

Imbulpe 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 26 February 2014 while Financial Statements relating to the preceding year had been submitted on 26 February 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabah on 22 September 2014.

1.2 Opinion

I am of opinion that due to the materiality of the matters referred to in paragraph 1.3 of this report, that the financial statements had not been prepared in accordance with Sri Lanka Public Sector Accounting Standards and does not give a true and fair view of the financial position of the Imbulpe Pradeshiya Sabha as at 31 December 2013 and financial results of its operation and cash flow for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

(a.) While Financial Statements had not been prepared to reflect budgeted and actual figures in accordance with Public Sector Accounting Standard 1.24, it had not been disclosed whether the budgeted figures had not been exceeded or if exceeded, reasons for such excess had not given as a foot note in the financial statements.

(b.) The Cash Flo Statement submitted together with the financial statements had not been prepared in accordance with the Sri Lanka Public Sector Accounting Standards. Following lapses were observed.

(i.) Expenditure incurred amounting to Rs. 304,462 for acquisition of fixed assets during the year 2013 had not been shown under investment activities.

(ii.) Instead of the sum of Rs.404,528 paid back on account of the Local Loans and Development Fund as cash out flow in the cash flow statement, under cash generated in financial activities, the yearend loan balance of Rs. 2,958,835 had been recorded.

1.3.2 Accounting Deficiencies

Following deficiencies are observed.

- (a.) The total income of Rs. 475,039 received up to November 2013 under operational income Item (2/64) had been recorded again in the Summary Revenue Register during December 2013. Due to that, revenue for the year under review had been overstated in a similar sum.
- (b.) Although the income receivable and income received in advance should be separately identified and accounted, income relating to 03 items of revenue totalling Rs.147,086 received in advance had not been disclosed under current liabilities and had been adjusted by setting off against the arrears of revenue in the Balance Sheet.
- (c.) Water projects repair expenses incurred in 15 instances totalling Rs. 293,431 had been inappropriately accounted as Capital Expenditure.
- (d.) Although the Courts Fines amounting to Rs. 186,499 and Stamp Charges amounting to Rs.5,878,832 received during the year in respect prior years should be credited to the Accumulated Fund, it had been accounted as an income of the year under review and due to that income for the year had been overstated by that amount.
- (e.) Courts Fines Receivable amounting to Rs. 273,576 had not been accounted under Revenue Debtors.
- (f.) Although the Staff Loans outstanding as at 31 December 2013 had been Rs.1,706,193 according to financial statements, two loan balances amounting to Rs.2,800 due according to loan register had not been included in that, resulting an understatement of that amount.
- (g.) The sum of Rs.35,000 estimated to be received by sale of timber and roof sheets removed from a building belong to the Sabha that had not been sold even up to end of the year under review and had been incorrectly credited to the Buildings Account.
- (h.) Although the value of Fixed Assets should be equal to the Contribution from revenue to Capital Outlay Account, there was a difference of Rs.14, 855,260 between the two accounts.
- (i.) The balance of Rs.18,147 in the Local Loans and Development Fund as at the end of the year under review had been inappropriately disclosed under Accumulated Fund and Reserves.

1.3.3 Lack of evidence for audit

Transactions totalling Rs. 13,907,962 could not be satisfactorily vouched in audit due to non-submission of required information.

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.) National Procurement Guidelines Paragraph 1.2.1(c)	- In procuring goods and services, action should be taken to select the suitable supplier by giving equal opportunity to all suppliers by calling for quotations, contrary to that, payments totalling Rs.230,480 had been made in 11 instances to a private institution.
(b.) Treasury Circular No. IAI/2002/02 dated 28 November 2002	- Although a Register of Fixed Assets should be maintained for the Computers and Components purchased, such register had not been maintained for computers and components valued at Rs. 258,118 owned by the Sabha.
(c.) Financial Regulation 104(1) of the Republic of Sri Lanka	- A comprehensive report had not been submitted with regard to the loss occurred amounting to Rs.304,700 due to accident took place on 10 July 2011 to vehicle No. 252-6347 belongs to the Sabha.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue for the year ended 31 December 2013 amounted to Rs. 1,846,670, as against the excess of revenue over recurrent expenditure for the preceding year amounting to Rs.6,316,007 resulting a decline of Rs. 8,162,677 in the financial results for the year under review.

2.2 Analytical Financial Review

Decrease in the overall revenue in a sum of Rs.5,030,600 for the year under review and increase in expenditure incurred on repairs and maintenance of operational and capital assets over the preceding year in a sum of Rs.1,612,091, had been the main reasons for the decline in the above financial results.

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	110,745	102,809	72,207
(ii) License Fees	825,500	75,458	70,420
(iii) Water Charges	4,500,000	9,125,836	3,617,911

Following observations are made.

- (a) Water charges in arrears for 2012 and years prior to that amounted to Rs.1,512,332. It was 41 percent of the total arrears charges.
- (b) While Rates in arrears for 2012 and years prior to that amounted to Rs.46,717, it was 64 percent of the arrears of rate and taxes.
- (c) There was difference of Rs. 401,400 between the stamp fees recoverable and recovered during the period from June 2011 to June 2012.
- (d) Although the sum of Rs.7,500 recoverable as meter charges when providing new water supply connection has to be recovered before providing the water connection, arrears of outstanding meter charges amounting Rs. 529,663 had to be recovered from places provided with water connections during the year 2009.
- (e) Action had not been taken to recover Stamp Charges amounting to Rs. 5,567,190 identified as recoverable for the period from November 2012 to September 2013.
- (f) While the Acreage Tax in arrears as at 31 December 2013 amounted to Rs.299,685, a sum of Rs. 177,125 or 59 percent of that had been old for than two years.

3. Operating Review

3.1 Transactions of contemptuous nature

Following observations are made.

- (a.) A sum of Rs.236,285 had been paid in 06 instances during the year 2013 to an institution called, A.I.T.C. Enterprises situated at Ratmalawinna, Balangoda address, for hire of machinery and purchase of construction materials. Following matters were revealed with regard to this payment. Telephone numbers 071083627 and 045-2286219 mentioned in the letter head of this institution attached to the payment voucher were private telephone numbers of the Chairman for which telephone bills are reimbursed out of the Sabah fund. A sum of Rs.69,000 had been paid for reimbursement of telephone bills of those telephones during the period from January 2012 to November 2013 out of the Pradeshiya Sabah fund. According to those payments, it was observed that there had been a direct involvement by the Chairman for supplies and services mentioned above. The Chairman had informed me on 09 September 2014 that no more purchases will be made from this institution in the future.

- (b.) The amount of money paid to the Sabah, for the number of electricity units generated under condition iv of the agreement entered into with a private company relating to electricity generation should be credited to the Environmental Resurgent Fund for protection of environment. However, a sum of Rs.1,940,585.85 received from commencement up to 30 June 2013 had not been credited a such fund, but had been credited to the Pradeshiya Sabah Fund under Revenue Head 2/64 and spent that money.

3.2 Operational and Management Inefficiencies

Following observations are made.

- (a.) Although an advance of Rs. 70,000 had been paid to a private institution on 16 December 2011 for repairing the defunct panel board fixed to control electricity supply to the electrical motor of the Aluthnuwara Drinking Water Project, panel board had not been repaired handed back even up to 02 June 2014. Any course of action had not been with regard to the delay.

- (b.) Value of unsettled advances as at to 31 December 2013 amounted to Rs. 5,056,213. Out of those, advances amounting to Rs. 2,866,459 or 57 percent were old for more than 5 years.

- (c.) When Hydro Electricity Power Station is in continues operation, electricity units (K.W.H.) produced should be uniformed. However, according to the report of Electricity Power Generating Establishment which had entered into an agreement with the Sabha, there had been material variations in power generation as well as the income received. Although the tax money calculated and remitted to the Sabah by that Establishment had

been taken to revenue, a suitable internal control had not been followed in order to ascertain whether correct revenue had been received to the Sabha.

3.3 Improper Transactions

It had been stated in terms of Paragraph 06 of the Circular No. CLG 764 dated 23 September 2010 of the Commissioner of Local Government (Sabaragamuwa) that, if a Head, Deputy Head, or a Member of a Local Government Body is selected for a training Programme abroad, the relevant organization, foreign government or foreign body should bear all the expense to be incurred and that fund of the Government or Provincial Council or Local Body should not be utilized for that. However, contrary to those instructions, a sum of Rs. 360,000 had been spent out of the Sabah Fund for a 6 days tour in Thailand on behalf of 04 Public Representatives of the Sabah during the year under review.

3.4 Idle/Under-utilized assets

- (a.) The concrete mixture machine belongs to the Sabah had not been used for any purpose from the date of receipt.
- (b.) The cab vehicle No. 53-5630 received from the Government Supplies and Consultancy Services Unit to the Sabah had been parked in the Sabah premises opened to corrosion. Action had not been taken to transfer the vehicle in favour of the Sabha through Commissioner of Motor Traffic.

3.5 Staff Administration

Although two posts of Revenue Inspectors of the approved cadre of the Sabah had been vacant, covering up of work relevant to those posts had been assigned to a field labourer.

4. Systems and Controls

Special attention is needed in the following areas of controls.

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