Chief Secretary (Planning) of the Chief Secretary Office – Western Province, a sum of Rs. 13.6 Million had been approved for the construction of the Library under Flexible Fund, and it had been stated that the project should be completed during the year 2013 and it must not be carried forward and an agreements should be entered in to before 30 November 2013. However, the only step taken during the year 2013 with regard to this project was that entering into agreement on 30 December 2013 at a value of Rs. 16,661,400 (Excluding Value Added Tax) after selecting the contractor through Technical Evaluation Committee appointed by the Commissioner of Local Government of Department of Local Government (Western Province)
- (ii) The Divisional Engineer had informed the Commissioner of Local Government on 02 May 2014 that the suitability of the construction site should be re-considered as the land has a very poor soil stratum. Accordingly the Deputy Chief Secretary (Engineering) Western Province by his letter No.CSO/ENG/1/8/15 dated 19 June 2014 had informed that an additional cost of Rs.2,000,000 is involved in this connection.
- (iii) It had been stated that the new revised estimate amounts to Rs.27,000,000 and that a sum of Rs.9,000,000 has been approved during 2014 for the 2nd stage of the said construction and that the project should be completed during the year 2014.
- (iv) The contracted value of this library building was Rs.21,172,789 and a sum of Rs.20,538,865 had been paid to the contractor by 16 February 2016. According to the Fixed Assets Schedule – 2015 the expenditure incurred for stage I and II of the construction of the Library amounted to Rs.26,215,965. But, except for the above expenses, details of the balance expenses were not made available to audit.

3.5 **Operating Inefficiencies**

The following observations are made.

- (a) The J.C.B.Bacho had been in an unusable condition from 16 January 2014 to 01 April 2016, the date of audit examination and it had been referred for repairs informally at a few instances. The management had failed to properly repair this. This machine had been kept in the garage without being repaired nearly for 1 ½ years and J.C.B.Bacho machines had been obtained based on hire basis for the activities of the Sabha and a sum of Rs.751,750 and Rs.1,565,520 respectively totaling to Rs.2,317,270 had been paid during 2014 and 2015.
- (b) The Pradeshiya Sabha possess a Water Bowser received as a donation, Bacho machines, Road Rollers (08 Tons) and a Motor Grader and also 44 Works Labourers and 05 Technical Officers. Nevertheless, 21 works valued at Rs.6,027,270 had been carried out through outside contractors during 2015, without utilizing the above resources.
- (c) According to Financial Regulation 371, advances should be settled immediate after the completion of the particular work. However, action had not been taken in respect of Rs.6,108,841 relating to 101 balances for over 05 years, Rs.158,181 relating to 26 balances for over 03 years and Rs.130,000 relating to 04 balances for over 01 year.

3.6 **Sub-division of Lands**

Tax amounting to Rs.601,447 had been recovered for sub-division of land named Danwalawatta or Andagalawatta which had been auctioned in March 2015. The following matters were observed in this connection.

- (i) The original deed of this land and the Plan No.6170 relating to this land were not made available to audit.
- (ii) The schedule relating to the recovery of taxes amounting to Rs.601,447 was not made available to audit.
- (iii) According to the report dated 24 March 2015, of the Technical Officer of Wevaldeniya sub-office, it was required to approve the sale of lots only after the completion of the 07 conditions relating to the development of the land. But, these conditions had not been fulfilled.
- (iv) Activities relating to vesting of 94 perches land which should be acquired by the Sabha for common facilities in terms of the report of the Technical Officer had not been carried out even as at 04 April 2016.
- (v) The approval of the Planning Committee was not made available to audit.

3.7 **Solid Waste Management**

The following observations are made.

- (a) Although a provision of Rs. 5,000,000 had been made during the year under review to locate the Solid Waste Management Project in a new location, this provision had not been utilized for the relevant purpose.
- (b) The Sabha collects about 08 Tons of waste daily and it was observed that an adequate roomy location for sorting out waste, toppling and filling and machinery (Palette, Block Cat Machines etc.) are not available in the compost yard. The Sabha had not taken necessary action to increase the productivity of this project, even though a sum of Rs.792,284 out of the provision made in year 2015 had remained unutilized even as at 31 December.

3.8 **Environmental Problems**

The people of the area had informed the Pradeshiya Sabha since about 06 months about the hazardous Polythene mixed smoke spread out by the Waste Burning Unit constructed by a private company in a land adjoining to the Main Road in the Nambuluwa, Pasyala area. However, the Sabha had not taken action to finalize this environmental problem even as at 05 April 2016, the date of audit examination. The Secretary had informed me in May 2016 that this problem has been informed to the Central Environmental Authority on 19 October 2015.

04. Systems and Controls

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

- (a) Internal Audit
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management