

**Horana Pradeshiya Sabha**

**Kalutara District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented on 24 October 2013 and the financial statements for the preceding year had been presented on 28 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 11 February 2014.

**1.2 Opinion**

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Horana Pradeshiya Sabha for the year ended 31 December 2012 presented to audit.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

The following observations are made.

- (a) Recovery of salary advances amounting to Rs.96,000 given to the employees had been added to the sundry income account of the income and expenditure account, instead of being adjusted to the advances account. Therefore, the revenue for the year under review and the balance of the advances account had been overstated by a similar amount.
- (b) The fixed deposit of Rs.5,000,000 deposited at the Peoples Bank on 06 September 2012 and the interest income of Rs.174,521 received at the maturity (05.12.2012) of the above deposit had not been brought to account.
- (c) The sum of Rs.11,171,172 payable as at 31 December 2012 in respect of the construction of the Ingiriya Library had been debited to Item of Expenditure 609 of the ledger account. But, the relevant credit entry had not been made to the creditors account.

- (d) A sum of Rs.1,500,000 transferred from a bank current account to another bank current account during the year under review had been considered as capital expenditure and had been debited to Item of Expenditure 609.

### **1.3.2 Lack of Evidence for Audit**

The following observations are made.

(a) **Non-submission of Information to Audit**

Transactions totaling Rs.94,879,441 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

(b) **Non-submission of Payment Vouchers to Audit**

71 payment vouchers totaling Rs.2,317,335 had not been submitted to audit up to 06 February 2014.

## **2. Financial and Operating 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 2012 amounted to Rs.3,725,348 as compared with the excess of revenue over recurrent expenditure amounting to Rs.15,518,053 for the preceding year.

### **2.2 Revenue Administration**

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

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is shown below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	14,465	13,265	13,167
(ii) Lease Rent	3,446	2,550	1,809
(iii) Licence Fees	1,203	890	313
(iv) Other Revenue	26,731	35,821	-

### **2.2.2 Rates and Taxes**

Rates and taxes in arrears recoverable from 15 factories run within the area declared as an investment zone belongs to the area of the Poruwadanda Sub-office for the period from 2008 to October 2012 amounted to Rs.6,874,924.

### **2.2.3 Stall Rent**

Rent amounting to Rs.1,533,578 had been due even by 31 December 2013 from 23 stalls of the New Trade Complex and 36 stalls of the General Market of the Ingiriya Sub-office.

### **2.2.4 Recovery of Tax on Land Auctions**

- (a) According to Section 154(1) of the Pradeshiya Sabha Act No.15 of 1987, the Sabha should recover a tax of 1% of the sales income from sale or auction of lands within the area of authority of the Sabha. Although tax amounting to Rs.2,258,280 had been recovered from 36 land sales during 2011 and 2012; the tax had been computed at 01% of the estimated amount and at any of the instances action had not been taken to recover 1% from the sales value of the land.
- (b) According to Paragraph 22(1) of Part I of the Gazette Extra ordinary of the Republic of Sri Lanka dated 10 August 1986 if the land expect to be sub-divided is more than 01 Hectare, 10% of the extent of the land after reserving for street lines should be allocated for common amenities and vested with the Sabha. However, no evidence submitted to audit to support that the deeds of lands allocated for common amenities in respect of 04 land sales have been vested with the Sabha.
- (c) Boundaries of 03 lands allocated for common amenities in the year 2010 had not been marked and those lands had not been used for any common facility even by November 2012; at the time of audit examination.

### **2.2.5 Court Fines and Stamps Fees**

Money receivable as at 31 December 2012 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	<u>Rs.</u>
(i) Court Fines	6,954,087
(ii) Stamp Fees	35,712,584

### **2.3 Distribution of Exercise Books**

During the year under review 64,550 exercise books of various types valued at Rs.1,735,320 had been purchased from the State Printing Corporation to distribute among children through Community Centres. The following observations are made on the distribution of above books.

- (a) Although requests for books had been received from each Community Centre, the number of books needed had not been mentioned in the request made.
- (b) The total number of books purchased had been issued to the Community Officer of the Sabha.
- (c) No evidence made available to audit to support the number of books issued to each Community Centre.
- (d) The name of the child who received the books, name of the custodian, name of the school, grade and the signature to support the receipt of books had been mentioned in the lists of handing over of books. However, the column to show the number of books received had remained incomplete.

### **2.4 Irregular Transactions**

According to Section 132(J) of the Pradeshiya Sabha Act, No.15 of 1987, donations for entertainment, educational, charity and welfare activities should not exceed a total sum of Rs.1,000 and the prior approval of the Minister should be obtained in case of exceeding the above limit. However, a sum of Rs.1,532,362 had been spent during the year 2011 and 2012 without complying with the limit of Rs.1,000 per year and without obtaining any approval of the Minister.

A request had been made by letter No.5/4/2/V dated 13 September 2012 to obtain the approval of the Minister for the above expenditure of Rs.1,212,614 incurred without the prior approval of the Minister in the year 2011. But, the request had been turned down by letter No.LGD/5/8/P/24 dated 08 October 2012.

### **2.5 Contract Administration**

#### **2.5.1 Maga Neguma Rural Roads Development Programme - 2012**

The following observations are made.

- (a) Provisions amounting to Rs.51,554,583 had been approved for 84 projects for laying inter-locking concrete blocks under the Maga Neguma Rural Roads Development

Programme- 2012. However, 74 of the approved projects valued at Rs.46,181,575 had not been commenced even by 26 November 2012.

- (b) Three projects for which agreements had been signed and provision for creditors amounting to Rs.675,000 had been made in the accounts during the year under review had not been implemented even by 06 November 2013; the date of audit examination.
- (c) The following matters were observed at a physical inspection carried out on 22 November 2012.
  - (i) The Project for concreting the road starting from Korala-ima- Thweatta road leading to the Guruge Wendesiwatta had not been carried out according to the technical standards and the road had been cracked and broken to an extent of 15 square feet beyond 23 feet from the end of the road to the starting direction.
  - (ii) A sum of Rs.193,992 had been provided for the technical estimate for concreting the Koskolawatta road. However, concrete surface had been washed away and the metal had come out due to lapses of the cement and water mixing ratio of the concrete mixture. The concrete layer for about 70 square feet at the end of the road had been washed-away.

### **2.5.2 Reconstruction of Roads**

- (a) There was no proper plan in the files of road projects clearly indicating the road to be reconstructed and the other roads connected to it. Therefore, there was a difficulty in identifying the roads relating to the project.
- (b) The items for preparation of the base of the road and filling the both sides of the road with soil mixed with gravel had not been included in the estimates and therefore, there is a risk in sustentation of the road and possibility of breakage of the both sides of the road.

### **2.6 Issue of Environment Licence**

Environment licence should be issued as per the procedure of Issuing Environment Licence mentioned in the Instructions on Delegation of Powers to the Local Authorities by the Central Environment Authority and Implementation of Powers published by Gazette Notification No.1533/16 dated 25 January 2008. Audit of issue of environment licence revealed the following matters.

- (a) Environment protection licence of 37 institutions had been lapsed from year 2010 to 2012 and action had not been taken to ascertain whether these institutions are existing presently and to re-issue the licence even as at 26 November 2012; the date of audit examination.
- (b) Although programmes should be conducted to prevent, reduce and control environment pollution relating to the activities of the 25 fields for which environment licence can be issued; there was no evidence to prove any of the programmes had been conducted.

## **2.7 Land Auctions**

The sub-division plan No.4395 for auction of the southern part of the Gallenewatta – Kosgahawatta land to the extent of 04 Acres, 03 Roods, 6.9 Perches consists of 67 blocks had been approved on 06 May 2011. The Sub-division plan No.4398 for auction of 02 Roods, 21 Preches of the same land with 10 blocks had been approved on 13 July 2011. The matters revealed at the field inspection carried out on 26 November 2012 are shown below.

- (a) The Works Superintendent by his undated recommendation had mentioned that all the blocks of land have been Sub-devided according to the approved plan No.4395; the relevant access roads have been developed and the block of land for common activities have been allocated and the Chairman had approved the recommendation on 06 May 2011. However, none of the access roads for lot No.01 to 07 and 57 to 67 of the plan No.4395 had been allocated and developed.
- (b) Further, the drains of the both sides from the access point should be developed by concreting them. However, only the drainage system of the left side from the access point had been concreted relating to lot No.36 to 48 and the drainage system of the other parts had not been developed.
- (c) Although, the Works Superintendent had recommended that the land of plan No.4398 has been developed and the Chairman had given his approval on 13 June 2011 to auction the land, the Lot No.01 to 10 had not been sub-devided and developed.
- (d) Further, the drainage system of the both sides also had not been prepared and developed.

## **2.8 Operating Inefficiencies**

### **2.8.1 Verification of Goods**

- (a) The goods decided at the verification as at 31 December 2011 to auction and had valued at Rs.76,265 had not been auctioned even by 26 November 2012; the date of audit examination.
- (b) Verification of goods had not been carried out as at 31 December 2011 in respect of 04 libraries belong to the Sabha.

### **2.8.2 Employees Loans**

Employees loans amounting to Rs.53,861 receivable since year 1998 from 13 officers left the service of the Pradeshiya Sabha and interdicted had not been recovered even by 26 November 2012; the date of audit examination.

### **2.8.3 Procurement Plan**

An annual procurement plan had not been prepared.

### **2.8.4 Budgetary Control**

Although an allocation of Rs.2,558,700 had been made for 33 items of expenditure according to the budget estimate of the year 2012; no expenditure had been incurred out of it as at 31 December 2012.

### **2.8.5 Bank Accounts**

Bank reconciliation statements had not been prepared after June 2012 in respect of 04 bank current accounts maintain by the Sabha even by 06 November 2013; the date of audit examination.

## **3. 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) Control over Contracts
- (e) Budgeting