

Pathahewaheta Pradeshiya Sabha

Kandy District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 31 March 2014 and the financial statements for the preceding year had been presented on 25 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 09 December 2014.

1.2. Opinion

Due to the significance in matters pointed out in Paragraph 1.3 of this report, I am of opinion that the financial statements have not been prepared in accordance with the Generally Accepted Accounting Principles and do not give a true and fair view of the state of affairs of the Pathahewaheta Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations and cash flows for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Non-compliance with the Accounting Standards

The income statements, relevant to the financial statements of the year under review, had not been prepared and presented in accordance with the Introduced Accounting Standards.

1.3.2. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The balance of water charges in arrears as at 31 December 2013 amounted to Rs.8,961,107, and this contains unrecoverable balance of faulty billings amounting to Rs.1,123,123. Therefore the current assets had been overstated by a similar amount.
- (b) All the lands and buildings owned by the Sabha had not been valued and brought to account under non-current assets, in accordance with accounting standards, whilst buildings valued at Rs.3,031,378 constructed during the year under review had not been brought to account.

- (c) A hand tractor valued at Rs.97,000 and 11 garbage carts valued at Rs.72,850 held as at 31 December in the year under review, had been written-off from the accounts. Therefore the non-current assets, and the revenue contribution to capital outlay account, had been understated by a similar amount, in the financial statements.
- (d) The cash balance amounting to Rs.389,684 in the Urban Development Authority account maintained by the Sabha by accepting deposits, had been omitted in the financial statements
- (e) The stamp fees relevant to previous years, receivable as at 31 December of the year under review amounted to Rs.55,400 and this had not been brought to account.
- (f) When the balances in the cash flow statement presented with financial statements, were checked with the relevant accounts, a difference amounting to Rs.5,878,438 was observed in the total, between the cash balance at the beginning of the year, cash balance at the end of the year, and the operating surplus.
- (g) The investment in fixed deposits at Bank of Ceylon that should be shown under cash flow from investment activities, and sale of motor vehicles totalling Rs.10,380,000 during the year under review, had not been shown in the cash flow statement.
- (h) A sum of Rs.86,415 relevant to construction works, payable as at the end of previous year and the year under review, had been brought to account twice under the deposits payable.
- (i) The works debtors relevant to the period from the year 2003 to 2008 amounting to Rs.3,112,404, had been indicated as the amount to be reimbursed, by several government Ministries and Departments. But this had not been reimbursed even during the year under review.

1.3.3. Un-reconciled Control Accounts

- (a) According to the control account, the total balances relevant to 04 items of account was Rs.19,615,001 whilst the total balances according to the subsidiary registers was Rs.19,789,224. Therefore a difference of Rs.174,223 was observed.
- (b) Though the total balances in the works debtors schedule was Rs.15,378,174, this had been shown in the account as Rs.15,392,974. Therefore the total in the schedule had been overstated by Rs.14,800.

1.3.4. Accounts Receivable and Payable

a) Accounts Receivable

The total balances of accounts receivable as at 31 December 2013 amounted to Rs.34,983,576 and out of this, the total balances of accounts exceeding a period of 01 year, amounted to Rs.16,479,399.

b) Accounts Payable

The value of balances of accounts payable for period exceeding 01 year as at 31 December 2013 amounted to Rs.6,311,532.

1.3.5. Lack of Evidence for Audit

Transactions totalling Rs.3,954,058 could not be examined satisfactorily, due to non-submission of required information to audit.

1.3.6. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Section 134 of The Pradeshiya Sabha Act No. 15 of 1987	Action had not been taken, to identify the areas developed after 2006 and impose rates and taxes.
(b) The Pradeshiya Sabha (Finance and Administration) Rules of 1988.	
(i) Rule 180	Action had not been taken to conduct a survey with in the area under the authority of the Sabha, and collect licence fees.
(ii) Rule 177	The procedure stipulated by the rules had not been followed during the purchase of equipment valued at Rs.1,359,850.
(iii)Rule 212	The water and street lamp equipment valued at Rs.2,213,600, had not been entered in a stocks register.
(c) F.R.880 (1) of Financial Regulations of the Republic of Sri Lanka	The security deposits had not been made by 17 officers who are in charge of handling cash or stores.
(d) Local Government Commissioner's Circular No. 1980/46 dated 31 December 1980,	The lease rent of 13 enclosed stalls and 07 open stalls owned by the Sabha, had not been revised after the valuation in 2004, and the Sabha had entered to a new agreement in the year 2008, based on the same old valuation.
(e) Establishments Code of the Republic of Sri Lanka – Clauses 4.4 and 4.5 of Chapter XXIV	The long outstanding balances of loans relevant to two officers and three employees amounted to Rs.36,410. Though the range of non-payment was 02 to 07 years, action had not been taken to recover this amount as stipulated in the relevant provisions.

2. Financial 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 2013 amounted to Rs.29,874,187, as compared with the excess of revenue over recurrent expenditure amounting Rs.18,276,200 for the preceding year. Therefore the surplus had been improved by Rs.11,597,987.

2.2. Revenue Administration

2.2.1. Rates and Taxes

Since a proper procedure had not been followed to collect rates and taxes, the balance of rates and taxes amounting to Rs.5,544,819 existed as at 01 January 2013, had been increased to Rs.6,154,106, and out of this balance, Rs.3,325,723 had been further due as at 30 September 2014.

2.2.2. Lease Rent

The lease rent to be collected from the stalls owned and rented by the Sabha, as at 31 December 2013 amounted to Rs.2,045,702 and proper action had not been taken during the year under review, to collect this lease rent.

2.2.3. Water Charges

- (a) Though the number of water customers was 3400, only 2611 water metres had been fixed.
- (b) Since water charges had not been collected properly, the balance amounting to Rs.228,146 existed as at 01 January 2013, had been increased to Rs.8,960,107 as at 31 December, showing a 30% increase. Out of this balance, Rs.7,520,288 had been further due as at 30 September 2014.

2.2.4. Court Fines and Stamp Fees

The value of court fines and stamp fees, receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013 had been Rs.8,459,824. Out of this Rs.4,542,080 had been further receivable as at 30 September 2014.

3. Operating Review

3.1. Management Inefficiencies

The following matters are observed.

- (a) Though about 100 unauthorised constructions had been taken place within the area under the authority of the Sabha, in the years 2012 and 2013, legal action had not been taken regarding this.
- (b) Action had been taken to recruit 30 employees on casual basis, and 12 employees on allowances basis, without filling the 39 vacancies existed in the approved cadre of the Sabha. Therefore a sum of Rs.6,236,828 had been spent from the Sabha funds, for salaries and allowances during the year under review.

3.2. Operating Inefficiencies

The following matters are observed.

- (a) The Kolambissa Water Project had been launched at a cost of Rs.500,903 for the purpose of providing drinking water for a population of about 900 families in 08 villages in Kolambissa area. But the project had not been able to provide sufficient quantity of water for the villages.
- (b) The columns for 03 stalls had been constructed on the upper floor of the Galaha Library Building, and before completing the balance work, one of the stalls had been acquired by a person without authority. Action had not been taken to evacuate this person, whilst the Sabha had also been deprived of an income which could have been earned by the Sabha, due to the non-completion of construction work of 02 remaining stalls,
- (c) The work in Morogolla multi-purpose building had been completed at a cost of Rs.643,656, but action had not been taken yet, either to rent or lease 05 stalls on the ground floor.

3.3. Idle and Underutilized Assets

Nugaliyedda community hall had been built with concrete slab constructed on top of concrete columns, spending a sum of Rs.300,000 and work on walls, doors and windows need to be completed to utilize the building. But action had not been taken to complete these works even during the year 2014. Therefore this building is kept idle at present.

3.4. Contract Administration

The following matters are observed.

- (a) The work in Morogolla multi-purpose building had been completed at a cost of Rs.643,656, but toilet facilities had not been provided for the upper floor of the building which was subjected to the inspection.
- (b) During the sample check carried out in 10 works of the Sabha in the years 2012 and 2013, it was revealed that an over payment of Rs.137,729 had been made.
- (c) During the sample check carried out in excavation work done by excavators, it was revealed that prices above the specified rates had been applied, and an over payment of Rs.1,136,066 had been made for 08 works.
- (d) Neelawala – Hewanmadiththa Road had been constructed through earth excavating work at a cost of Rs.400,000. The section with a steep slope located close to the starting point of the road would have been utilized, after concreting the area in such a way that it reduces the slope. But this had not been carried out even on the date of the audit carried out on 21 July 2014.

4. Accountability and Good Governance

4.1. Budgetary Control

- (a) When the estimated revenue and expenditure in the budget prepared for the year under review were compared with the actual revenue and expenditure, variances in the range of, 21% to 50% in respect of 03 items of revenue, and variances in the range of 31% to 150%

in respect of 05 items of expenditure were observed. Therefore it was observed that the budget had not been made use of as an effective tool of control.

(b) The budgeted revenue of 07 sub items relevant to 04 revenue heads amounted to Rs.12,480,491 and the relevant percentage of revenue collection was 0%.

(c) An unbudgeted revenue of Rs.580,284 had been earned from 05 sub items relevant to 04 revenue heads.

4.2. Unresolved and Unanswered Audit Queries

Answers had not been provided for 07 audit queries as at 31 December 2013.

4.3. Procurement Plan

A procurement plan had not been prepared regarding the purchases and constructions of the Sabha.

4.4. Audit and Management Committees

Audit and Management Committee had not been established in the institution.

3.5. Internal Audit

Adequate internal audit had not been carried out by the Sabha.

5. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- a) Internal Control
- b) Revenue Administration
- c) Debtors and Creditors Control
- d) Assets Management
- e) Contract Administration
- f) Stocks Control