

Galewala Pradeshiya Sabha
Matale District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2016 and the financial statements for the preceding year had been presented on 31 March 2015.

1.2 Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Galewala Pradeshiya Sabha as at 31 December 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Policies

Although it had been disclosed that the revenue of 10 revenue items had been brought to account on accrual basis, cash basis had been adopted to bring them to accounts.

1.3.2 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The differences existing between the total of fixed assets and the Revenue Contribution to Outlay Account for over 12 years amounted to Rs.2,306,910. Action had not been taken to settle these differences even during the year under review.
- (b) An expenditure of Rs.4,345,878 had been incurred on improvements to the building of the Sabha on 03 occasions during the year under review. This expenditure had not been capitalized.
- (c) Action had not been taken to assess the value of 80 crematoriums belonging to the Sabha with an extent of 109.5 acres and 25 perches and to include it in the accounts.
- (d) The land at Doraketiwala valued at Rs.600,000 had been obtained on a long term lease. This had not been disclosed in the financial statements by means of an accounting note.
- (e) The value of a galie bowser bearing No.WPRV-2765 amounted to Rs.3,000,000 as per register of fixed assets. However, this had been brought to account as Rs.300,000 resulting in an understatement of Rs.2,700,000.

- (f) An old water bowser, bearing no. 46-4418 the value of which could not be identified, had not been included in the register of fixed assets. This, as well as the grass cutter valued at Rs.97,850, bearing No. 52343 had not been included in the accounts.
- (g) The stock of accessories of water equipment of the Sabha as at 31 December of the year under review had been understated by Rs.676,585 in the financial statements.
- (h) The bank balance of work debtors receivable as at 31 December of the year under review, as per register of work, had been overstated by Rs.284,492 in the financial statements.
- (i) The credit balance of a project completed under the Provincial Council Members' Aid during the year under review had been overstated by Rs.175,043.
- (j) Non refundable deposits of Rs.41, 200 had been recovered from members of the library. This had been retained in the Deposit Account without being included under revenue.
- (k) The revenue relating to advertisement boards exhibited within the authoritative area of the Sabha and the revenue debtors had been understated by Rs.132,393.
- (l) A sum of Rs.2,717,250 had been obtained during the year from those who had furnished tenders for construction of the trade complex and a sum of Rs.7,218,237 had been paid for the said construction. Instead of including these in the accounts as capital receipts and capital expenditure respectively, these had been credited and debited respectively in the General Deposit Account. Meanwhile, the sum of Rs.15,584,000 receivable had not been shown under debtors.

1.3.3 **Unreconciled Control Accounts**

The following matters are observed.

- (a) The difference between balances of 03 items of accounts aggregating Rs.278,741,097 as per financial statements and the balances appearing in the corresponding subsidiary registers and reports amounted Rs.107,294,030.
- (b) A difference of Rs.2,935,427 was observed between the balances appearing in the accounts as at 31 December of the year under review and the stock balances appearing in the board of survey reports.

1.3.4 **Accounts Receivable**

Action had not been taken even during the year under review to settle the balances of 03 items of accounts aggregating Rs.1,086,634 which continued to be brought forward in the financial statements for a long time without change.

1.3.5 **Accounts Payable**

The balances of 02 accounts payable as at 31 December of the year under review amounted to Rs.13,981,626. Balances aggregating Rs.3,630,183 remaining unsettled for over one year had been included in this.

1.3.6 **Lack of Evidence for Audit**

The balance of 02 items of accounts aggregating Rs.12,982,570 could not be satisfactorily vouched in audit to non-remission of necessary information for audit.

1.3.7 **Non-compliance with Laws, Rules, Regulations etc.**

The following Instances of non-compliance with laws, rules, regulations detailed below were observed in audit.

<u>Reference to Laws, Rules, Regulations and Circular Provisions</u>	<u>Non-compliance</u>
(a) 1988 Pradeshiya Sabha valued (Finance and Administration) Rule 212	The purchase of stores materials at Rs. 364,905 had not been included in the books.
(b) Financial Regulations of the Republic of Sri Lanka	
(i) Financial Regulations 189	Action had not been taken with regard to 03 dishonoured cheques totally valued at Rs.60,517 received during the years 2003 – 2006.
(ii) Financial Regulations 570,571	Action had not been taken with regard to deposits of over 02 years totally valued at Rs.1,579,021.
(iii) Financial Regulation 1645	Daily running charrs and monthly performance summaries of 17 vehicles of the Sabha for the period 2012 to 2015 had not been furnished to audit.
(c) Public Finance Circular No. 4/2015 dated 14 July 2015	Insurance facilities should be obtained by calling for direct quotations. However, Insurance coverage had been obtained for Rs.431,376 on 07 instances from insurance agents without calling for quotations.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over of recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.10,369,664 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.9,836,141 resulting in an improvement in financial results of the year under review by Rs.533,523.

2.2 **Analytical Financial Review**

- (a) Increase in 02 items of revenue and decrease in 01 item of account had mainly attributed to the improvement in financial results by Rs.533,523.
- (b) A comparison of the recurrent revenue and expenditure of the year under review, as per programmes showed an excess of expenditure over revenue in 03 out of 06 programmes.
- (c) The excess of capital expenditure over the capital receipts of 03 programmes of the year under review amounted to Rs.9,526,899.

2.3 **Revenue Administration**

2.3.1 **Performance in collection of Revenue**

The following matters are observed.

- (a) Action had not been taken to rectify the inoperative water meters installed regarding the water supply maintained by the Sabha so as to increase its revenue from water. Instead, a fixed rate has been charged. The revenue from water for the year under review amounted to Rs.1,444,162 and the expenditure on water amounted to Rs.2,392,488. As a result, revenue could not be earned even to meet the expenditure.
- (b) Action had not been taken to revise the lease rent every 05 years so as to increase the revenue while giving the assets of the Sabha on lease.

2.3.2 **Rates and Taxes**

The arrears of rates and taxes as at 31 December of the year under review amounted to Rs.1,278,997. A balance of Rs.417,040 of over 05 years had been included in this

2.3.3 **Acreage Tax**

The following matters are observed.

- (a) The balances of arrears as at commencement of the year under review amounted to Rs.47,967. A sum of Rs.2,762 alone had been recovered during the year and it represented 5 per cent of the entire arrears.
- (b) The balance of acreage tax as at end of the year under review amounted to Rs.55,974. Balances of Rs.45,205 of over one year had been included in this

2.3.4 **Water Charges**

The arrears of balances of water charges as at 31 December of the year under review amounted to Rs.106,724. The balances of over one year amounting to Rs.49,322 had been included in this.

2.3.5 **Entertainment Tax**

The arrears of balances of entertainment tax which continues to be brought forward from prior to 10 years amounted to Rs.6,948. Action had not been taken to settle this balance even during the year under review.

2.3.6 **Licence Fees**

The arrears of balances of licence fees which continues to be brought forward from prior to 05 years amounted to Rs.691,370. Action had not been taken to settle this balance even during the year under review.

2.3.7 **Rent of Meat Stall**

The arrears of balance of meat stall which continues to be brought forward from prior to 05 years amounted to Rs.84,580. Action had not been taken to settle this balance even during the year under review.

2.3.8 **Advertisement Board Fees**

The sum of Rs.132,393 had not been recovered on behalf of the advertisement boards exhibited within the authoritative area of the Sabha in terms of sub section XXX of 7(f) Section 126 of the Pradeshiya Sabha Act No.15 of 1987.

2.3.9 **Environmental Licence Fees**

Action had not been taken to examine and issue licences to 90 trade institutions within the authoritative area of the Sabha which should obtain environmental licences in terms of the National Environmental Act No.47 as amended by Acts No. 53 of 2000 and No.56 of 1988 along with the Gazette Extra Ordinary Notification No.1533/16 dated 25 January 2008.

2.3.10 **Lease Rent**

The following matters are observed.

- (a) Fifteen years had elapsed since the last revision of assessment of lease rent of 06 trade complexes belonging to the Sabha. However, action had not been taken to revise the lease rent and renew the agreements. Further, stalls cannot be sub let. However, the Sabha had not taken any action, whatsoever, regarding stalls entrusted to other persons.
- (b) Twenty six stalls of the new trade complex of the Galewala town had been given on lease at an estimated cost per stall without obtaining the assessment of the Department of Valuation. These lessees had not paid the key money payable as per agreements. As a result, a sum of Rs.6,120,025 remained receivable. However, no action had been taken against the violation of agreements.

- (c) A building belonging to the Sabha had been given on lease for establishing the Bim Saviya office at the rate of Rs.25,000 per month commencing 24 April 2013.

2.3.11 **Court Fines and Stamp Fees**

Court fines amounting to Rs.2,848,550 and stamp fees amounting to Rs.11,058,272 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review.

2.4 **Surcharges**

Surcharges amounting to Rs.118,100 was recoverable as at 31 December of the year under review with reference to surcharges imposed by me against those who were responsible In terms of provisions in the Pradeshiya Sabha Act No.15 of 1987.

3. **Operating Review**

3.1 **Management Inefficiencies**

The following matters are observed.

- (a) There were 16 vacancies and 12 excesses in the posts of the Sabha.
- (b) The land and buildings valued at Rs.522,091,000 had been included in the register of fixed assets without proper assessment.

3.2 **Operating Inefficiencies**

The following matters are observed.

- (a) The Road Development Authority had issued water supply equipment valued at Rs.1,173,405 to the Pradeshiya Sabha for usage when the water equipment gets affected during repairs to roads. The entire stock had been handed over to a labourer dealing with water supply without being issued on issue orders as and when required.
- (b) Construction materials valued at Rs.748,110 had been issued to a contractor during the year under 2015 to construct a community centre during the year under review. But, measurement reports or the report of the technical officer had not been available to confirm that those materials had been utilized for the construction. Action had also been not taken to acquire this community centre.
- (c) Water tanks and plastic chairs valued at Rs.746,295 had been purchased under the Provincial Council Members' Provision during the year under review for distribution among beneficiaries. According to the letter approving the provision, the distribution should have been completed by 15 November 2015. However, distributions had not been made even by 02 March 2016.

- (d) The motor grader had been used on requests made by various institutions and persons without preparing estimates and without proper approval. The expenditure incurred on fuel in this connection amounted to Rs.85,248.

3.3 **Transactions of a Contentious Nature**

The supervision relating to the water scheme maintained by a community organization in the authoritative area of Galewela was at a low level. As such, it had resulted in problems. Although this water scheme could be supervised so as to increase its revenue and thereby obtain necessary assets from the revenue concerned, such action had not been taken. Instead, a water motor and accessories had been purchased by spending Rs.254,555 from the general funds.

3.4 **Identified Lossess**

The following matters are observed.

- (a) A fish stall trade complex had been constructed in the Galewela town during 2015 by utilizing the general funds and the funds amounting to Rs.2,679,804 obtained from tenderers during the year under review. Approval had not been obtained from the related institutions to construct this trade complex. Instead, it had been constructed on the bank of a canal without the required standard. As a result, 02 stalls had been fully destroyed causing loss to the boundary of the canal during the rainy season and 03 other stalls had become unusable. It was revealed at the physical verification carried out on 27 November 2015 that the amount spent by the Sabha had become a loss.
- (b) Necessary action had not been taken with regard to the shortage of 26 iron bars valued at Rs.28,785 obtained from the Ministry of Provincial Councils and Local Government during the previous year.

3.5 **Assets Management**

The following matters are observed.

(a) **Idle and Under Utilized Assets**

The galie bowser bearing N o.WPRV-2765, valued at Rs.3,000,000 and the Kubota Hand Tractor bearing No.73-4153, valued at Rs.79,000 remained parked in the premises of the Sabha without being used.

(b) **Annual Board of Survey**

The board of survey for the year uder review had been conducted in January 2016. A subsequent verification carried out on 05 April 2016 revealed that a stock of water equipment at the stores valued at Rs.1,121,143 had been omitted during this board of survey. As a result, this board of survey report had become incomplete.

3.6 **Irregular Transactions**

The following observations are made.

- (a) A sum of Rs.28,500 had been paid for purchasing greeting cards contrary to Section 132 of the Pradeshiya Sabha Act No.15 of 1987.
- (b) A person who had functioned as a contractor in various institutions had been recruited as a retired technical officer although he was not a public servant. A sum of Rs.251,600 had been paid to him as allowances for the period August 2014 to June 2015. However, the approval of the Commissioner of Local Government had not been obtained.
- (c) The appointment as a representative of the public of the Pradeshiya Sabha had ceased on 15 May 2015. However, fuel and telephone allowances had been paid to members for the entire month resulting in an overpayment of Rs.23,000.

3.7 **Contract Administration**

Renovations to the Tennakonepura Galwediyawa Road by spreading small stones

A sum of Rs.916,104 had been paid to spread 24,108 small stones at the rate of Rs.38 per unit for a distance of 602.7 metres of the said road which had been renovated under the Palath Neguma Provision. However, the amount required to be paid was Rs.852,188 for 22,462 small stones for a distance of 560.66 metres and as such a sum of Rs.65,916 had been overpaid. Further, there were pot holes in 02 places of the road where small stones had been spread.

3.8 **Solid Waste Material Management**

The Sabha had constructed 02 covered drains (100" x 25") and a garbage separation centre in 2010 utilizing the provisions of the Ministry of Environment, Central Province. A sum of Rs.700,000 had been spent to repair the roof of the compost division during the year under review. About 2.5 metric tons of garbage gets collected in the area of the Sabha. The decaying waste materials go to the drain. The functions of No.1 drain had not been carried out properly with regard to the decaying of garbage. The drain No.02 had been constructed in a low lying area allowing the rain water to flow over it and as such it had become inoperative. This project for which an extensive amount had been paid had become a failure.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Significant variances were observed between the budgeted and actual revenue and expenditure during the year under review, consequent to the transfer of provisions among the items of revenue and expenditure showing that the budget had not been utilized as an efficient instrument of management tool. The following matters are observed in this connection.

- (a) The entire provision made for 06 objects amounting to Rs.172,000 had not been spent.
- (b) Out of the provision made for 50 objects, a sum of Rs.4,285,500 had been transferred to other objects.

- (c) Variances of 9 to 180 per cent occurred between the net provision and the actual expenditure of 40 objects.

4.2 **Annual Procurement Plan**

The Pradeshiya Sabha had not prepared a procurement plan for the year under review.

4.3 **Internal Audit**

An internal audit unit was in existence as required by Rule 5(7) of the 1988 (Finance and Administration) Code of Rules. However, the internal audit officer had been assigned with other duties of the Sabha so that he could not carry out a successful audit.

4.4 **Audit and Management Committees**

Audit and management committees should be established in terms of the letter No. CPC/CLG/1/9/1/4 of 08 August 2014 of the Commissioner of Local Government . However, the committee concerned had not been established upto 31 December of the year under review.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Assets Management
- (c) Control over Vehicles
- (d) Revenue Administration
- (e) Debtors' and Creditors' control.
- (f) Human Resources Management