

## **Embilipitiya Pradeshiya Sabha**

### **Ratnapura District**

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

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

Financial Statements for the year under review had been submitted to the Audit on 31 March 2014 while Financial Statements relating to the preceding year had been submitted on 28 March 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 24 November 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 Embilipitiya Pradeshiya Sabha as at 31 December 2013, its financial performance and cash flow 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**

A summary of important Accounting Policies followed in the preparation of accounts had not been submitted together with the Financial Statements, in accordance with paragraph 21 in Standards No.01 of the Public Sector Accounting Standards of Sri Lanka.

###### **1.3.2 Accounting Polices**

Following deficiencies are observed.

- (a.) Although the revenue relating to Revenue Head 3-41 for the year under review had been identified as Rs.313,000, in the relevant Ledger that revenue had been accounted as Rs. 58,000.
- (b.) Instead of debiting the value of Rs. 6,200,000 of the motor vehicle purchased on lease hold basis during the year 2010 to the Asset Account and crediting the Contribution from Revenue to Capital Outlay Account, it had been debited to Assets Account and credited to Lease Hold Company Account. Suspense Interest amounting to Rs.2,798,740 relevant to that had not been taken to accounts by crediting that to Lease Hold Company Account.

### 1.3.3 Non-reconciled Control Accounts

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According to Control Account as at 31 December 2013, the total relating to 10 Items of accounts amounted to Rs. 29,057,005. According to the subsidiary registers total of relevant balances had been Rs. 20,367,728 indicating a difference of Rs. 8,689,277. Action had not been taken to ascertain reasons for the difference and to make necessary adjustments in the Ledger Accounts.

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

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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.) Rules published in the Extra Ordinary Gazette Notification No.1396/18 dated 08 June 2005 of the Democratic Socialist Republic of Sri Lanka 1992	- Allowances amounting to Rs. 65,000 had been paid to 07 Members who had been absent at the meetings without submitting medical certificates.
(b.) Financial Regulation of the Republic of Sri Lanka-1992	
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(i.) Financial regulation 371(2)	- Advances totalling Rs.3,180,527 paid during the period from the year 1988 to the year 2013 had not been settled.
(ii.) Financial regulation 571	- Action in terms of the provisions had not been taken with regard to Deposits totalling Rs. 4,637,152 for the period relating to the years from 1992 to 2011.

## 2. Financial Review

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### 2.1 Financial Results

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabah for the year ended 31 December 2013 amounted to Rs.10,875,311 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 7,267,712.

### 2.2 Analytical Financial Review

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Operational surplus for the year under review indicated an improvement of 49.6 percent when compared with that for the preceding year.

## 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
	Rs '000	Rs '000	Rs '000
(i.) Rates and Taxes	7,785	4,531	3,576
(ii.) Lease Rent	6,248	5,501	248
(iii.) License Fees	516	624	-
(iv.) Other Revenue	2,025	4,319	4,601

### 2.3.2 Performance in Revenue Collection

When estimated revenue for the year under review is compared with the actual revenue a decrease of 42, 12 and 66 percent is indicated in Rates and Taxes, Rent Income and Warrant Charges respectively.

### 2.3.3 Rates

Although the arrears of Rates recoverable as at 31 December 2013 amounted to Rs. 3,576,000, adequate steps had not been taken to that amount.

### 2.3.4 Lease Rent

A survey had not been carried out with regard to the Business Enterprises situated in the area of authority of the Sabha for recovery of Industrial Taxes, Business Taxes and Trade Licenses up to 19 June 2014, date of audit. Revenue Registers had been maintained on the basis of the revenue received to the Sabha.

### 2.3.5 Court Fines and Stamp Fees

Necessary course of action had not been taken to identify thorough schedules, to recover the Court Fines Receivable for the period from October 2013 onwards, from the Embilipitiya District Court and the Magistrate Court.

### **2.3.6 Other Revenue**

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Although a Levy not exceeding 1 percent based on the income for the year preceding to the relevant year should be recovered in terms of Clause 149 of the Pradeshiya Sabah Act No. 15 of 1987 from the hotels and restaurants registered in the Tourists Promotion Board of Sri Lanka, it was revealed that such recoveries had not been made from one hotel situated in the area of authority of the Sabha.

### **2.3.7 Charges for Telecommunication Towers**

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Although standard charges should be recovered for Telecommunication Towers, in terms of the Schedule V of the Extra Ordinary Gazette Notification dated 17 April 2009 of the Republic of Sri Lanka, any such charge had not been recovered.

## **3. Operating Review**

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### **3.1 Management Weaknesses**

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Following observations are made.

- (a.) Action had not been taken to identify the rural roads in the area and to vest those to the Sabah through a Gazette Notification in term of Clause 24 of the Pradeshiya Sabah Act No. 15 of 1987. A Road Inventory prepared containing road boundaries was too not available in the Sabha.
- (b.) Two Lap Top Computers valued at Rs. 181,450 purchased for the use of the Sabah were not in the possession of the Sabha as at 19 June 2014, date of audit. According to the Board of Survey Report for the year2013, it was revealed that these computes were removed by two ex-Chairmen.
- (c.) It was observed that all Fixed Assets belong to the Saba had not been included in the Fixed Assets Register although such register is available in the Sabah and that; adequate and updated information had not been recorded relating to the assets recorded therein.
- (d.) Any course of action had not been taken with regard to 67 items of goods not produced at the Board of Survey for the year 2013, even up to 19 June 2014, date of audit.

### **3.2 Operational Inefficiencies**

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Following observations are made.

- (a.) Action had not been taken for settlement of 21 Creditors' balances totalling Rs. 3,266,279 within the specific years, which were being brought forward over a number of years or to write-off those balances.

- (b.) A Register of Street Lamps had not been maintained properly.
- (c.) Loan balances in arrears totalling R. 155,155 paid to employees who had been in service of the Sabha had not been recovered up to 19 June 2014.
- (d.) The ex-Chairman had not handed over the Cab Vehicle PB 9856 used by him up to the time of leaving the post and had run 3601 kilo meters for 46 days from 05 December 2013 to 21 January 2014 keeping it in his custody without proper approval. Any course of action had not been taken to assess and recover the loss occurred to the Sabha due to private use of the vehicle.

### **3.3 Contract Administration**

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An agreement valued at Rs.420,442 had been entered into with the “Maha Arra Rural Samurdhi Development Society” on 12 March 2013 for the construction work of the Thunkama Weekly Fair Latrine, implemented under Pradeshiya Sabah provisions, based on an estimate valued at Rs. 435,443 to perform the work within 03 months. Although a sum of Rs. 18,763 had been paid for applying two coats of weather ceiled paint of approved quality under work item 16 of the estimate, it was observed at the inspection carried out on 25 June 2014, that approved quality of paint had not been used and that work had not been properly performed. A permanent water supply too had not been provided to the latrine.

## **4. Accountability and Good Governance**

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Special attention is needed in the following areas of controls.

### **4.1 Internal Audit**

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An adequate internal audit had not been carried out with regard to Finance and Stores in terms of Regulation 5(7) of the Pradeshiya Sabha Series of Rules (Finance and Administration) 1988.

### **4.2 Budgetary Control**

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Following observations are made.

- (a.) Provisions amounting to Rs. 1,844,562 made available under 22 Items of Expenditure had not been utilized for any work and the entire provision had been saved.
- (b.) Out of provisions relating to 05 Items of Expenditure, 48 to 91 percent of those provisions had been transferred to other items.

#### **4.3 Audit Queries not replied and un-resolved**

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Out of Stamp Charges received for the year 2012, a sum of Rs. 628,558 had been paid by the Department of Local Government direct to a Co-operative Society in settlement of arrears of fuel bills. Although a sum of Rs. 361,602 out of that had been confirmed through the Creditors' Register, the balance sum of Rs. 266,956 was not confirmed through fuel bills, running charts or provisions made for creditors. Although this matter was pointed out in the Auditor General's Report for the preceding year, required clarifications had not been received to the audit up to now.

#### **5. Systems and Controls**

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Special attention is needed in the following areas of controls.

- (i.) Accounting
- (ii.) Budgetary controls
- (iii.) Revenue Administration