

## **Horana Pradeshiya Sabha**

### **Kalutara District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 16 May 2014 while Financial Statements relating to the preceding year had been submitted on 24 October 2013. The Auditor General's Report relating to the year under review was sent to the Chairman of the Sabha on 24 November 2014.

##### **1.2 Opinion**

Due to the importance matters appearing in paragraph 1.3 of this report, my opinion is that the financial statements have not been prepared in accordance with the Generally Accepted Accounting Principles so as to reflect a true and fair view of the financial position of the Horana Pradeshiya Sabha as at 31 December 2013 and its financial performance for the year then ended.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

- (a.) Although information relating to the year under review and the preceding year should be given in the Balance Sheet in terms of Sri Lanka Public Sector Accounting Standard No.1, in the submission of financial statements, action had not been taken accordingly.
- (b.) Although a Cash Flow Statement should be submitted with the financial statements in terms of Sri Lanka Public Sector Accounting Standard No.2, a Cash Flow Statement for the year under review had not been submitted.

###### **1.3.2 Accounting Deficiencies**

Following observations are made.

- (a.) The Advance Account had been debited in a sum of Rs.246,967 and that value had been credited in the Staff Loans , instead of debiting the Staff Loans Account and crediting the Advance Account in order to correct the error pointed out in paragraph 2.2.2 (c) of my report for the preceding year. Due to that, balance of the Staff Loans Account had been understated in a sum of Rs. 493,934 while the balance of the Advance had been overstated to that extent.
- (b.) Interest amounting Rs. 843,217 received during the year under review for the Fixed Deposit in the Peoples' Bank had been credited to Contribution from Revenue to Capital

Outlay Account, instead of debiting the Investment Account and crediting the Interest Income.

- (c.) Although the balance of the Fixed Deposits Investments Account according to the Ledger had been Rs. 18,142,099, it had been taken to the Balance sheet as Rs. 17,298,882.
- (d.) While the loan balance of Rs. 3,178,457 of the Cab Vehicle provided to the Sabha by the Local Government Department had not been accounted, the loan installment of Rs. 706,273 recovered from the Salary Reimbursements too had not been accounted.
- (e.) While provisions had not been made under Creators for a sum of Rs. 75,328,000 payable for works performed under Gama Neguma Projects as at the end of the year under review, a sum of Rs. 60,869 payable for Criteria Based Projects and also a sum of Rs. 298,991 payable for Specific Provincial Projects, those amounts had not been accounted as Works Expenditure in the Revenue and Expenditure Account.
- (f.) A sum of R. 75,328,000 receivable for works performed under Gama Neguma Project had not been accounted in Works Debtors Account and the Capital Grants Account.
- (g.) Value of 02 sets of concrete tables and chairs and two concrete benches purchased for the Ingiriya Public Library amounting to Rs. 26,800, 09 single side cupboards and 20 baby chairs amounting to Rs.310,500 and Office Equipment purchased for the Ingiriya Sub-office amounting to Rs.37,360 had not been capitalized.
- (h.) Although the balance of Revenue in Arrears as at the end of the year under review had been Rs. 37,097,261 according to the Revenue Ledger Account, it had been taken as Rs. 37,049,170 to the Trial Balance.
- (i.) Deficit of Rs. 8,747,725 in the Revenue and Expenditure Account for the year under review had not been transferred to the Accumulated Fund Account.
- (j.) The Court fines received relevant to the year under review had been Rs. 1,401,579 and the arrears amount relevant to the year 2013 had been Rs. 8,400,000 and therefore the amount billed should be Rs. 9,801,579. However, a sum of Rs. 8,400,000 only had been accounted as Revenue Billed to the Revenue and Expenditure Account.
- (k.) Out of the Stamp Fees received during the year 2013 amounting Rs. 55,576,276, amount received relevant to the preceding year had been Rs. 52,405,612 and the amount relevant to the year under review therein was Rs.3,270,664. The value of amount to be received further relevant to the year under review was Rs.25,641,025. Accordingly, Revenue Billed should be Rs.28,911,689. However, it had been recorded as Rs.25,641,025 in the Revenue and Expenditure Account.

- (l.) Although the opening balances relevant to the Stamp Fees and Court Fines had been Rs. 35,803,601 and the balance relevant to Other Revenue had been Rs.2,588,777 respectively, according to the receipt of cash relevant to those balances had been Rs. 52,405,612 and Rs. 3,436,842 respectively or a total sum of Rs. 55,842,454. Accordingly, under provision of Rs. 20,038,853 in the opening balance had not been debited to the Arrears of Revenue Account and credited to the relevant Items of Revenue. Due to that, the balances in the Arrears of Revenue Account and the Accumulated Fund Account had been understated in a sum of Rs.20,038,853.
- (m.) The total of the credit side of the Sundry Deposits Account for the year under review had been Rs. 5,608,219, while total of the debit side had been Rs.2,214,443. Accordingly, the balance should be Rs. 3,393,776. However, that balance had been recorded as Rs. 3,489,957 in the Trial Balance and due to that the credit side had been overstated in a sum of Rs. 96,181.
- (n.) Members Allowance payment of Rs. 1,458,000 for the year under review had not been included in the billing.

### **1.3.3 Lack of Evidence for Audit**

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Transactions totalling Rs. 20,980,808 could not be satisfactorily vouched in audit due to lack of required information.

## **2. Financial and Operating Review**

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### **2.1 Financial Results**

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According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2013 had been Rs. 8,558,869 as against the excess of revenue over recurrent expenditure amounted to Rs.3,725,348 in the preceding year.

### **2.2 Revenue Administration**

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#### **2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue**

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Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	13,652	1,066	15,553
(ii)	Lease Rent	1,983	1,631	2,327
(iii)	Licence Fees	844	841	3
(iv)	Other Revenue	823	823	-

### 2.2.2 Rates

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- (a.) Out of the balance of Rates in arrears amounting to Rs. 6,409,806 as at 31 December 2013, a sum of Rs. 2,256,925 was outstanding to be recovered even as at 30 September 2014.
- (b.) Action had not been taken even up to 29 August 2014, date of audit, to recover Rates amounting to Rs.8,411,805 outstanding since the year 2008 from the factories situated in the area belongs to the Poruwadanda Sub-office, shown as an Investment Zone.

### 2.2.3 Acreage Tax

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Action had not been taken even up to 29 August 2014, date of audit, to recover Acreage Tax in arrears as at 31 December 2013 amounting to Rs. 449,736.

### 2.2.4 Stalls Rent

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An Arrears Rent balance of Rs. 116,000 due from stalls of the New Market Complex belong to the Ingiriya Sub-office and stalls in the Public Market was outstanding to be recovered even as at 30 September 2014.

### 2.2.5 Tax on Land Sales

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- (a.) Although a sum of Rs. 1,618,682 had been recovered as 1 percent tax of the estimated amount in Land Sales made during the year 2013, action had not been taken to recover 1 percent of the sale proceeds of Land Sales in terms of Clause 154(1) of the Pradeshiya Sabha Act No. 15 of 1987.
- (b.) Although the Sub-partition Plan of the Kumbuka, Kahatagahawtata had been approved by the Sabah for a land sale to be carried out by the Homelands Holdings Private Company on 25 November 2013, relevant 1 percent tax for that had not been recovered even as at 30 August 2014, date of audit.

### **3. Operational Review**

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#### **3.1 Payment of Advances**

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According to the Register of Advances, payments of Advances amounting to Rs. 8,119 made during the years 2008, 2009 and 2012 had not been settled in terms of Financial Regulation 371(b) of the Republic of Sri Lanka even as at 29 August 2014, date of audit. However, according to the financial statements, the balance of Advances outstanding to be recovered as at 31 December 2013 had been Rs.4,184,991.

#### **3.2 Board of Survey**

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Following observations are made.

- (i.) Board of Survey for the years 2012 and 2013 had not been carried out even as at 29 August 2014.
- (ii.) Items of Goods to be entered in the Register of Inventory pointed out in the Board of Survey Report for the year 2011 had not been entered in the Inventory Registers of the Sub-offices of Kananvila and Pokunuvita up to 29 August 2014.

#### **3.3 Improper Transactions**

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A sum of Rs. 2,510,339 ha been paid for providing commodities to low income group families and providing materials to Community Centers without adhering to the limit of Rs. 1,000 limit per annum and obtaining the prior approval of the Minister in terms of Sub-section "A" of the Section 132 of the Pradeshiya Sabha Act No.15 of 1987.

Following expenditure too had been incurred out of the Sabha Funds without obtaining approval referred to above.

- (i.) A sum of Rs. 17,600 had been paid to the Hansi Advertising Establishment on 05 November 2013 for printing publicity banners to commemorate the Milking Mother's Day.
- (ii.) A sum of Rs. 20,000 had been paid as the expenditure to be incurred for electricity supply in the Esala Zone organized by the Young Members Buddhist Association of Ingiriya, out of the Sabha funds during the year under review.
- (iii.) A sum of Rs. 30,000 had been paid in support of the Deepavali Festival organized by a Community Organization in Ingiriya during the year 2013.

### **3.4 Vehicles Control**

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Following observations are made.

- (a.) Although there are 24 Vehicles belong to the Sabha, a Register of Vehicles had not been maintained in terms of Financial Regulation 1647 (e) of the Republic of Sri Lanka and requirements laid down in Schedule VI of F.R. Volume II.
- (b.) While Monthly Summaries relating to any vehicle of the Sabha had not been prepared, Running Charts too had not been submitted.
- (c.) Fuel Consumption Tests of the vehicles had not been carried out once in 06 months in terms of the Public Administration Circular No. 41-90 dated 10 October 1900.
- (d.) At a physical inspection carried out on 28 august 2014 with regard to the Vehicle Running Charts and Vehicles Meters of 07 vehicles belong to the Sabha; it was observed that, meters of all those vehicles were out of order and revealed further that action had not been to re-fix the meters although the Meters had been broken some years ago.
- (e.) Although the Motor Grader had been used for road construction works according to the Running Charts, advance programmes and approved estimates were not available and the Machine had been engaged on works on the instructions given by the Chairman.

### **3.5 Human Resources Management**

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The approved cadre of the Sabha was 166 and the permanent cadre had been 152 as at 30 December 2013. While 19 employees on substitutes basis and 37 employees as Project Staff had been recruited; there was a shortage of 12 officers in 09 categories of permanent posts.

### **3.6 Travel Expenses**

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The Chairman had obtained a sum of Rs. 123,500 as Combined Allowance, having submitted vouchers as travelling expenses for 247 days from January to December 2013.

Following observations are made in this connection.

- (i.) In obtaining travelling expenses or combined allowances by the Chairman, it is necessary to furnish an evidence to support that it is journey relating to a function assigned to him based on a resolution or a journey connected with an administrative function or an instance of summoning him by a particular body. However, the combined allowances referred to above had been obtained without furnishing any such evidence.
- (ii.) Further examinations made with regard to vouchers relating to travelling expense mentioned above, it was revealed that the Chairman had participated in 11 meetings out of the 12 General Meetings of the Sabha conducted from January to December 2013 and had obtained the allowances for those days, while same days had been included in the number days for which combined allowances too had been obtained.

- (iii.) While the Finance Committee and the Works Committee had met for 13 days during the year 2013, the Chairman had participated in all those meeting, while combined allowances too had been obtained for the same days included in the vouchers referred to above.
- (iv.) Similarly, the Chairman had participated in the Planning Committees held for 76 days during the year 2013 and obtained the relevant allowances, combined allowance too had been obtained for the same days.
- (v.) While provision amounting to Rs. 316,000 had been made available for travelling expense for the year under review, a supplementary provision of Rs. 100,000 had been approved on 22 October 2013 as the provision was inadequate.

### **3.7 Staff Loans**

- (i.) Action had not been taken even as at 29 August 2014 to recover loan balances amounting to Rs. 111,461 outstanding to be recovered since the year 2011 from 14 officers who had vacated posts.
- (ii.) Action had not been taken even as at 29 August 2014, date of audit to get the interest money from the Local Government Department totalling Rs. 178,369 paid during the year 2013 by the Sabha on account of Property Loans obtained by the Officers of the Sabha.

### **4. Systems and Controls**

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

- (i.) Accounting
- (ii.) Budgeting
- (iii.) Revenue Administration
- (iv.) Assets Management
- (v.) Human Resources Management