

Warakapola Pradeshiya Sabha

Kegalle District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2016 and the financial statements for the preceding year had been presented on 30 June 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 28 June 2016.

1.2 Opinion

In my opinion, except for the effects on the financial statements of the matters shown in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Warakapola 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 on Financial Statements

1.3.1 Accounting Deficiencies

- (a) The recurrent revenue had been overstated by Rs.600,900 in the financial and operating statement. As a result, the operating surplus had been overstated by a similar amount and the capital receipt had been understated by a similar amount.
- (b) Revenue from rates and taxes and the revenue from advertisement boards received in advance for the ensuing years amounted to Rs.300,030 and Rs.7,067 respectively. These had been accounted as revenue for the year under review. As such, the deficit for the year under review and the revenue received before end of the last date of the year amounting to Rs.307,067 had been understated in the financial statements.
- (c) The closing stock of carbonic fertilizer for the year under review amounting to Rs.46,350 had not been accounted under the closing stock. As a result, the value of assets had been understated by a similar amount.
- (d) The value of 16 blocks of land of 06 acres and 14 perches included in the register of fixed assets had not been assessed and brought to account.
- (e) A sum of Rs.95,474 had been adjusted by Journal Entry No.2015/23 to rectify the overstatement of books donated to the library during the previous year by Rs.20,207. As

a result, the Library Books Account and the Revenue contribution to the capital Outlay Account had been understated by Rs.75,267.

- (f) The pre payments of rates and taxes and the acreage tax made during the previous year amounted to Rs.102,267. In order to rectify this, a sum of Rs.138,352 had been adjusted in the Rates and Taxes Account and the Accumulated Fund Account by Journal Entry No.03. However, the correct value amounted to Rs.130,881 and as such the Rates and Taxes account had been overstated by Rs.7,471.
- (g) The amount billed as rates and taxes amounted to Rs.5,997,879. However, the amount accounted as rates and taxes was to Rs.5,800,000. As such, a sum of Rs.197,879 had been understated in the accounts.
- (h) The commission paid for rates and taxes for the year under review amounted to Rs.173,956. But, this had not been accounted for.
- (i) The cab valued at Rs.3,223,220 received at the Sabha had been accounted as Rs.2,323,220 as per Journal Entry No.5. As a result, the Vehicle and the Revenue Contribution to the Capital Account had been understated by Rs.900,000.
- (j) The value of the Single Drum Road Roller had not been brought to account under Equipment.
- (k) The amount brought to account as donation of books to the library and purchases amounted to Rs.30,782 and Rs.23,202 respectively. However, the actual value of books donated to the library and the purchases amounted to Rs.28,227 and Rs.19,120 respectively resulting in an overstatement of library books by Rs.6,637.
- (l) The latrine rent amounting to Rs.112,042 and the beef stall rent amounting to Rs.5,042 had not been accounted for. As a result, the revenue debtors had been understated by Rs.117,084.
- (m) The sum of Rs.51,990,913 receivable for works carried out as at 31 December 2015 had not been shown under debtors.

1.3.2 Unreconciled Control Accounts

According to the financial statements as at end of the year under review, the balances of 12 items of accounts aggregated Rs.123,851,162 and the balances aggregated Rs.173,820,430 in the subsidiary register/ reports resulting in a difference of Rs.49,969,268.

1.3.3 Accounts Receivable and Payable

- (a) The accounts receivable as at 31 December 2015 amounted to Rs.32,341,462. Of this, a sum of Rs.23,689,062 were old balances exceeding one year.
- (b) The accounts payable as at 31 December 2015 amounted to Rs.43,980,512. Of this, a sum of Rs.1,687,754 were old balances exceeding one year.

1.3.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

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| (a) Financial Regulations of the Republic of Sri Lanka | |
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| (i) F.R 189 | Action had not been taken with regard to the dishonored cheques valued at Rs.10,350 received on 05 December 2012. |
| (ii) F.R 371(2(c)) | Ad-hoc imprests of Rs.2,552,602 received on 07 instances had not been settled. |
| (b) Sections 1.6 and 4 of Chapter xxiv of the Establishments Code of the Republic of Sri Lanka | The employees' loans of Rs.485,690 recoverable for the period 1988 to 2015 from 08 officers who had gone on transfer, two officers who had retired from service and 06 officers who had vacated posts had not been recovered. |
| (c) Section 2 of the Public Administration Circular No.25/2014 of 29 December 2014 of the Secretary to the Ministry of Public Administration and Home Affairs | (i) Employees who had completed a continuous service of 180 days as at 24 October 2014 should be made permanent. However, permanent appointments had been made with regard to 2 employees who had not worked even one day and to an employees who had only worked for 20 days during the period 01 January 2014 to 24 October 2014. |

- (ii) The Private Secretary of the Chairman who cannot be classified under the service category shown in the said circular had been permanently appointed to grade iii of the part of Library Assistant on 19 November 2014, with effective from 24 October 2014.

1.3.5 Transactions without Authority

A sum of Rs.1,270,833 had been paid from the funds of the Sabha during the year under review to renovate 08 properties which had not been registered in favour of the Sabha and the roads and ownership of which had not been confirmed.

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.10,422,546 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.10,075,413 showing an improvement in financial results of the year under review amounting to Rs.347,133.

2.2 Analytical Financial Review

The increase in 3 items of revenue and the decrease in 4 items of expenditure had mainly attributed to the improvement in financial results by Rs.347,133.

2.3 Revenue Administration

2.3.1 Performance in Collection of Revenue

The information relating to revenue billed, actual revenue and the arrears of revenue, as presented by the Secretary appear below.

		Arrears as at 31 December 2015						
Source of Revenue	Arrears as at 01.01.2015	Recoveries out of the arrears as at 31.12.2015	Amount billed for 2015	Recoveries out of the amount billed for the year	Arrears as at 01.01.2015	Arrears out of the amount billed for the year	Total Arrears	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i) Rates and Taxes	8,043,196	2,793,937	7,787,000	6,302,104	5,249,269	1,484,896	6,734,165	
(ii) Lease Rent	2,185,181	-	7,045,000	5,847,573	2,185,181	1,197,427	3,382,608	
(iii) Licence Fees	77,760	28,750	1,320,000	1,550,516	49,010	(230,516)	181,506	
(iv) Other Revenue	28,355,111	12,149,510	72,203,000	54,242,102	16,205,601	17,960,898	34,166,499	

According to the details of arrears of revenue furnished by the Sabha, the balances of rates and taxes as at end of the year under review amounted to Rs.6,734,165. But, the balance amounted to Rs.8,638,985 as per financial statements showing a difference of Rs.1,904,820.

2.3.2 Rates and Taxes

- (a) According to the provisions in Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987, the properties should be sold by a restraining order so as to recover the rates and taxes or the acreage tax remaining unpaid. However, action had not been taken to recover the arrears of Rs.8,187,167 due from 7,124 units of rates and taxes of 5 areas of rates and taxes as at 31 December 2015.
- (b) The rates and taxes should be assessed one in 5 years. However, the rates and taxes for the year under review too had been recovered on the basis of assessment made in 2008.
- (c) Action had not been taken to recover the arrears of balances of Rs.128,367 of 25 units of rates and taxes as at 31 December 2015 with regard to properties belonging to the government.

2.3.3 Acreage Tax

The arrears of balances pertaining to 572 units of acreage tax of the authoritative area of the Sabha as at 31 December 2015 amounted to Rs.353,418. Action had not been taken to recover Rs.47,830 of these balances which exists for many years.

2.3.4 Entertainment Tax

The Chairman had issued a Gazette Notification No.1952/4 dated 28 November 2014 in terms of the powers vested in him in sub section 2 of section 01 of the Entertainment Tax Ordinance, according to which 25 per cent of the admission tickets issued for shows and 7.5 per cent of the admission tickets issued in cinema halls should be recovered as entertainment tax. Entertainment tax had not been recovered from a cinema hall operating within the authoritative area of the Sabha and the tickets issued for sale in another cinema hall had not been stamped before issue of tickets. Tax had been recovered on the details of tickets said to have been sold by the cinema hall owner and as such the Sabha had been deprived of the actual revenue due to it. The admission tickets sold in the show premises during the month of October 2015 had not been stamped, as required. A register to show the number of admission tickets printed, the number of admission tickets sold and the amount recoverable had not been maintained. Action had not been taken to recover the arrears of entertainment tax of Rs.177,344 due from 2 cinema halls as at 15 March 2016.

2.3.5 Tax on Land Sales

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- (a) Agreement had not been entered into with sellers of land in terms of Section 3(v) of the circular No. 2005/04 dated 01 June 2005 issued by the Commissioner of Local Government of the Sabragamuwa Provincial Council.
 - (b) The temporarily assessed tax of Rs.2,218,884 had been recovered with regard to 07 blocks of land of 14 acres, 3 rood and 7 perches sold within this authoritative area. But, action had not been taken to recover tax on the sales value in terms of Section 3(v) of the said circular.
 - (c) Action had not been taken by the Sabha to acquire the 10 per cent of land allocated for general purposes on behalf of the Eththawela Land of the National Housing Development Authority during the year 2014.

2.3.6 Business Tax

- (a) A list of industries should be prepared and furnished to the Secretary of the Sabha on or before 31 March in terms of Section 156(1) of the Pradeshiya Sabha Act No. 15 of 1987. However, action had not been taken accordingly.
- (b) Applications relating to business tax and trade licences should be entered in a register. However, action had not been taken accordingly and action had not been taken to issue trade licences to business establishments engaged in 09 varieties of businesses.
- (c) Hotels registered under the Sri Lanka Tourists Board Act should pay 1% of the previous year's income as tax. However, tax had been recovered on the basis of income obtained, as furnished by the owners of hotels, without furnishing their audited financial statements and this too had been obtained once in 3 years.

2.3.7 Other Revenue

- (a) The Becko Loader machine of the Sabha bearing No.ZA – 5220 had performed for 119.9 meter hours by consuming fuel valued at Rs.75,620 during the period 09 to 28 July 2015. The Sabha had decided to recover Rs.2,250 for a meter hour as hire charges. However, no revenue, whatsoever, had been received. Information relating to the usage of the Becko Loader machine during this period too had not been maintained.
- (b) The person who had been awarded the tender to maintain the public latrine close to the Warakapola bus stand for the year 2014 had neglected to pay the monthly tax, violating the conditions in the agreement. The arrears as at 17 March 2016, the date of audit, amounted to Rs.72,042.
- (c) The Sabha had identified the existence of 126 permanent advertisement boards in its authoritative area during a survey carried out by it in June 2015. The amount recoverable in connection with this amounted to Rs.337,610 and this had not been recovered even by 02 May 2016.
- (d) Tenders had been called for, to conduct a milk bar at the building bearing No.148/1/B belonging to the Sabha during the year 2012. The highest tenderer who had quoted Rs.206,000 had refused to accept the tender. Although the second highest quotation of Rs.175,500 could have been accepted, the tender for R.101,500 had been accepted without showing any reasons. As a result, the Sabha had been deprived of a sum of Rs.73,500.

The Sabha should have confiscated the tender deposit of Rs.7,500 from the tenderer who had refused to accept the tender for the milk bar. However, it had been refunded on 9 October 2012 vide voucher No.2054.

2.3.8 Car Park Charges

Car park charges had not been recovered in terms of bye-laws framed during the year 2008. Parking charges had only been recovered from three wheelers and action had not been taken to recover charges by properly computing the parking places and the number of registered vehicles. As a result, the revenue obtainable had been deprived of.

2.3.9 Telecommunication Tower Charges

- (a) Action had not been taken to recover processing fees of Rs.519,000 for 22 telecommunication towers installed within the authoritative area of the Sabha as per Gazette Extra-Ordinary Notification No. 1597/08 of 17 April 2009 of the Republic of Sri Lanka. As a result, the revenue obtainable by the Sabha had been deprived of.
- (b) Licence fees for the telecommunication towers had not been obtained for the year 2015.

2.3.10 Court Fines and Stamp Fees

Court fines and stamp fees recoverable as at 31 December 2015 amounted to Rs.3,087,034 and Rs.11,201,903.

3. Operating Review

3.1 Management Inefficiencies

- (a) Action had not been taken by the Sabha to acquire ownership 08 vehicles granted by the Sabragamuwa Provincial Council and 05 vehicles granted by the Ministry of Local Government and Provincial Councils.
- (b) A person without qualifications had been recruited as operator of the Becko Loader on a service agreement on 06 July 2015.
- (c) Twenty three employees recruited on service agreements had been appointed to permanent and pensionable posts with effect from 24 October 2014. Payments made to the Employees Provident Fund and the Employees Trust Fund from the funds of the Sabha from that day onwards to 31 December 2014 amounted to Rs.98,553 and Rs.24,638 respectively.

3.2 Operating Inefficiencies

Although there were 03 latrines belonging to the Sabha, action had not been taken to call for tenders in this regard or to maintain them during the years 2015 and 2016.

3.3 Contract Administration

- (a) Out of the estimated sum of Rs.1,462,290 meant for the construction of a bridge to the Ihalagama Road across the Algama Ihalagama Pansala under the Village to village and Door to door Programme of the Ministry of Economic Development, a sum of Rs.296,845 had been received. However, the work had been suspended subsequently.
- (b) The capital aid received during the year 2014 for industrial constructions had been spent from the Deposit Account. Out of the sum of Rs.6,992,766 received for 05 of these projects, a sum of Rs.5,667,571 only had been spent resulting in a savings of Rs.1,325,195.

3.4 Irregular Transactions

- (a) The Chairman had received Rs.100,000 from the funds of the Sabha stating that Rs.100,000 had been handed over to the wife of a sick Pradeshiya Sabha member, without the approval of the General Council. Meanwhile, there was no provision under Section 132(i) of the Pradeshiya Sabha Act No.15 of 1987 for this payment.
- (b) An expenditure aggregating Rs.192,483 had been incurred comprising a sum of Rs.17,379 for a pre-school teacher training workshop, a sum of Rs.71,000 for purchasing a sliding boat, tables and chairs, a sum of Rs.80,709 for a home gardening competition and a ceremony and a sum of Rs.23,395 for a Sahithya festival without the approval of the Minister in charge of the subject, contravening the provisions in Section 132(g) of the Pradeshiya Sabha Act No.15 of 1987.
- (c) Expenditure had been incurred contravening the provisions in Section 132(k) of the Pradeshiya Sabha Act No.15 of 1987 and without the approval of the Minister in charge of the subject and the expenditure were, a sum of Rs.116,224 to provide electricity to death donation societies, welfare societies and community centres, a sum of Rs.999,400 to purchase chairs for a death donation society, a sum of Rs.999,400 to provide ceiling sheets to low income earning families, a sum of Rs.336,416 to repair 2 welfare societies and a pre-school and a sum of Rs.99,490 to supply water to a private cultivation.
- (d) A sum of Rs.188,016 had been spent from the funds of the Sabha for a foreign tour of the Chairman without the approval of the Governor, Sabragamuwa Provincial Council, contravening the circular of the Secretary to the President No. CSA/1/12006 dated 01 February 2006.

4. Account ability and Good Governance

4.1 Budgetary Control

- (a) A total sum of Rs.43,789,007 made up of 100 per cent of 49 Objects totalling Rs.22,938,000 and 50 to 99 per cent of 33 Objects totalling Rs.20,851,007 provided in the budget for the year under review had not been utilized for the activities of the Sabha.

- (b) A sum of Rs.9,048,677 had been spent in excess of the approved estimate relating to 5 Objects.

5. Systems and Controls

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

- (i) Accounting
- (ii) Internal Control
- (iii) Budgetary Control
- (iv) Revenue Administration