

Eheliyagoda Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 12 May 2014 while Financial Statements relating to the preceding year had been submitted on 05 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 22 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Eheliyagoda Pradeshiya Sabha as at 31 December 2013, and its financial performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Following statements which should be submitted together with Financial Statements in terms Paragraph 21 in Sri Lanka Public Sector Accounting Standards No. 01 had not been submitted.

- (i.) Cash Flow Statement
- (ii.) Summary of Important Accounting Policies
- (iii.) Statement of Changes in the Net Assets/Structure

1.3.2 Accounting Deficiencies

Following deficiencies are observed.

- (a.) Staff Loans of Rs. 185,379 outstanding to be recovered in the Staff Loans Ledger had been written-off through Journal Entry No.01, based on the Staff Loans Register without detection any reasons.
- (b.) Arrears of Revenue totalling Rs. 679,776 on account of Rates, Acreage Tax, Lease Rent and Trade Silences had been written-off through Journal Entry No. 01, without detection any reasons, with regard to the differences between the Revenue Registers and the relevant Ledger Accounts.

- (c.) Difference of Rs. 13,611 between the opening cash balance and the bank account balance had been adjusted in the Accumulated Fund through Journal Entry No.01 without detection any reasons for the difference.
- (d.) Receipts of Loans and Grants for the construction of the multipurpose building during the previous years and the expenses out of those Loans and Grants had been made through the General Deposits Account, deviating from the main financial accounts. However, those expenses amounting to Rs. 36,531,540 relating to the preceding year had been taken to the expenses relating to the year under review. Similarly, Capital Income received amounting to Rs. 23,568,735 relating to previous years had been taken to the income for the year under review.
- (e.) A difference of Rs. 46,696 was observed between the balance shown in the Fixed Assets Ledger and the Contribution from Revenue to Capital Outlay Account as at the end of the year under review.
- (f.) While a sum of Rs. 192,662 shown as opening balance of Acreage Tax Revenue Receivable for the year under review had been omitted in copying that to the accounts for the years under review, that value had been taken under revenue billed for the year under review.
- (g.) Although there was no payment of Value Added Tax to be made to the Commissioner General of Inland Revenue, there was a liability on account of Value added Tax amounting to 2,238,185 according to the ledger account.
- (h.) Refund of Deposits amounting to Rs. 96,215 had been posted under Payments to Creditors and due to that there was a difference between payments to creditors shown in the Expenditure Summary Register and that value shown in the Ledger Account.
- (i.) Although the payment of retention money for works relating to the preceding year should be made under Deposits, payment of retention money amounting to Rs.97,124 relating to 05 works had been made through the Accumulated Fund.
- (j.) Any step had not been taken to settle the Creditors' Balance of Rs. 4,556,613 relating to years prior to the year under review.

1.3.3 Un-reconciled Control Accounts

While the total of balances as at 31 December 2013 relating to 06 Items of Accounts amounted to Rs. 6,727,373 according to the Control Accounts, the total of those balances according to subsidiary Register had been Rs. 11,136,311 showing a difference of Rs. 4,408,938.

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

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----	
(i.) Financial Regulation 371(2)(c) and 371 (5)	- Action had not been taken in terms of the Regulations, to settle advances totalling Rs.204,249 relating to the period from the year 1995 to 31 December 2013.
(ii.) Financial Regulations 371 (2) (b)	- Sub-imprest totalling Rs.1,253,639 had not been settled even as at 20 January 2014.
(iii.) Financial Regulations 396 (d)	- Action had not been taken in terms of the Regulations, with regard to cheques issued, but not presented for payment exceeding 06 months totalling Rs. 791,347.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of operational revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.1,522,906 as compared with the corresponding excess of operational revenue over recurrent expenditure for the preceding year amounted to Rs.164,609.

2.2 Analytical Financial Review

While the surplus of the financial operations for the year under review had been increased by 825 percent when compared with that for the preceding year, increase in other Revenue had been the main reason for that.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are 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	7,613	7,670	7,979
(ii.) Lease Rent	7,186	4,087	729
(iii.) License Fees	2,105	578	-
(iv.) Other Revenue	24,016	23,545	8,960

2.3.2 Performance in Revenue Collection

When estimated revenue for the year under review is compared with the actual revenue a decrease of 75,263 and 232 percent is indicated in Rent Income, License fees and Service Charges respectively.

2.3.3 Lease Rent

Although it had been directed to impose Industrial Taxes and recover according to the Gazette Notification dated 28 December 2012, a Register had not been properly maintained with regard to Industries, Trade Licenses and Business Tax in the area of authority of the Sabha.

2.3.4 Trade Stalls Tax

While cases had been filed by the Sabah during the year 2007 against the Stall Holders for not paying Key Money in leasing out the new trade stalls in the New Market Complex, a sum of Rs. 295,750 as rent and a sum of Rs. 130,612 as agreement security and Security Deposits were outstanding to be recovered from them as at that date. Although 05 years have elapsed since filing action, a final judgment had not been given. It was observed that, those Lease Holders continue to stay in the stalls paying the monthly rent at present. The amount outstanding to be recovered as income from rent of stalls and fare, as at 31 December 2013 had been Rs. 293,375 and 44 percent out of that had been outstanding for more than a year.

2.3.5 Charges for Publicity Advertisements

Although it was observed in audit that there were a large display of publicity advertisements and permanent advertisement boards in the area of authority of the Sabah, action had not been taken by the Sabah to recover the relevant charges indicated in the schedule of the Gazette Notification dated 28 December 2012. Action had not been taken to recover the income of Rs.172,247 relating to such 06 instances already identified.

2.3.6 Water Charges

While income from the Water Project of the Sabah for the year 2013 had been Rs. 52,675, expenditure had been Rs. 89,618, and therefore it had not been possible to bear the maintenance expenditure out of the income of the project. There were arrears of revenue outstanding in a sum of Rs. 90,385 in connection with this Project as at 31 December 2013. A proper course of action had not been taken to recover those arrears that had been outstanding for a number of years.

2.3.7 Other Revenue

- (a.) Although it had been decided to recover a charge from vehicles parked in public places and vehicles distributing goods according to the report of the Sabah meeting held on 23 August 2011, recovery of charges had not been implemented up to 20 January 2014 , date of audit.
- (b.) Out of the quotations obtained for leasing out the Getaheththa Beef Stall, tenders submitted by the first and second parties had been rejected. Although the person offered the third tender had come forward, action had not been taken to offer the tender to him and due to that an income of Rs. 961,404 receivable to the Sabha had been lost.

3. Operating Review

3.1 Operational Inefficiencies

Following observations are made.

- (a.) Action had not been taken to identify and settle the difference of Rs.12,141 existing between the bank reconciliations and cash book since January 2012.
- (b.) An advance of Rs.350,000 had been paid on 3 April 2007 to repair the road roller. This road roller had been auctioned in 2010 without the advance being settled.
- (c.) Goods valued at Rs.434,805 had been purchased under the numbers' provision. Norms for selection of beneficiaries for giving materials as aid, specifications for selecting institutions for purchasing materials, calling for quotations, tender board decisions, proper documentary evidence etc., had not been furnished to audit.
- (d.) Credit balances consisting of turnover tax of Rs.77,713 and environmental licence fees of Rs.6,427 both totaling Rs.84,140, had been shown as dormant account in the financial statements. Although 3 years had lapsed action had not been taken to identify those balance and settle them.

3.2 Improper Transactions

- (a.) Approval for additional bills amounting to Rs.1,482,910 submitted for the expenses of the City Development Programme was not furnished to audit.

- (b.) Expenses under Members' Allocation amounting to Rs.585,000 had been adjusted to the expenditure for the year under review having accounted under Creditors without correctly identifying the relevancy to the year under review, and also without any written evidence, but on verbal information alone.

3.3 City Development Programme

While the estimated expenditure for the City Development Programme had been Rs. 4,791,500, that estimate which should be prepared by the Engineer had been prepared by the Technical Officer of the Sabah and had been approved by the Chairman. Although public quotations should be called for and the contractor should be selected according to the decision of the Tender Board after evaluation of tenders, evidence to support that those requirement were fulfilled had not been furnished to audit. Action too had not been taken to settle the advance of Rs.900,000 paid to the contractor.

3.4 Solid Waste Management

Following observations are made.

- (a.) Compost Project commenced during the year 2000 at Eheliyagoda Waththa, Kohiladeniya in a land to the extent of about one acre with a permanent building, was in an idle position for about 06 years up to now. Equipment including two garbage carts, two wheelbarrows two shovels and other items had been stored and kept idle in a building of about 100 feet long for which sheets had been used for the roof. Equipment and tools including the Fertilizer Processing Machine were lying idle six years and getting rusted . The building utilized for the Compost Project and the building used for making concrete blocks were in a deteriorated condition.
- (b.) Salaries mounting to Rs. 1,057,445 had been paid to the watcher and the labourer engaged in the Compost Project during the years 2012 and 2013.

4. Accountability and Good Governance

Special attention is needed in the following areas of controls.

4.1 Internal Audit

Although it is the duty of the Chairman to ensure that an adequate internal audit is carried out with regard to finance and store in terms of Rule 5(7) of the Set of Rules (Financial and Administration) of 1988, action had not been taken accordingly.

4.2 Budgetary Control

While provision amounting to Rs. 5,134,228 had been saved out of provision made available under 22 items of Expenditure, any expenditure had not been incurred out of provision amounting to Rs. 602,000 made available relating to 05 Items of expenditure.

5. Systems and Controls

Special attention is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Revenue Administration
- (iii.) Budgetary Control
- (iv.) Financial Control
- (v.) Solid Waste Management