

Pallepola 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 07 April 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 28 June 2016.

1.2 Opinion

In my opinion, except for the effects on the financial statements of the matters shown in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Pallepola Pradeshiya Sabha as at 31 December 2015 and its financial performance and cash flows 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.

- (a) The capitalization of value of constructions of the Pallepola Week End Fair had been overstated by Rs.116,500 and the capitalization of value of constructions of the protective fence for the children's park had been understated by Rs.409,682.
- (b) The debtors' balance relating to the renovation of Week End Fair, Pallepola had been understated by Rs.288,589.
- (c) The revenue received by the Sabha from the project for improvements made to the road adjoining the Nilannoruwa Pansala under the Provincial Specific Development grant had been accounted as creditors. As result, the revenue of the Sabha had been understated by Rs.95,000 and the work creditors had been overstated by a similar amount.
- (d) A further sum of Rs.230,300 remained payable as at 31 December 2015 to the organization dealing with the contract of the project for removal of Yoda Nidikumba at the Nalanda. This had been understated and the amount reimbursable had been overstated by Rs.130,256.

- (e) Action had not been taken even by 31 December 2014 to remove from the accounts the sum of Rs.143,800 being the cost of buildings that had been demolished.

1.3.2 Accounts Receivable

The balances of 10 accounts receivable aggregated Rs.20,989,288. This included 08 balances aggregating Rs.763,245 which had exceeded a period of over 03 years.

1.3.3 Accounts Payable

The balances 12 accounts payable aggregated Rs.15,412,363. This included 05 balances aggregating Rs.1,876,265 which had exceeded a period of over 03 years.

1.3.4 Non – Compliance with Laws, Rules, Regulations and Circulars

The following observations are made.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Section 19(1)(i) of the Pradeshiya Sabha Act No.15 of 1987	Three employees had been recruited without the approval of the Commissioner of Local Government and a sum of Rs.505,000 had been paid as allowances.
(b) Rule 218 of 1988 Pradeshiya Sabha (Finance and Administration)	A survey of land and buildings had not been carried out after 1987.

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.6,629,934 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.3,310,597 showing an improvement in financial results of the year under review amounting to Rs.3,319,337.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

The following observations are made

(a) Tax on Sale of Land

Action had not been taken to recover Rs.38,625 out of the 1 per cent tax due from the sale of land named Pillewa of the Ekamuthugama Agalawatta Maha Kurumbura within the authoritative area of the Sabha.

(b) Environmental Protection Licences

According to the Gazette Extra Ordinary Notification No.1533/16 dated 25 January 2008 issued by the Minister of Environment and Natural Resources in accordance with the regulations framed under the National Environmental Acts No.53 of 2000 and No.56 of 1988, Environmental Protection Licences should have been issued to 8 business activities within the authoritative area of the Sabha which had obtained Trade licences. However, such licences had not been obtained.

(c) Water Charges

Action had not been taken to recover the balance of arrears amounting to Rs.133,134 due from 5 consumers of water of the Aluthgame Water Supply Scheme to whom supply of water had been disconnected.

(d) Rates and Taxes

The arrears of rates and taxes as at 31 December 2015 amounted to Rs.171,797. Action had not been taken to recover the rates and taxes in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987.

(e) Court Fines and Stamp Fees

The amount recoverable as court fines and stamp fees as at 31 December 2015 amounted to Rs.181,830 and Rs.8,139,347 respectively. The arrears of court fines of 26,000 for the year 2011 had been included in this.

(f) Other Revenue

The arrears of acreage tax and the garbage fees as at 31 December 2015 amounted to Rs.29,301 and Rs.72,456 respectively.

3. Operating Review

3.1 Management Inefficiencies

The following matters are observed.

- (a) Although there was a Superintendent of Works at the Pradeshiya Sabha, an allowance of Rs.32,252 had been paid to an outsider to prepare a building plan under the Pallepola Town Development Programme – 2015.
- (b) The land where the office of the Sabha is situated had not been legally acquired. As a result, legal fees amounting to Rs.161,500 had been paid from the funds of the Sabha upto 31 December 2015 on behalf of 2 cases filed against the Sabha.
- (c) A Becko machine had fallen on a house causing a loss amounting to Rs.212,734 and Rs.1,177,955 respectively to the house and the machine. Action had not been taken in this connection to determine the persons responsible for the accident in terms of Financial Regulation 104. Meanwhile, action had not been taken to repair the said house too.

3.2 Operating Inefficiencies

The following matters are observed.

- (a) A sum of Rs.1,249,840 had been spent to purchase necessary furniture and computer for the Information Technology centre in Pallepola town without making arrangements to establish the centre. Those items had not been fully utilized.
- (b) Action had not been taken to acquire the portion of land allocated for general purposes of the Sabha at the time of auctioning the land named Green Valley Gardens at Monarawila Werewaththegama.
- (c) Water meters had not been installed for the water supplied to 50 consumers. However, a fixed amount of Rs.200 per month had been recovered from them. Water meters of 173 consumers had malfunctioned. But, action had not been taken to repair them.

3.3 Irregular Transactions

- (a) Subsistence allowances of Rs.11,750 and mileage amounting to Rs.20,892 had been paid to the Superintendent of Works of the Sabha contravening the provisions and limitations referred to in the Circular No.2015/02 dated 12 March 2015 of the Commissioner of Local Government, Central Province.

- (b) Committee allowances of Rs.10,000 had been paid to 09 officers for attending 03 planning committee meetings conducted during office hours, deviating from the provisions in the letter No.05/01/119 60.00 of 26 February 1992 issued by the Director General of the Urban Development Authority.
- (c) A retired technical officer had been employed and a sum of Rs.172,000 had been paid to him as allowances upto April 2015 without taking action to obtain approval as required by the letter No. CPC/CMS/1/6/14 dated 21 October 2014 of the Secretary to the Ministry of Local Government, Central Province.
- (d) The advance paid for the preparation of the T.B.Tennakone Children's garden and the fence had not been deducted while making payments under the 2014 Provincial Upliftment Development Programme. Instead, the entire amount, including the retention money had been paid causing a loss of Rs.190,000.

3.4 Contract Administration

Approval for the provision of Rs.40,000,000 had been granted to implement 4 projects under the Pallepola Town Development. The construction work of the second stage of the multi purpose building proposed to be constructed with the provision of Rs.3,500,000 of the entire amount had not been commenced. Although a sum of Rs.649,551 and a sum of Rs.249,324 respectively had been spent on the improvements to the Urban Auditorium and the construction of the Information Technology Centre, the work had not commenced.

3.5 Assets Management

Idle and Under Utilized Assets

Action had not been taken to repair and make use of, or to dispose of, a cab and a hand tractor lying without usage for over 20 years.

4. Good Governance and Accountability

4.1 Budgetary Control

Transfer of provision had been made between the revenue and expenditure items during the year under review. Subsequently, significant variances were observed between the budgeted and actual revenue and expenditure. Thus, it was observed that the budget had not been utilized as an efficient instrument of management control. The variances between the estimated revenue and the actual revenue of 36 revenue items ranged from 33 to 1335 per cent whereas the variances between the estimated expenditure and the actual expenditure of 17 expenditure items ranged from 34 to 95 per cent.

4.2 Internal Audit

An internal audit method had not been adopted in terms of Rule5(7) of the Code of Rules, 1988 (Finance and Administration).

4.3 Audit and Management Committees

Action had not been taken to establish an Audit and Management Committee in terms of the Letter No. CPP/CL/1/9/1/4 of 08 August 2014 issued by the Commissioner of Local Government.

5. Systems and Controls

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

- (i) Accounting
- (ii) Revenue Administration
- (iii) Assets Management
- (iv) Human Resources Management