

Laggala-Pallegama 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 29 April 2016 and the financial statements for the preceding year had been presented on 20 July 2015.

1.2 Opinion

In my opinion, except for the effects of the matters shown in paragraphs 2.2 of this report, the financial statements give a true and fair view of the financial position of the Laggala-Pallegama 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 Deficiencies

The following matters are observed in audit.

- (a) The expenditure incurred on improvements made to the building of the Sabha during the year under review and the previous year amounted to Rs.17,400 and 367,500 respectively. These had not been capitalized.
- (b) The stock of the Sabha as at 31 December of the year under review amounted to Rs.154,610 as per register of stocks. This had not been included in the financial statements.
- (c) Action had not been taken to bring to account the value of 2 motor bicycles received during the previous year.
- (d) The balance of Rs.114,850 pertaining to the Current Account No.122-1-001-1-0000127 had been omitted in the financial statements.
- (e) Action had not been taken to bring to account the revenue receivable on behalf of advertisement boards exhibited within the authoritative area of the Sabha as at 31 December 2015.

- (f) Library books valued at Rs.75,743 purchased during the previous year had been capitalized as purchases of the year under review.
- (g) The amount received by auctioning goods during the year under review was Rs.38,430. This had been brought to account as revenue receivable instead of being accounted as revenue of the year.
- (h) Salaries of permanent employees reimbursable for the year under review amounting to Rs.276,000 had been brought to account as advances to be settled.
- (i) The closing stock as at 31 December 2015 amounting to Rs.294,058 had been computed by adding only the purchases of water equipment with the opening balance. The issues during the year had not been deducted and as such the stock in hand shown in the financial statements was not correct.
- (j) The water connection fees received during the year amounted to Rs.62,000. However, this had been brought to account as Rs.116,200 overstating the revenue of the year by Rs.54,200.
- (k) Action had not been taken to rectify the overpayment of Rs.13,069 which continued to be shown in the bank reconciliation statements for many years.

1.3.2 Unreconciled Control Accounts

Differences aggregating Rs.2,167,054 were observed between the balances of 10 items of accounts aggregating Rs.26,166,163 as per financial statements and the balances shown in the subsidiary registers and reports.

1.3.3 Suspense Account

The credit balance of Rs.1,839,420 of the Suspense Account shown in the financial statements as at end of the previous year continued to be shown as at end of the year under review too. Action had not been taken to identify the balance concerned to make necessary adjustments and to settle the accounts.

1.3.4 Accounts Receivable

Action had not been taken even during the year under review to settle the balances of 06 accounts receivable aggregating Rs.694,803 which continued to be brought forward in the financial statements for many years without change.

1.3.5 Accounts Payable

The balances of 04 accounts payable as at end of the year under review amounted to Rs.2,752,055. This remained unsettled for many years and action had not been taken to settle it even during the year under review.

1.3.6 Lack of Evidence for Audit

Transactions relating to 08 items of accounts aggregating Rs.8,203,868 could not be satisfactorily vouched in audit due to non rendition of necessary information for audit..

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

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

Reference to Laws, Rules, Regulations, Circulars etc.,	Non-compliance
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(a) Public Finance Circular No.04/2015 of 14 July 2015	Direct quotations should be called for, to obtain insurance facilities. However, insurance coverage for Rs.248,140 had been obtained on 09 instances through insurance agents without calling for quotations.
(b) Letter of the Secretary to the Ministry of Local Government and Democratic Administration No.PL/7/3 dated 22 May 2015	Two public servants who were members of the Sabha had obtained motor cycles from their permanent work places on a concessionary basis. In spite of this, they had obtained motor cycles from the Ministry of Local Government and Provincial Councils as members of the Sabha.

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 2015 amounted to Rs.3,031,210 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.2,580,853 resulting in an improvement in financial results of the year under review by Rs.450,357.

2.2 Revenue Administration

2.2.1 Lease Rent

The following matters are observed.

- (a) Out of the arrears of balances of Rs.132,410 as at commencement of the year under review a sum of Rs.43,900 alone had been recovered during the year and it was 33 per cent of the total arrears.
- (b) The arrears of lease rent as at end of the year under review amounted to Rs.89,630. This included a balance of Rs,88,510 of over one year.

2.2.2 Licence Fees

A survey relating to annual trade licences for the year under review had not been carried out. As such, the revenue billed could not be correctly confirmed.

2.2.3 Acreage Tax

The balance of acreage tax continued to be brought forward for over 05 years amounted Rs.60,368. Action had not been taken to settle this even during the year under review.

2.2.4 Water Charges

The balance of water charges as at 31 December of the year under review amounted to Rs.405,006. This included balances of Rs.272,887 of over one year.

2.2.5 Court Fines and Stamp Fees

Court fines amounting to Rs.738,734 and stamp fees amounting to Rs.704,946 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review.

2.2.6 Advertisement Board Charges

Bye-laws had not been framed to recover revenue on behalf of advertisement boards and as such revenue could not be recovered on behalf of advertisement boards exhibited at various trade organizations and centres within the authoritative area of the Sabha.

3. Operating Review

3.1 Management Inefficiencies

The following matters are observed.

- (a) Action had not been taken to obtain the approval of the Department of Local Government with regard to 06 officers who had exceeded the approved cadre as per Circular No'25/2014 of 18 November 2014 and to make them permanent. As a result, their salaries had not been reimbursed and the Sabha had to incur a monthly expenditure of Rs.240,396 from the funds of the Sabha.
- (b) Action had not been taken to fill 14 vacancies of 06 posts belonging to the Sabha.
- (c) The loan balances due from 06 officers who had gone on change of station transfers aggregated Rs.394,892. Action had not been taken to get these loans settled.
- (d) Salaries amounting to Rs.23,500 had been paid to 2 labourers as per check rolls on behalf 2 projects carried out under the Strengthening of Pradeshiya Sabha Programme. However, signatures acknowledging payments had not been obtained from the persons concerned.

3.2 Identified Losses

The properties of the Sabha had been insured through an agent. As a result, the Sabha had been deprived of earning the commission of Rs.24,814.

3.3 Contract Administration

The following matters are observed.

- (a) Fifty six ceiling sheets of 10 ft each had been given by spending Rs. 24,920 for the house of a person named Damith Anuruddha of No.96, Morathenna. But, 34 sheets only had been made use of. There was no evidence for the balance of 22 ceiling sheets.
- (b) Cement, metal, sand and stones had been purchased by spending Rs.25,000 and handed over to a person without preparing estimates to construct a private culvert at No.107, Daasgiriya under the Provincial Council Members' provision.
- (c) A sum of Rs.50,000 had been spent on 06 August 2015 to purchase asbestos sheets to construct the library building of the Sasanarathna Pirivena under the Provincial Council members' provision without preparing an estimate. The sheets had not been fixed on the roof even by 19 November 2015.

- (d) A provision of Rs.10,000,000 had been obtained by the Sabha during the year under review under the Strengthening of Pradeshiya Sabha Programme and it was proposed to repair the Ilukkumbura and Kahagala water projects, improvements to the road leading from Rankinda to Meda Ela and to improve the Haththota Amuna sub office and to repair the libraries at Guruwela and Illukkumbura. An evaluation report of the estimated materials and labour had not been prepared by identifying the work needed to be fulfilled. A report consisting of materials, labour and fuel only had been prepared after completion of the project.
- (e) A decrease in expenditure amounting to Rs.216,662 representing 40 per cent was observed between the estimated and actual expenditure with regard to the improvements to the road leading from Rankinda to Meda Elagama under the Strengthening of Pradeshiya Sabha Programme.
- (f) Although bye-laws had been framed to recover charges for parking vehicles within the authoritative area of the Laggala – Pallegame Pradeshiya Sabha, action had not been taken accordingly.
- (g) The name boards relating to the Projects constructed under the Ministry of Economic Development in 2014 should have been included in the estimates. However, the contract for fixing the name boards had been entrusted to a society and a sum of Rs.258,700 had been paid stating that the name boards had been fixed.

3.4 Assets Management

(a) Idle and Under Utilized Assets

The following matters are observed.

- (1) An electricity generator and a block stone producing machine valued at Rs.250,000 and Rs.85,000 respectively remained in the premises of the Sabha without being used.
- (11) A Kubota tractor bearing No.49-1968 remained parked in the premises of the Sabha since 2014 without being used.

(b) Annual Board of Survey

The board of survey for the year under review had been carried out in January 2016. But, it was observed at the audit inspection carried out on 02 May 2016 that a stock of water tubes and construction materials in the premises of the Sabha valued at Rs.133,075 had not been subjected to this board of survey.

4. Good Governance and Accountability

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual revenue and expenditure consequent to the transfer of provision between the revenue and expenditure items. Thus, it was observed that the budget had not been utilized as an efficient instrument of management control. The following matters were revealed in this regard.

- (a) No expenditure, whatsoever, had been incurred from the provision of Rs.201,000 made for 16 objects.
- (b) Although revenue amounting to Rs.204,500 had been estimated for 07 objects, no revenue whatsoever, had been earned.

4.2 Annual Procurement Plan

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

4.3 Internal Audit

An internal audit was not in operation in terms of Rule 5(7) of the 1988 Pradeshiya Sabha (Finance and Administration).

4.4 Audit and Management Committees

Although action had been taken to establish Audit and Management Committees in terms of the letter No.CPC/CLG/1/9/1/4 of 08 August 2014 of the Commissioner of Local Government, action had not been taken to conduct committee meetings up to 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) Revenue Administration
- (c) Assets Management
- (d) Contract Administration
- (e) Control over vehicles
- (f) Debtors' and Creditors' Control
- (g) Stores Control