

Embilipitiya Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 26 April 2016 and the financial statements for the preceding year had been presented on 30 March 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 27 June 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Embilipitiya Pradeshiya Sabha as at 31 December 2015 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 Accounting Deficiencies

The following matters are observed.

- (a) The balance of the Collection Account No.245-1-001-7-0000050 Peoples' Bank, Godakawela as at December 2015 had been confirmed as Rs.321,068 by the Bank. In spite of this, this had been shown as Rs.358,362 in the bank reconciliation. The difference observed amounted to Rs.37,294.
- (b) The Ministry of Provincial Councils and Local Government had donated vehicles valued at Rs.5,500,000 and a Becko Loader machine valued at Rs.5,500,000 to the Sabha in 2015. This value should have been shown as Revenue Contributions to Capital Outlay Account and credited to the Reserve Account. Instead, this had been credited to the Revenue Contributions to Capital Outlay Account. Accordingly, the fixed assets purchased by the Sabha and received as donations by the Sabha had been entered in the identical account of Revenue Contributions to Capital Outlay Account.
- (c) Payments made in cash to the Accumulated Fund amounted to Rs.1,844,438. However, payments had been debited to the Accumulated Fund as Rs.1,790,002. Further, the

payments made to the creditors in cash amounted to Rs.2,618,759. However, this had been entered in the accounts as a payment of Rs.2,673,195 made to creditors. Accordingly, the balance of the Accumulated Fund had been understated by Rs.54,436. Meanwhile, the creditors too had been understated by Rs.54,436.

- (d) Assets worth of Rs.46,931 had been removed from the accounts before preparing the board of survey report for the year under review with recommendations. As a result, the value of fixed assets had been understated by Rs.46,931.
- (e) The Employees' Security Deposit Account and the Employees' Security Deposit Investments Account should be equal to each other. However, a difference of Rs.98,996 existed between those 02 balances.
- (f) A sum of Rs.1,643,145 was receivable as salaries reimbursable at commencement of the year under review and this amount tallied with the main ledger account too. However, a sum of Rs.60,000 had been debited to the Accumulated Fund and credited to the Arrears of Salaries Reimbursable Account through the Journal Entry No.15. Accordingly, the balances of the current assets and the accumulated fund for the year under review had been understated by similar amounts.

1.3.2 Unreconciled Control Accounts

The balances appearing in the financial statements and the balances appearing in the subsidiary registers with regard to 09 items of accounts differed by Rs.4,805,445.

1.3.3 Accounts Receivable

A cab had been purchased on hire purchase basis in November 2010 agreeable to be paid in 60 instalments and the amount payable as at 01 January 2015 amounted to Rs.1,499,790. Accordingly, the creditors' balance had been completely settled by paying Rs.160,973 as the last 60th instalment on 15 December 2015. However, a sum of Rs. 160,793 had again been paid. Thus, the Sabha had paid Rs.160,793 to the leasing company in excess of the amount agreed to be paid and the payment made in excess was recoverable by the Sabha.

1.3.4 Lack of Evidence for Audit

The following observations are made.

- (a) Schedules had not been furnished for fixed assets aggregating Rs.81,286,727.
- (b) Advances amounting to Rs.550,000 had been paid to 02 farmers' associations in 2010. But, the file showing particulars such as the work for which the advance had been

obtained, settlement of those advances and whether the work had been carried out etc., had not been furnished for audit for scrutinization.

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

The 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) Financial Regulations of the Republic of Sri Lanka

- | | |
|--|---|
| (i) Financial Regulations No.102 and 760 | Action had not been taken to identify the persons responsible and to recover the value of 02 lap top computers and chairs which, according to the board of survey of 2014, had either been misplaced or not returned after being personally taken over. |
| (ii) Financial Regulation No.177 (1) | Rates and taxes, trade licences and business tax amounting to Rs.2,172,944 collected on 219 instances during the year under review by officers collecting them had been remitted to the Sabha after a delay of 05 to 24 days, contravening the said regulation. |
| (iii) Financial Regulation No.396(c) | Five cheques valued at Rs.18,330 which remained unrepresented for payments for over 06 months after being issued, had been credited to the deposit account, contravening the said regulation. |
| (iv) Financial Regulation No.571 | Action had not been taken with regard to deposits valued at Rs.960,466 in terms of the said regulation. |

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.10,449,768 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.10,742,736.

2.2 Analytical Financial Review

The financial operating surplus of the year under review had decreased by Rs.292,968 as compared with that of the previous year and it was observed that it was a decrease of 2.7 per cent than the previous year. The decrease in recurrent revenue and the increase in recurrent expenditure of the year under review as compared with the previous year had mainly attributed to this.

3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information furnished with regard to the estimated revenue, actual revenue and the arrears of revenue for the year under review appears below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
-----	-----	-----	-----
	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	7,192	4,143	4,565
Lease rent	8,467	7,135	401
Licence fees	935	1,546	-
Other revenue	44,722	35,912	9,986

2.3.2 Performance in Collection of Revenue

A comparison of the estimated revenue with the revenue collected for the year under review showed a decrease of 30 per cent 11 per cent and 82 per cent respectively in the revenue collected with regard to the rates ad taxes, lease rent, warrant charges and fines.

2.3.3 Rates and Taxes

The balance of the rates and taxes within the authoritative area of the Sabha as at 30 September 2015 amounted Rs.2,277,262. Of these, the amount due from 59 rates and tax payers with arrears of over Rs.5,000 amounted to Rs.963,941 which represented 42 per cent of the total arrears.

2.3.4 Other Revenue

The following observations are made.

- (a) According to the gazette notification No.1892 of 05 December 2014 of the Republic of Sri Lanka, a sum of Rs.100 per sq. ft should be recovered for advertisement boards exhibited within the authoritative area of the Sabha. However, action had not been taken to obtain revenue from the advertisement boards exhibited in the area. As a result, the Sabha faced a risk of losing a revenue of Rs.552,100.
- (b) The revenue billed for the water project Kandurugasara and Therunansegama amounted to Rs.671,500. However, the amount received was Rs.780,478. The expenditure incurred from the funds of the Sabha in this regard amounted to Rs.1,195,529. Accordingly, the Sabha had to incur an operating loss of Rs.415,051. Further, the balance of arrears of water charges of those 02 water projects amounted to Rs.1,586,656 as at 31 October 2015. Of these, a sum of Rs.1,087,845 was due from 108 water consumers whose arrears were over Rs.5,000.
- (c) The balances of arrears recoverable from 162 water consumers of the said water project from years prior to 2012 amounted to Rs.1,947,721.
- (d) The minimum bid decided by the Sabha in giving the weekend fair and the fish market on lease remained unchanged for many years contravening the circular instructions No.2009/01 of 09 March 2009 of the Commissioner of Local Government.

2.3.5 Court Fines and Stamp Fees

The following observations are made.

- (a) The court fines due for the year under review had been identified. However, action had not been taken by the Sabha to recover court fines for the period February to December of the year under review even by the date of audit.
- (b) The stamp fees due from the Land registry, Embilipitiya had been identified. However, action had not been taken by the Sabha to recover stamp fees for the period November of the previous year to December of the year under review.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

- (a) Unsettled balances of advances amounting Rs.2,539,786 existed for many years as a result of not updating the registers or due to nonpayment of advances obtained.
- (b) A sum of Rs.245,825 had been paid during the year under review to purchase street lamps and other equipment needed by the Sabha. The places where the street lamps purchased by the Sabha had been fixed could not be identified. Proper procedure was not in existence with regard to the street lamps removed during repairs and the street lamps that could be repaired and used again.
- (c) The official period of the Sabha had ended on 15 May 2015. A sum of rs.225,000 had been paid to the members as allowances for the month of May. But, the amount entitled to them for 15 days only had been reimbursed. Further, the sum of Rs.7,500 overpaid to a member had been refunded. Accordingly, the expenditure on salaries had been overstated by Rs.105,000. The Pradeshiya Sabha had not disclosed the sum of Rs.105,000 recoverable from the members in its accounts.

3.2 Irregular Transactions

- (a) According to the 2006 Government Procedure 2:8:4, the procuring officer should perform technical evaluations for purchases relating to technology. However, the purchases of the Pradeshiya Sabha had been made without technical evaluations and according to 8:12:3 of the procurement procedure the goods supplied should agree with the required specifications and other agreed requirements. However, recommendations had not been made by a person with technical knowledge in this connection. Purchases had been made without acting so and the aspect of lowest quotations alone had been considered while making purchases.
- (b) An expenditure of Rs.470,000 had been incurred on the opening ceremony of the Pradeshiya Sabha building. In spite of this, the advance of Rs.100,000 obtained on 04 January 2011 for this expenditure could not be settled up to end of the year under review.

3.3 Contract Administration

- (a) Renovations to the Panahaduwa Seruwa Road by spreading stones on the road had been carried out under the Rural Access Road Development Programme implemented with the provision made by the Chief Ministry of the Sabaragamuwa Provincial Council. The

estimate prepared by the technical officer amounted to Rs.499,280 and the work was to be completed within 03 months. An agreement had been entered into with the Pallededa Ekamuthu Rural Development Society for Rs.499, 980 on 26 March 2015 to carry out the work. A physical verification carried out on 08 December 2015 with regard to this work revealed that the stones with required standards had not been used and as such the stream of water that overflowed during the rainy season had washed away the stones and stones of extensive sizes had erupted from the surface.

- (b) Advances amounting to Rs.730,000 had been paid for 5 jobs during the year under review. However, action had not been taken to settle the advances concerned even by end of the year under review and the work had not been commenced.

3.4 Solid Waste Material Management

According to the Solid Waste Material Management Project agreement dated 08 November 2006, instead of classifying the garbage and handing over it to the Solid Waste Material Management Centre constructed in a land within the authoritative area of the Sabha, the garbage had been dumped in a land belonging to the Sri Lanka Mahaweli Authority. This extensive quantity of garbage lies in the close proximity of Chandrika Wewa and this may strongly affect the main Source of water as well as the environment.

3.5 Assets Management

The following matters are observed.

- (a) The Foton Tipper bearing No.LL – 6987 of the Sabha had been used for the work of the Sabha and hired by clients. But, a register had not been maintained to indicate the work for which it had been used and the revenue obtained by giving it on hire.
- (b) The motor grader bearing registered No. M G – 330 had been given on hire and taken away for external work without being entered in a register. It was observed at a physical verification carried out on 4 December 2015 and by the perusal of files that the machine operator, very often, removes the machine from the premises according to his whims and fancies. Further, the fuel obtained and the fuel consumed had been neglected during the maintenance of running charts. Entries had been made on many instances stating that the fuel obtained had been completely used, Accordingly, the expenditure on fuel during 2014 amounting to Rs.85,743 becomes questionable, whether it was an expenditure incurred on actual necessities. No running charts, whatsoever, had been furnished for audit after 29 December 2014. Also, the running charts had not been furnished to the officer in charge of vehicles.

- (c) The running charts of the three wheeler bearing registered No. SG AAQ – 5005 was very Illegible. The balancing of fuel contained many errors. As, such it had become questionable whether the 643.77 litres of fuel valued at Rs.77,682 obtained in 2015 had been used for actual requirements.
- (d) The tractor bearing No.RA – 5735 and the Mahendra cab bearig No.LF-4834 had been removed from usage and had been parked on the premises of the Sabha. But, the reason for such non usage or their non-performance had not been confirmed in audit according to the files.
- (e) The Sabha had not conducted the board of survey as at 31 December 2015 and furnished a copy of the report to the Auditor General.

3.6 Irregular usage of Assets not Acquired

- (i) No action, whatsoever, had been taken even by end of the year under review to acquire the Ownership of land and properties such as the land at Thunkama where the head office functions, land of the Pallebedda sub office, land of the Panamura library, Mudunmakada play ground, land where the week end fairs of the Panamura, Pallebedda and Udawalawe are conducted, Wallewa, Panamura, Kuttigala Padalangala, Julangete Lanyanagahathota and the 96 crematorium lands.
- (ii) The work relating to the vesting of standard tractors bearing No. RC-1402, RD-6440, and RD -7993, the Farmtrack tractor bearing No. RA-5735, the Foton Crew Cab bearing No. LL-7529 the Foton Tipper bearing No. LL-6987 and the Foton Becko Loader machine bearing No.ZA -5014 to the Sabha by the institutions offering them had not been completed up to end of the year under review.

4. Good Governance and Accountability

4.1 Budgetary Control

The amount provided for 20 objects during the year 2015 amounted to Rs.3,972,128. No expenditure had been incurred out of the provision for 20 objects.

4.2 Annual Procurement Plan

A procurement plan had not been prepared and action taken accordingly during the year under review.

4.3 Internal Audit

Action had not been taken to establish an internal audit unit and operate it by affording necessary facilities to it.

4.4 Implementation of Audit and Management Committees

Action had not been taken to establish and implement Audit and Management Committees.

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
- (d) Contract Administration