

Walapane Pradeshiya Sabha

Nuwara Eliya District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been presented to the Audit on 25 April 2017 while Financial Statements relating to the preceding year had been presented on 31 March 2016. The Report of the Auditor General for the year under review was issued to the Secretary on 27 September 2017.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Walapane Pradeshiya Sabha as at 31 December 2016, and its financial performance for the year then ended in accordance with the generally accepted Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

- (a.) The surety balance of the preceding year amounting to Rs. 135,058 had been shown as the surety balance as at 31 December of the year under review. The surety passbooks of the employees had not been updated.
- (b.) The sum receivable under the Program for strengthening of Pradeshiya Sabha amounted to Rs. 725,000 as at 31 December of the year under review, but that sum had been overstated in the financial statements by Rs. 1,000,000 and shown as Rs. 1,725,000. Due to this accounting practice, it was not clear to the audit as to how the accounts had been tallied.
- (c.) The contribution to the Local Government Pension Fund amounting to Rs. 81,365 in respect of the year under review had been debited to a debtors account instead of being debited to the relevant Code of Expenditure. As such, the expenditure of the year under review had been understated by that amount in the financial statements, whilst the debtor balance as at 31 December of the year under review had been overstated by that amount in the financial statements.

- (d.) The journal entry No. 20 had noted the Strengthening of Pradeshiya Sabha Fund as being debit by a sum of Rs. 668,887 whilst the Creditors' Account had been noted as credit. However, as only the said credit note had been shown in the Creditors' Account, the creditor balance had been overstated by that amount. Due to this accounting practice, it was not clear to the audit as to how the accounts had been tallied.
- (e.) The balance of other revenue receivable as at 31 December of the year under review amounted to Rs. 4,542,737, but that value had been understated by Rs. 916,195 and shown as Rs. 3,626,542.

1.3.2 Unreconciled Control Accounts

The balance of the other revenue shown in the financial statements as at 31 December of the year under review amounted to Rs. 8,036,448, but according to the Revenue Register, that value amounted to Rs. 7,782,448, thus observing a difference of Rs. 254,000.

1.3.3 Accounts Receivable and Payable

(a.) Accounts Receivable

The total of 02 receivable account balances amounted to Rs. 24,530,918 as at 31 December of the year under review, and a sum of Rs. 10,206,080 therefrom had remained in arrears over a period of more than one year.

(b.) Accounts Payable

The industry creditor balance payable as at 31 December of the year under review amounted to Rs. 34,361,731, and a sum of Rs. 18,481,611 therefrom had existed over a period of more than one year.

1.3.4 Lack of Documentary Evidence for Audit

As schedules had not been made available, 12 Items of Accounts valued at Rs. 27,712,522 shown in the balance sheet as at 31 December of the year under review, could not be satisfactorily vouched in audit.

1.3.5 Non-compliances with Laws, Rules, and Regulations

The following instances of non-compliances with Laws, Rules, and Regulations were observed in audit.

Reference to Laws, Rules, and RegulationsNon-compliance

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| (a.) | Financial Regulation 571 | Even though a sum of Rs. 284,503 in 06 deposits held in respect of industries, had exceeded 02 years, action had not been taken to credit that deposits to the revenue. |
| (b.) | Section 04 of Chapter XXIV of the Establishments Code | Loan balances totalling Rs. 129,726 recoverable from 17 officers / employees who had been transferred out, vacated the service, or deceased after serving for the Sabha, had not been recovered. |
| (c.) | Gazette Notification, No. 1950, dated 14 January 2016 | Despite being published that a monthly fee of Rs. 150 shall be charged from a Three-wheeler with effect from 01 January 2016, that fee had not been charged from the Three-wheelers in the areas of authority of the Head Office in Walapane, and Sub Office in Nildandahinna. |
| (d.) | National Environmental Act, No. 47 of 1980 amended by the Acts, No. 53 of 2000, and No. 56 of 1988, and the Gazette Extraordinary No. 1533/16, dated 25 January 2008 issued by the Minister of Environment and Natural Resources in compliance with the regulations imposed thereunder. | Of the industries in the council area that must have obtained environmental licenses, only 19 industries had been granted environmental licenses. |
| (e.) | Circular, No. 1988/22 of the Commissioner of Local Government, dated 17 May 1988 | Properties should be assessed at least once per 05 years in view of rates. However, such an assessment on the properties in the council area had not been carried out after the year 2011. |

- (f.) Rule 218 of Pradeshiya Sabha 1988 (Financial and Administrative) A survey had not been conducted on the lands belonging to the Sabha.
- (g.) Public Administration Circular, No. 41/90, dated 10 October 1990 Fuel consumption of 09 vehicles belonging to the Sabha had not been examined.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 10,762,074 for the year under review as compared with the revenue in excess of the recurrent expenditure amounting to Rs. 7,981,425 for the preceding year, thus showing an improvement of Rs. 2,780,649 in the financial result.

2.2 Analytical Financial Review

The increase in the revenue in respect of 02 Items of Revenue, and the increase in the expenditure in respect of 02 Items of Expenditure, had mainly attributed to the improvement of the financial result by a sum of Rs. 2,780,649.

2.3 Management of Working Capital

The value of the current assets amounted to Rs. 66,657,118, whilst the value of the current liabilities amounted to Rs. 49,341,132 as at 31 December of the year under review. Accordingly, the current ratio had been 1.35 :1

2.4 Revenue Administration

2.4.1 Performance in Collecting Revenue

The recovery of revenue in arrears as at the beginning of the year under review, had remained weaker, and the recovery of acreage tax, and stall rent billed in the year, had also been unsatisfactory. Action had not been taken on the recovery of revenue in arrears in terms of Sections 158 (1) (a) and (b), and 159 (1) and (2) of the Pradeshiya Sabha Act, No. 15 of 1987, and Rules 32-67 of the Pradeshiya Sabha - 1988 (Financial and Administrative).

2.4.2 Lease Rents

The lessees of 03 stalls at the market of the Sabha had defaulted paying lease rents amounting to Rs. 460,260 relating to a period of 03 – 57 months. However, no action had been taken either to take over the stalls or take legal action to recover the lease rents in arrears, and it was observed that the lessees had only been informed to hand over the stalls to the Sabha.

2.5 Surcharges

A sum of Rs. 29,975 had remained recoverable as at 31 December of the year under review with respect to the surcharges imposed by me on those held responsible under the provisions set forth in Section 172 (3) of the Pradeshiya Sabha Act.

3. Operating Review

3.1 Management Inefficiencies

- a) Despite being informed that the vehicles given to the Local Authorities after being purchased by the Ministry of Local Government in accordance with the Letter, No. P1/05/SA-2 of the Secretary to the said Ministry, dated 22 December 2016, should be taken over by the relevant Local Authority prior to 06 January 2017, and the relevant Local Authority should be responsible for the fines payable in connection with the delays in taking over the vehicles in such a manner, 03 vehicles had not been taken over even up to 30 August 2017
- b) A tractor trailer and 06 vehicles not in running condition and belonging to the Sabha had been decaying for a period of 01 – 11 years at the premises of the Sabha without protection. Action had not been taken to make use of the repairable vehicles after being repaired, and to dispose the unrepairable vehicles.

3.2 Transactions of Contentious Nature

The backhoe loader belonging to the Sabha had become nonfunctional on 26 June 2016, and it had been repaired by a private institution. That institution had furnished an estimate to the value of Rs. 811,578 for the repairs by informing that the failure to carry out the services on time in compliance with the standard recommended by the manufacturer, and failure to use the recommended lubricants had caused the backhoe loader to stop functioning.

An engineer's report had not been obtained for the said repair in accordance with Section 3.13 of the Public Administration Circular, No. 41/90, dated 10 October 1990. Even after the repairs, the amount mentioned on the bill had been paid without obtaining a certificate either from an engineer or other responsible officer.

3.3 Idle / Underutilized Assets

With no action taken either to utilize after being repaired or dispose of, the following machinery had lain idle over a period of more than 02 years at the premises of the office.

<u>Description of Machines</u>	<u>Observations</u>
Electric generator	Granted by the Disaster Management Centre in the year 2007.
Large scale concrete mixing machine	Date of receipt or other information was not revealed, and remains functional.
Compost machine (waste grinder)	Information not made available to audit.
Two concrete mixers purchased for manufacturing interlock pavement blocks.	Remains functional.

3.4 Solid Waste Management

The following matters were observed during the inspection on the waste recycling center in Nildandahinna.

- a) Non-degradable waste including polythene had littered the ground of the recycling center, without being managed properly.
- b) Polythene and the like had littered either side of the road leading from main road to the recycling center.
- c) Production of compost had not been properly implemented by using the rotting waste.

4. Accountability and Good Governance

Budgetary Control

When comparing the estimated revenue and expenditure with the actual revenue and expenditure in respect of the budget prepared for the year under review, variances ranging from 09 per cent to 85 per cent were observed with respect to 06 Items of Revenue, whilst variances ranging from 10 per cent to 84 per cent were observed with respect to 05 Items of Expenditure. As such, it was observed that the budget had not been made use of as an effective instrument of control.

5. Systems and Controls

Special attention is needed in respect of the following areas of Systems and Controls.

<u>Area of Systems and Controls</u>	<u>Observation</u>
(a.) Control of Revenue	Failure to recover the receivable revenue in arrears.
(b.) Control of Debtors / Creditors	Non-recovery of the funds receivable by the Sabha, and non-settlement of the payments to be made by the Sabha.
(c.) Accounting	Presence of various inefficiencies in accounting the assets and liabilities, and revenue and expenditure relating to the year of accounts.