

**Nivithigala Pradeshiya Sabha**

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**Ratnapura District**  
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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**  
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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 24 April 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 20 July 2015.

**1.2 Opinion**

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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 Nivithigala Pradeshiya Sabha as at 31 December 2014 and its financial performance and for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.3 Comments on Financial Statements**

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**1.3.1 Accounting Deficiencies**  
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Following deficiencies were observed.

- (a.) Provision for Creditors totalling Rs. 680,975 as contribution to Pension Fund for the year under review amounting to Rs. 640,975 and for supply of material for a cremation amounting to Rs.40,000 had not been made.

- (b.) A difference of Rs. 423,138 was observed between the Votes Ledger and the financial statements relevant to 09 items of expenditure.
- (c.) Provision for Creditors amounting to Rs. 61,495 on account of interest in arrears payable relevant to the year under review in respect of the loan obtained from the Local Loans and Development Fund for construction of the Public Market had not been made.
- (d.) Revenue received amounting to Rs. 326,000 on sale of Capital Assets during the year under review had not been recorded in the Statement of Revenue and Financial operations. Due to that, a difference of Rs. 326,000 was observed between surplus for the year and the balance according to the Statement of Financial Operations.

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

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The difference between the balances according to Financial Statements as at 31 December 2014 relevant to 05 items of accounts and the balances according to the Subsidiary Registers amounted to Rs. 9,491,711.

### **1.3.3 Lack of evidence for Audit**

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Following observations are made.

- (a.) Although the value of Fixed Deposits Investments of the Sabha as at 31 December 2014 was Rs.1,748,344, according to the bank certificate relating to Fixed Deposits that value had been Rs.528,650 and therefore Deposit Certificates or Confirmation Certificates through the bank had not been furnished to audit for Investments valued at Rs. 1,219,694.
- (b.) Although the Creditors balance as at the end of the year under review was Rs.9,795,313, according to Creditors Register that balance had been Rs.8,510,638. Accordingly, details of Creditors amounting to Rs. 1,284,675 were not furnished to audit.

### 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.) Pradeshiya Sabha Act No. 15 of 1987 Section 132 (a)	- Although written approval of the Minister should be obtained for expenditure to be incurred exceeding Rs.1,000 per annum for civic reception or work or incident or occasion of common importance, contrary to that, expenditure totalling Rs. 54,556 had been incurred in 07 instances.
(b.) Pradeshiya Sabha (Financial and Administrative) Rules of 1988 framed under Pradeshiya Sabha Act No. 15 of 1987	
(i.) Rule 161	- All ledger accounts relevant to Revenue and expenditure accounts had not been maintained.
(ii.) Rule 177	- Although purchase of materials and goods exceeding Rs. 5,000 should be made aft calling for quotations and decided by a tender board, contrary to that, purchase of library books having

spent a sum of Rs. 173,502 and repairs had been made having spent a sum of Rs. 147,190

(c.) Financial Regulations of the Republic of Sri Lanka

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(i.) Financial Regulation 371

- An advance of Rs. 200,000 given on 09 February 2010 had not been settled.

(ii.) Financial Regulation 571

- Action in terms of the Financial Regulation had not been taken with regard to 51 Deposit balances amounting to Rs. 342,831 being brought forward since the year 1993.

(iii.) Financial Regulation 1645

- Daily Running Charts duly completed relevant to all vehicles belong to the Sabha had not been submitted to the Auditor general.

(d.) Schedule V in the Special Gazette Notification No. 1597/08 dated 17 April 2009 of the Secretary to the Ministry of Urban Development and Sacred Lands

- Although a proper survey should be carried out with regard to Telephone Transmission Towers in the area of authority of the Sabha and charges specified should be recovered, such action had not been taken even up to time of audit in May 2015.

- (e.) Circular No. PE/01/01 dated 17 August 2010 of the Secretary to the Ministry Power and Energy
- Although a vapor lamp with maximum capacity of 110 Watts High Pressure could be fixed to an electrical post on “A” Grade Roads in business areas situated in a rural area, 08 sets of High Pressure Street Lamps of 250 watts valued at Rs. 119,200 had been purchased disregarding the Circular.

## **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 for the year ended 31 December 2014 amounted 3,130,970 as against the excess of recurrent expenditure over revenue for the preceding year amounted Rs.494,779.

### **2.2 Analytical Financial Review**

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Although the deficit of financial operations during the year 2013 was Rs. 494,779, operational results during the year 2014 had been a surplus of Rs. 3,130,970 reflecting an improvement of 733per cent in the financial results during the year. It was due to the increase in Rates, Rent Income, License Fees and Other Revenue during the year under review when compared with the preceding year.

## 2.3 Revenue Administration

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### 2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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Information furnished relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

<b>Item of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Cumulative arrears as at 31 December</b>
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	Rs '000	Rs '000	Rs '000
(i.) Rates and Taxes	1,583	2,212	1,473
(ii.) Lease Rent	3,454	3,289	138
(iii.) License Fees	1,077	305	1.5
(iv.) Other Revenue	8,592	26,901	7,660

### 2.3.2 Performance in Revenue Collection

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When the estimated revenue for the year under review is compared with the revenue collected, a decrease of 12 percent 72 percent and 32 percent was reflected in the revenue collect relating to Rent, License Fees and Other Revenue respectively.

### 2.3.3 Rates

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While there was balance of Rates in Arrears amounting to Rs. 1,341,168 as at 31 December 2014, out that balances in arrear for more than 05 years amounted to Rs. 451,407.

#### **2.3.4 Acreage Tax**

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While there was balance of Acreage Tax in Arrears amounting to Rs.84,720 as at 31 December 2014, out that balances in arrear for more than 05 years amounted to Rs.34,772.

#### **2.3.5 Lease Rent**

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While the Chicken Stall had been leased out for a low monthly rent of Rs. 48,000 without calling for tenders during the year 2013, it had been decided to lease it for the highest bid of Rs. 399,600 having called for tenders during the year 2014. However, he had not come and it had been given to the second bidder for a sum of Rs. 342,000. While the relevant lessee had defaulted payment of lease money from February to April 2014 the said arrears sum of Rs. 94,050 (including 1 % liquidated charges) had not been paid up to the time of audit in May 2015, and legal action had not been taken to recover the said arrears of revenue.

#### **2.3.6 Other Revenue**

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Following observations are made.

- (a.) Although 19 applications had been received from 19 Three Wheeled Vehicle Associations for registration since the year 2011 up to the time of audit in May 2015, the Sabha had not implemented a proper scheme to generate income through three wheeler parking fees having imposed by-laws through a Gazette Notification.
  
- (b.) Although the charges for publicity advertisements had been fixed and published according to the Gazette Notification No. 1844 dated 03 January 2014 of the Republic of Sri Lanka, an adequate survey had not carried out in the area of authority of Sabha with regard to the advertisements and due to that, a small revenue such as Rs. 23,960 had been generated during the year 2014.

- (c.) An adequate survey had not been carried out in the area of authority of the Sabha with regard to business taxes industrial taxes. Although the taxes imposed should be paid before 01 April 2014 in terms of the Gazette Notification No. 1844 dated 03 January 2014 of the Republic of Sri Lanka, instances of non-compliance were observed. Legal action had not been taken with regard to the institutions defaulting or delaying the payments of taxes as indicated in the said Gazette Notification. While only recording of revenue received had taken place, necessary action had not been taken to recover revenue in arrears.

### **2.3.7 Court Fines and Stamp Fees**

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Following observations are made.

- (a.) Court Fines receivable from February to December 2014 amounting to Rs.831,292 up to the time of Audit in May 2015 had not been recovered.
- (b.) Although schedules relevant to Stamp Fees should be obtained from the Land Registry and revenue due should be accounted, action had not been taken for that.

## **3. Operating Review**

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### **3.1 Management Inefficiencies**

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Following observations are made.

- (a.) A two inch Diesel Engine, a two inch Diesel Engine Pump, a two inch Hose, 20 G.I. Pipes and a petal carried out by an ex-Chairman had not been returned back to the Sabha up to the time of audit in May 2015.
- (b.) Action had not been taken settle an advance of Rs. 66,976 paid as temporary pension up to the time of audit in May 2015.



- (c.) A sum of Rs. 244,627 as installment together with interest with regard to the loan of Rs. 4,000,000 obtained for the purchase of Backo Loader on 21 December 2006 payable as at 30 September 2011, and a sum of Rs. 717,052 as installments together with interest relevant to the period from the year 2012 to the year 2014 with regard to the loan of Rs. 1,500,000 obtained for the Public Market on 05 November 2002, payable to the Local Loans and Development Fund were in arrear up to the end of the year under review.
  
- (d.) Pallegedera Leather Products Work-Shop had been transferred to the Sabha from the Co-operative Department of the Sabaragamuwa Provincial Council on 30 October 2014. Although the electricity bills in arrears amounting to Rs. 37,284 had been settled, electricity connection had not been given at the time of physical inspection carried out on 21 May 2015. While action had not been taken to vest the land and building where this work-shop is in operation, even up to the date of audit, asset had not been recorded in the Inventory. Although a period of about 07 months had elapsed after transferring, a proper scheme had not been introduced to make it active and generate income.

### **3.2 Operational Inefficiencies**

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Following observations are made.

- (a.) While only 73 Cemeteries out of the Cemeteries situated within the Sabha limit had been identified, action had not been taken to carry out the survey works, vest properly and document 57 Cemeteries in extent more than 46 acres
  
- (b.) In purchasing street lamps and equipment valued at Rs. 37,540 for street lighting in the area of authority of the Sabha, it was observed that action had not been taken to identify the street lamp requirements in the area after carrying out a survey. The prior recommendations of the Technical Officer of the Sabha too had not been obtained for the purchase.

- (c.) While a Register of Vehicles belongs to the Sabha had not been maintained properly, responsibility relating to each vehicle had not been assigned formally in writing to the driver with the Inventory.
- (d.) Although there should be certificate before repairs and after repairs of vehicles, to ensure that the repairs have been done properly, such action had not been taken with regards to repairs amounting to Rs. 359,020.

### **3.3 Improper Transactions**

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- (a.) A sum of Rs.196,440 had been paid out of the Sabha Fund on behalf of two Members of the Sabha for a 05 days foreign tour organized by a private organization without a formal letter of invitation. This payment was contrary to provisions in Paragraph 05 Circular No.M.F.P01/2010/01 dated 11 October 2010 of the Secretary to the Ministry of Finance and Planning and Secretary to the Treasury and provisions in Circular No.PL/07/01/05/26 dated 09 September 2010 of the Secretary to the Ministry of Provincial Councils. While these Members had gone abroad without prior approval of the Governor bills had not been furnished for the incidental expenses paid amounting to Rs.79,500.
- (b.) In purchasing various goods amounting to Rs.1,257,212 during the year under review, while it had not been examined whether goods supplied were up to the laid down specifications and conform to other conditions in terms of Guideline 8.12.3 of the Government Procurement Guidelines, those goods had not been subject to evaluation by a Technical Evaluation Committee in terms Guideline 2.8.4 of the Code.
- (c.) While expenditure amounting to Rs.1,364,947 had been incurred for welfare works, purchases had not been made under a procedure of selecting beneficiaries after identification of the needs in advance and documentation for selecting beneficiaries. Proper follow up had not been made by the Sabha to ensure that goods were utilized for the relevant work after distribution.

### **3.4 Idle/Under-utilized Assets**

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While the Tractor bearing No.SG GX 4482 had been entrusted for repairs to the Kuruvita Development, Construction and Machinery authority on 23 August 2013, it had been informed during the year 2015 by the Authority, that it cannot be repaired. At the time of audit in May 2015, that vehicle had been parked in the Sabha land in idle condition.

### **3.5 Contract Administration**

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While a sum of Rs. 495,943 had been estimated for concreting difficult points from the main road via Henyaya near Paella up to Illukbuluwaththa under the provisions of the Ministry of Local Government, an expenditure amounting to Rs. 463,599 had been incurred. At the physical inspection carried in May 2015, it was observed that two sides of the road had not been filled with earth and leveled.

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

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### **4.2 Budgetary Control**

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Following observations are made.

- (a.) Provisions totalling Rs. 289,000 relevant to 06 Items of Expenditure had not been utilized for any work during the year under review and had been saved entirely.
- (b.) Expenditure amounting to Rs. 354,178 had been incurred in excess of the provisions relevant to 08 Items of Expenditure without obtaining budgeted or supplementary provisions.
- (c.) Over provisions amounting to Rs. 1,545,228 had been made for 04 Items of Expenditure due to making provisions without a proper plan.

- (d.) While out of the Items of Expenditure, provisions in a range from 30 per cent to 97 per cent relevant to 03 Items of Expenditure had been transferred to other Items of Expenditure, any expenditure had not been incurred from the balance provisions as well. Under these circumstances, the Budget had not been made use of as an effective tool of management.

## **5. Systems and Controls**

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Special attention is needed in the following areas of controls.

- (a.) Accounting
- (b.) Budgetary control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Contract Administration