

## **Bulathkohupitiya Pradeshiya Sabha**

### **Kegalle 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 31 March 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 08 July 2015.

##### **1.2 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 Bulathkohupitiya Pradeshiya Sabha at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards of Sri Lanka.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Deficiencies**

Following matters are observed.

- (a) Out of the stores materials purchased during the year, materials costing Rs. 684,023 to be adjusted to Supplies and Equipment Account had been erroneously credited to the Contribution from Revenue to Capital Outlay Account. Due to this, deficit for the year and the Contribution from Revenue to Capital Outlay Account had been overstated to that extent.
- (b) Out of the stationery purchased during the year, items costing Rs. 176,425 to be adjusted to Supplies and Equipment Account had been erroneously credited to the Contribution from Revenue to Capital Outlay Account. Due to this, deficit for the year and the Contribution from Revenue to Capital Outlay Account had been overstated to that extent.
- (c) When correcting the errors in accounting for stores materials and stationery pointed out by audit under accounting deficiencies during the year 2013,

values totalling Rs. 286,087 to be adjusted to the Accumulated Fund had been erroneously credited to Supplies and Equipment Account. Due to that deficit for the year had been understated to that extent.

- (d) When correcting the errors in accounting for furniture valued at Rs. 149,608 received as donations by crediting the Capital Grants Account, pointed out by audit under accounting deficiencies during the year 2013, that amount to be adjusted to the Accumulated Fund during the year 2014, had been erroneously debited to the Capital Grants Account. Due to that deficit for the year had been overstated to that extent.
- (e) Goods valued at Rs. 123,070 issued in favor of individual names had been removed from the Furniture and Fixtures Account. Due to that assets had been understated to that extent.
- (f) Although the Stamp Fees to be received for the period from August 2013 to August 2014 was Rs. 3,258,147, it had not been accounted as Revenue and Revenue Receivable.
- (g) Stamp Fees to be received from September to December 2014 had not been estimated and accounted.
- (h) Value of 14 Items of Furniture and Equipment amounting to Rs. 140,715 had been understated in the accounts.
- (i) Revenue to be received to the Sabha as Court Fines through Kegalle and Ruwanwella Magistrate Courts totalling Rs. 430,217 had not been accounted as Revenue Receivable.
- (j) While a sum of Rs. 951,856 had been debited to Accumulated Fund and Deficit Account without action being taken to find out the reasons for the difference between the Fixed assets Account and the Contribution from Revenue to Capital Outlay Account, suitable adjustments had not been made with regard to the further difference of Rs. 630,134 remained not cleared.

- (k) Although the sum of Rs.145,986 spent for making racks in the Record Room during the year under review should be capitalized, it had been written-off under Supplies and Equipment. Due to that, deficit for the year had been overstated to that extent.
- (l) While a payment of Rs.50,100 had been made out of the Sabha Fund for the purchase of a Lap Top Computer during the year, instead of capitalizing it under Machinery and Equipment, it had been written-off as expenditure under Supplies and Equipment.
- (m) While Interest for the loans obtained from the Local Loans and Development Fund relevant to the year 2014 was Rs. 296,509, Loan Installment had been Rs.450,388. The entire sum payable had been accounted as expenditure, instead of accounting only the interest amounting to Rs. 296,509 as expenditure. Due to that, deficit for the year had been overstated in a sum of Rs.450,388.
- (n) Provisions for Liabilities totalling Rs.98,211 relevant to the year under review had not been made.

### **1.3.2 Non-reconciled Control Accounts**

While the total of balances relevant to 07 items of accounts according to financial statements was. Rs.17,778,653, according to the subsidiary registers and records relevant to those accounts the total of balances had been Rs. 17,877,227 indicating a difference of Rs.98,574.

### **1.3.3 Accounts Receivable and Payable**

- (a) The total of Accounts Receivable as at 31 December 2014 which had elapsed more than a period of 03 to 06 years was Rs. 24,443.
- (b) The Value of Accounts Payable as at 31 December 2014 which had elapsed more than a period of 03 to 04 years was Rs. 3,588,424.

#### **1.3.4 Non-compliance with Laws, Rules and Regulations**

Non-compliance with the provisions of the following laws, rules, regulations and management decisions were observed in audit.

<b><u>Reference to Laws, Rules, Regulations etc.</u></b>	<b><u>Non-compliance</u></b>
(a.) Financial Regulations of the Republic Sri Lanka F.R. 571	- Action had not been taken with regard to time lapsed Deposits totalling Rs.6,138,845 relevant to the period from the year 2006 to the year 2010. While pre-paid amounts on the basis of key-money for the trade stalls in the public market amounting to Rs. 4,757,859 too were included in these deposits, it was revealed that those monies were spent for construction of the trade stalls and those deposits had not been settled through the Deposits Account.
(b.) Code of Financial Rules of the Provincial Council in Sabaragamuwa Province Rule 261.2.2	- A sum of Rs. 69,038 paid in September 2012 had not been settled up to the time of audit.
Rule 283.4	- Action in terms of Provincial Financial Rules had not been taken with regard to 06 cheques totalling Rs.43,824 issued, but not presented for payment.

(c.) Code of Procurement Guidelines 2006

Clause 3.9.1

- Provisions amounting to Rs. 3,244,642 had been made available for construction of the Waste Management Project under the Pilisar Project of the Central Environmental Authority. Although it had been stipulated that the Government approved procurement procedure should be followed for the construction work of the project, contrary to that, contracts had been awarded to 4 approved societies exceeding the maximum limit of Rs. 2,000,000 allowed for approved societies by splitting the construction works to 4 parts, deviating from the procurement procedure.

**2. Financial Review**

**2.1 Financial Results**

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2014 amounted to Rs.4,513,231 as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.1,352,552 indicating a decline of Rs.5,865,783 in the financial results for the year under review.

**2.2 Analytical financial Review**

Decrease of revenue in 03 Items of Revenue and increase of expenditure in 06 Items of Expenditure had mainly affected the decline of the financial result in a sum of Rs.5,865,783 for the year under review.

## **2.3 Revenue Administration**

### **2.3.1 Performance of Collection of Revenue**

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

<b>Source of Revenue</b>	<b>Arrears as at 01.01.2014</b>	<b>Recoveries out of Arrears as at 31.12.2014</b>	<b>Billings during the year</b>	<b>Recoveries out of billings for the year</b>	<b>Recoveries out of arrears as at 01.01.2014</b>	<b>Out of billings for the year</b>	<b>Total Arrears</b>
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
(i) Rates and Taxes	190	119	1,061	975	71	96	167
(ii) Lease Rent	-	-	2,540	2,540	-	-	-
(iii) Licence Fees	-	-	190	190	-	-	-
(iv) Other Revenue	-	-	80	633	-	-	-

Although the amount receivable as Rates and Taxes as at 31 December 2014 according to the statement of arrears furnished by the Sabha was Rs. 167,000, according to the Account, that balance had been Rs. 226,068.

### **2.3.2 Rates**

Action had not been taken to recover Balances of Rates amounting to Rs 92,295 outstanding over a period ranging from 01 year to 09 years.

### **2.3.3 Advertisement Boards Charges**

While the recovery of Advertisement Boards Charges during the year under review at a low level, a minimum revenue of Rs.15,065 only had been recovered for 10 Advertisement Boards.

## **3. Operating Review**

### **3.1 Management Inefficiencies**

Following matters are observed.

- (a) While 10 trade stalls in the newly constructed Public Market Complex had been leased out since the year 2011, a sum of Rs. 10,190,000 had been obtained as key money for construction of those trade stalls. While it had been recommended to lease out a trade stall in the upper floor at Rs. 5,000 per a

trade stall and Rs. 7,500 per trade stall in down floor, according to the assessment report dated 03 November 2010 of the Sabaragamuwa Provincial Valuer, it had been mentioned that, the assessment is effective for a period of three years. However, at the General Sabha Meeting held on 24 November 2010, it had been unanimously decided to recover Rs. 1,250 for each trade stall. Accordingly, a loss of Rs. 2,400,000 had occurred to the Sabha by leasing out the trade stalls during the period from January 2011 to December 2014.

- (b) Although a sum of Rs. 30,000,000 had been paid to a private land lord to purchase a land for construction of a Pre-school and an Ayurvedic Centre, action had not been taken to obtain an assessment report from the Chief Valuer. It had not been included in the Register of Fixed Assets.

### **3.2 Operational Inefficiencies**

Following matters are observed.

- (a) Staff Security Deposits amounting to Rs. 47,700 had been withheld in the General
- (b) Action had not been taken to recover dormant Staff Loan balances of 03 officers left on transfers totaling Rs. 56,380.
- (c) The sum of Rs. 30,000 received from the Environmental Ministry on 21 May 2014 for the purchase of Waste Bins had been taken to revenue of the year 2014 without fulfilling the relevant work.

### **3.3 Contracts Administration**

Following matters are observed.

- (a) The Road from Peragas Handiya via Urumeewala Achmeerwatta which is an access road to a private rubber land had been concreted to a length of 105 feet by spending a sum of Rs. 196,450 where there was no any beneficiary.
- (b) A retaining wall to a length of 6 meters had been constructed in the compound of the house situated on the right side of the place beginning from the Devale

Road, under the concreting and construction of the retaining wall of the Amuwakka Devale Road by spending a sum of Rs. 100,000. It was observed at the field inspection carried out on 18 March 2015 that large stones had been used, although it was required to use 6” x 9” stones and that the construction had been made without a final touch.

- (c) While a sum of Rs. 700,000 had been approved for concreting Veedachchi Hena Road under the provisions of the Ministry of Economic Development, a concrete retaining wall had been constructed for a precipitous bend of the road; a number of damaged spots similar to “beehives” were seen on the surface. It was observed that surface of the concretes was not with a smooth finish, due to improper fixing of framing planks used before concreting.
- (d) Concrete had been applied to a length of 54 feet in the Yatawatta Sub Road with many precipices having spent a sum of Rs. 100,000. It was observed that a part of the concreting had been washed out due to water flow along the road.
- (e) While the Viyalawatta Road had been concreted to a length of 54 feet by spending a sum of Rs. 100,000, 4 places at the beginning of the road had been broken due to movement of heavy vehicles on the road. A Board had not been fixed on the road to prevent movement of heavy vehicles.
- (f) While construction of the Solid Waste Management Project amounting to Rs. 3,244,642 had been assigned to approved societies, an amount equal to 20% of the agreement value had been paid as Mobilization advance without any approval. Any security bond had not been obtained for that.
- (g) While it had been agreed that the Production of Compost should begin within 2 weeks from the after completion of the constructions as per Clause 2.22 in the agreement signed between the Chairman of the Central Environmental Authority and the Chairman of the Pradeshiya Sabha, production of compost of the Compost Project completed on 8 June 2013 had not been commenced up to 18 March 2015.



(h) Provision amounting to Rs. 3,000,000 had been made available to the Pradeshiya Sabha under the National Program for Strengthening Pradeshiya Sabha. It was required to prepare the estimates not with the objective of making profits in implementation of these Projects, and should be implemented through the Maintenance Unit of the Sabha using direct labor. However, a sum of Rs. 176,516 on 24 November 2014 and another sum of Rs. 246,368 on 17 December 2014, totaling to Rs. 422,884 had been paid to Pannala Rural Development Society for repairing the Pannala Public Latrine, contrary to the Circular. Although these funds should be spent only for identified Projects, a sum of Rs. 362,152 had been paid for General Expenses of the Sabha, contrary to the circular instructions.

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

##### **4.1 Internal Audit**

An adequate internal audit had not been conducted with regard to finance and stores in terms of Rule 5 (7) of the Pradeshiya Sabha (Financial and Administrative) Rules series of 1988.

##### **4.2 Budgetary Control**

Out of the provisions made available through the Budget for 2014, the entire provision of Rs.39,600 had been saved in 11 instances.

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

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management