

Galewela Pradeshiya Sabha

Matale District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 16 April 2014. The Auditor General's Report relating to the year under review was sent to the Secretary to the Sabha on 06 August 2015.

1.2 Opinion

I am of opinion that except for the effect on the financial statements of the matters referred to in paragraph 1.3 of this report, that the financial statements had been prepared in accordance with Generally Accepted Accounting Principles, give a true and fair view of the state of affairs of the Galewela Pradeshiya Sabha as at 31 December 2014 and financial results of its operation for the year then ended and cash flows.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies are observed in audit.

- (a) Action had not been taken even during the year under review to settle the difference of Rs. 2,306,909 between the Contribution from Revenue to Capital Outlay Account and the total of Fixed Assets exist since past 11 years.

- (b) The Debtors Balance Receivable totalling Rs.7,075,712 and Creditors Balance of similar value as well as the value of 99 Compost Bins in the possession of the Sabha amounting to Rs.232,650 had been omitted in the financial statements.
- (c) The value of the Electricity Generator Machine amounting to Rs.1,715,950 not purchased had been accounted causing overstatement of Debtors and Creditors balances in a similar value in the financial statements.
- (d) While the Asian Development Bank Loan Balance had been overstated in a sum of Rs.41,156 in the financial statements, the loan installments and interest relevant to the year under review had been unde stated.in a sum of Rs146,587.
- (e) The contribution of Rs.2,054,440 payable to the Local Government Pension Fund relevant to past years had been debited to the Revenue and Expenditure Account causing overstatement of expenditure for the year to the extent of that value.
- (a) Value of 281 Galvanized Pipes amounting to Rs.311,067 received from the Ministry of Provincial Councils and Regional Development had not been accounted.

1.3.2 Un-reconciled Control Accounts

Discrepancies amounting to Rs.219,018,117 were observed between balances of 04 items of accounts totalling Rs.262,401,269 shown in the financial statements and balances shown in the relevant subsidiary registers and records.

1.3.3 Accounts Receivable

While the total of 10 balances of Accounts Receivable as at the end of the year under review amounted to Rs.66,705,840, five balances that had elapsed more than 05 years included therein amounted to Rs.782,898.

1.3.4 Accounts Payable

While the total of 03 Creditors' Balances Payable as at the end of the year under review amounted to Rs.66,843,088, a balance that had elapsed more than a year included therein amounted to Rs.2,054,440.

1.3.5 Lack of evidence for audit

Transactions totalling Rs.144,235,221 relevant to 10 items of accounts could not be satisfactorily vouched in audit, due to non-submission of required information to audit.

1.3.6 Non-compliance with Laws, Rules and Regulation etc.

Following instances of non-compliances were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
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Financial Regulations of the Republic of Sri Lanka

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| (i.) Financial Regulation 189 | - Although 03 cheques amounting to Rs. 60,517 received during the past 03 years had been dishonored, action in terms of the regulation had not been taken. |
| (ii.) Financial Regulation 570 and 571 | - Action in terms of the regulation had not been taken with regard to Deposits totalling Rs.1,579,021 which had elapsed 02 years. |

1.3.7 Transactions not confirmed with Adequate Authority

Expenditure amounting to Rs. 55,040 had been incurred for receptions, without prior approval of the Minister, contrary to provisions in Section 132(a) of the Pradeshiya Sabha Act No. 15 Of 1987.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabah for the year ended 31 December 2014 amounted to Rs. 9,836,141 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 4,562,387. When compared with the preceding year, an improvement of Rs. 5,273,754 was shown in the financial results for the year under review.

2.2 Revenue Administration

2.2.1 Rates

While the Balance of Rates in Arrears amounted to Rs. 956,295, balances that had elapsed a period of more than one year amounting to s. 169,075 were included therein.

2.2.2 License Fees

Although the Balance of License Fees in Arrears which is being bought forward from a period prior to 05 years amounted to Rs.691,370, steps had not been taken to settle that balance even during the year under review.

2.2.3 Lease Rent

- (a) While action had not been taken to revise the Lease Rent of 06 Trade Complexes in terms of provisions in Paragraphs 02 and 08 of the Circular No. 1980/46 dated 31 December 1980 of the Commissioner of Local Government, although 14 years had elapsed after the assessment, it had been allowed to carry on business in 43 trade stalls belong to the Sabha based on the basis of agreements entered into during a period ranging from 8 to 28 years in the past, without taking action to renew the agreements.

- (b) While the Balance of Lease Rent in Arrears amounted to Rs. 127,775, a balance of Meat Stalls Rent in Arrears amounting to Rs. 84,580 due to be recovered for a period prior to the year 2004 was included therein.

2.2.4 Court Fines and Stamp Fees

A sum of Rs. 2,965,050 on account of Court Fines and a sum of 7,044,363 on account of Stamp Fees were due to be recovered as at 31 December of the year under review, from the Chief Secretary of the Provincial Council and other authorities.

2.2.5 Other Revenue

Charges in terms of Section 149 of the Pradeshiya Sasha Act No. 15 of 1987 had not been recovered from a hotel registered in the Sri Lanka Tourism Promotion Board.

2.3 Surcharges

A sum of Rs. 226,000 was outstanding to be recovered relevant to surcharges imposed during the past years in terms of provisions in Section 172(3) of the Pradeshiya Sabha Act No. 15 of 1987.

3. Operating Review

3.1 Performance Evaluation

While the total recurrent expenditure relevant to the year under review was Rs. 47,685,473, out of that, a sum of Rs. 25,454,811 or 53 per cent of that had been spent for salaries and wages. Out of that, a sum of Rs. 5,575,257 had to be met out of the Sabha Fund due to non-reimbursement.

3.2 Management Inefficiencies

While first floor of the New Trade Complex had been leased to the Kandurata Development Bank during the year 2008 without proper approval, a loss of Rs. 513,000 had occurred to the Sabha, due to failure in revision of the lease amount after 05 years. It had been allowed to get the electricity connection in favor of the Kandurata Development Bank as well, without getting it in favor of the Sabha.

3.3 Operational Inefficiencies

Out of the 220 Building Applications received during the year under review and the preceding 02 years for approval of Building Plans in terms of Section 21 of the Urban Development Authority Act No.41 of 1978, although approval had been granted for 126 applications, certificates of conformity had been issued for only 32 applications.

3.4 Idle/Under-utilized Assets

Two Vehicles costing Rs. 597,400 had remained idle during a period of more than a year.

3.5 Identified Losses

A shortage of 76 pipes costing Rs. 84,132 out of the Galvanized Pipes provided through the Ministry of Provincial Councils and Regional Development during the month of December of the year under review was observed.

3.6 Improper Transactions

Eighteen employees had been recruited and engaged in service without obtaining proper approval in terms of Section 19(1) (i) of the Pradeshiya Sabha Act No 15 of 1987 and a sum of Rs. 2,090,307 had been paid as salaries and wages out of the Sabha Fund.

3.7 Contracts Administration

Following matters were observed.

Source of Provision	Nature of Work	Amount Spent	Date of Inspection	Observations
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		Rs.		
(a.) Provisions under, "One job for one village programme" of the Ministry of Economic Development	Development of Yatiwehera Gamameda Road	516,099	23.02.2015	Although payments had been made 36.2 cubic meters of concrete, only 25.9 cubic meters had been used and therefore a sum of Rs.130,109 had been over paid for 10.3 cubic meters.

(b.) Provisions under, “One job for one village programme” of the Ministry of Economic Development	Concreting Yatiwehera Elampothe Road	437,549	23.02.2015	Although payments had been made 33.42 cubic meters of concrete, only 29.5 cubic meters had been used and therefore a sum of Rs.49,764 had been overpaid for 3.92 cubic meters.
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3.8 Solid Waste Management

While 02 Waste Deposal Drains with a covering and a yard for sorting out wastes had been constructed under Rs. 03 million grants received from the Central Province Environment Ministry during the year 2010, the target had been to produce compost and market by using about 2.5 tons of waste accumulating daily. While the Drain No. 02 Out of the 02 Drains in the Centre had been filled with rain water completely, and was in ineffective condition, the Drain No. 01 too had been filled with wastes completely. Due to that wastes had not got decomposed and the Project was in ineffective condition.

4. Accountability and Good Governance

4.1 Internal Audit

A system of Internal Audit had not been implemented in terms of Rule 5 (7) of the Financial and Administrative Rules Series of 1988.

4.2 Audit and Management Committee

Although Audit and Management Committees should be established as per Letter No.CPC/CLG//1/9/1/4 dated 08 August 2014 of the Commissioner of Local Government, Steps had not been taken to establish those Committees even up to the end of the year under review.

4.3 Budgetary Control

- (a) While any revenue had not been earned from estimated revenue amounting to Rs.38,810,000 relating to 14 Items of Revenue, there were variations in a range of 9 to 67 per cent between the estimated and actual revenue of another 10 Items of Revenue.
- (b) While the entire provision of Rs. 533,000 made available for 10 Items of Expenditure had been saved, there were variations in a range of 9 to 97 per cent between the net provision and actual expenditure in another 30 Items of Expenditure.
- (c) Even after making amendments to the budget during the year under review, material differences were observed between the budgeted and actual revenue and expenditure and therefore it was observed that, the Budget had not been made use of as an effective tool of management.

5. Systems and Controls

Special attention of the Sabha is needed in the following areas of controls.

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Assets Management
- (d.) Debtors and Creditors Control
- (e.) Creditors Control