

Imbulpe Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 23 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 16 June 2016.

1.2 Qualified 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 Imbulpe 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 accounting deficiencies are observed.

- (a) Repayment of loan instalments of Rs.464,754 of the Local Loans and Development Fund had been brought to account as expenditure in the Financial Position Statement for the year ended 31 December 2015. As a result, the surplus of the year under review had been understated by a similar amount.
- (b) The balance of the Bank Account relating to the Environmental Account No.2247306 as at 31 December 2015 amounted to Rs.720,224. This had been brought to account as Rs.722,624 In the Financial Position Statement resulting in an overstatement of Rs.2,400.
- (c) The revenue from licence fees for the year under review amounted to Rs.96,800. This had not been brought to account under the recurrent revenue in the Financial Performance Statement.

- (d) The allowances paid to the Review Committee and the Licence Committee during the year under review amounted to Rs.12,400. This had not been brought to account under the recurrent expenditure in the Financial Performance Statement.
- (e) The stock balance as at end of the year under review amounted to Rs.2,017,202 as per register of stocks and the register of consumable materials. This had been entered as Rs.1,765,322 In the Financial Status Statement resulting in an understatement of closing stock by Rs.251,880.
- (f) The “G.I Cutting Machine” valued at Rs.14,200 had not been brought to account under the Machine and Machinery in the non current assets of the Financial Status Statement.
- (g) The revenue aid receivable of Rs.1,747,685 relating to salaries paid on the basis of obtaining reimbursements in December of the year under review had been correctly adjusted in the Salaries account of the General Ledger. But, this had been shown as Revenue Debtors in the Financial Status Statement.
- (h) The total value of buildings constructed, purchase of furniture and fittings and library books during the year under review amounted to Rs.3,542,029. This had been accounted as Rs.1,933,343. As a result, the non current assets had been understated in the accounts by Rs.1,608,686.
- (i) Computer accessories valued at Rs.400,904 had been donated by the Sri Lanka Information and Media Technology Agency Institute to the Nenasala Centre maintained by the Sabha. This had not been brought to account under the non current assets.
- (j) The sum of Rs.51,660 receivable as arrears of tax, fines and arrears of water charges on behalf of the lease of “Diyapahasa” Rest Room during the year under review had not been accounted as Accounts Receivable in the Financial Status Statement.
- (k) Expenditure payable for the year under review amounted to Rs.1,717,960. This had not been accounted for.
- (l) The balance of the library books account amounting to Rs.2,247,628 had been shown as Rs.1,536,439 in the Financial Status Statement resulting in an understatement of the value of library books in the accounts by Rs.711,189.
- (m) The total of the other revenue and revenue aid account appearing in the ledger amounting to Rs.17,393,795 had been shown as Rs.17,841,457 in the Financial Performance Statement. As a result, the revenue of the year under review had been overstated in the accounts by Rs.447,662.
- (n) The total of the other revenue and licence fees account appearing in the ledger amounting to Rs.788,749 had been shown as Rs.683,299 in the Financial Performance Statement. As a result, the revenue of the year under review had been understated in the accounts by Rs.105,450.

- (o) The interest paid to the local Loans and Development Fund for the year amounting to Rs.164,743 to be revealed as cash generated from operating activities in the cash flow statement of the year under review had been presented under the cash generated from financial activities.
- (p) The cash and cash equivalent of Rs.1,275,801 as at end of the period as per cash flow statement of the year under review had been brought to account as Rs.1,278,201. The difference observed amounted to Rs.2,400.

1.3.2 Unreconciled Balances of Accounts

The following matters are observed.

- (a) The balances of individual accounts in the register of General Deposits aggregated Rs.2,940,376. This had been accounted as Rs.2,675,809 in the Control Accounts under Miscellaneous Deposits. As a result, a difference of Rs.264,567 was observed between the Control Accounts and the register of individual balances.
- (b) The total of the register of advances amounting to Rs.7,447,173 had been accounted as Rs.5,493,505 in the Control Accounts. The difference observed between the Control Accounts and the register of advances amounted to Rs.1,953,668.
- (c) The security deposits of Rs.242,698 of the register of employees' security deposits had been accounted as Rs.295,059 in the Security Deposits Control Account. The difference observed between the Control Account and register of security deposits amounted to Rs.2,361.
- (d) According to the Bank Reconciliation Statements of Current Account No.0002247304 for the months of April, June, July and August 2015, a difference of Rs.95,609 was observed between the cash book balance and the balance of the Main Cash Book.

1.3.3 Accounts Receivable and Payable

The following matters are observed.

- (a) Motor Cycle loans amounting to Rs.1,560,000 had been granted to the members of the Pradeshiya Sabha in 2013 under the Provincial Council provision and a loan balance of Rs.44,216 was due from 07 members. Necessary action had not been taken to recover this up to 31 March 2016, the date of audit.
- (b) Twelve Development Programmes had been carried out in 2014 under the Village to Village, Door to door Programme for which a sum of Rs.4,200,813 had been paid from the funds of the Sabha. But, the amount concerned had not been reimbursed by the Department of Local Government even by 31 March 2016.

1.3.4 Lack of Evidence for Audit

Transactions amounting to Rs.9,029,726 could not be satisfactorily vouched in audit due to non rendition of necessary information.

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

The following non-compliances with Laws, Rules, Regulations and Management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Financial Regulation of the Republic of Sri Lanka	
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(i) No.571	Necessary action had not been taken to settle the deposits of Rs.2,675,809 of the General Deposit Account as at 31 December 2015.
(b) Financial Regulation Code of the Sabaragamuwa Provincial Council	
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Rule No.261.2.7	Necessary action had not been taken up to 30 March 2016, the date of audit, to settle the ad hoc imprests aggregating Rs.7,447,173 Issued since 2002.
(c) 1988 Pradeshiya Sabha (Finance and Administration Rules)	
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Rule 214	A board of survey had not been appointed to verify stores and materials valued at Rs.2,017,202 as at 31 December 2015.
(d) Government Procurement Procedure and Guidelines of 2006	
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Guideline 4.2.1(a)	The Pradeshiya Sabha had not taken necessary action to prepare the main procurement plan for the procurement activities expected for 03 years.

- (e) Treasury Circular No. 1A1/2002/02 of 28 November 2002 Action had not been taken to include the computers and accessories of the Sabha valued at Rs.659,022 in a register of assets.

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 Rs.9,520,754 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.9,039,252, resulting in an improvement in financial results of the year under review by Rs.481,502.

2.2 Analytical Financial Review

The increase in overall recurrent revenue of Rs.7,080,213 of the year under review as compared with the previous year and the decrease in expenditure on travelling amounting to Rs.538,862 as compared with the previous year had mainly attributed to the improvement in the above financial results.

2.3 Revenue Administration

2.3.1 Rates and Taxes

The balance of arrears of rates and taxes of 2013 and years prior to it amounted to Rs.53,568.44 per cent of this amounted to Rs.23,393. Meanwhile, the budgeted rates and taxes of the year under review amounted to Rs.111,305 and 13 per cent of this amounted to Rs.14,481. Necessary action had not been taken to recover this.

2.3.2 Acreage Tax

The balance of arrears of acreage tax of 2014 and years prior to it amounted to Rs.63,232, 96 per cent of this amounted to Rs.60,782. Meanwhile, the budgeted acreage tax of the year under review amounted to Rs.20,000 and 46 per cent of this amounted to Rs.9,409. Necessary action had not been taken to recover this.

2.3.3 Water Charges

The arrears of water charges of 2014 and years prior to it amounted to Rs.2,641,233. Necessary action had not been taken to recover 51 per cent of this amounting to Rs.1,341,452

2.3.4 Stamp Fees

The following observations are made.

- (a) Necessary action had not been taken to recover the stamp fees of Rs.8,883,725 receivable from January to December 2014 up to the date of audit of 30 March 2016.
- (b) Necessary action had not been taken to identify the stamp fees due for 2015 and to obtain it from the Chief Secretary of the Sabaragamuwa Provincial Council.

2.3.5 Court Fines

The court fines of 28 months from September 2013 to December 2015 aggregated Rs.1,065,617. Necessary action had not been taken to obtain this from the Chief Secretary of the Sabaragamuwa Provincial Council up to 30 March 2016, the date of audit.

3. Operating Review

3.1 Human Resources Management

There were 02 vacancies of Revenue Controllers according to the approved cadre and since 2014 their duties had been covered by a field labourer. As a result, it was observed that the budgeted revenue of the Sabha during the year under review could not be collected.

3.2 Contract Administration

The following matters are observed.

- (a) A sum of Rs.394,934 had been paid to renovate the Halpe Godathalawa Road by filling it with soil and by compacting it. 165 cubic metres of soil valued Rs.139,586 had been used for this. However, a road roller had not been used to compact the soil. As a result, the soil had been washed away and stones had erupted on the surface and the travelling had become difficult and risky and this was observed at a physical verification carried out on 22 June 2015.

- (b) An agreement had been signed on 11 September 2014 for Rs.980,000 for the construction contract of the Ratmalawinna Multi purpose building. The first stage of the building had been completed by 11 December 2014 by constructing the foundation of the building and 21 concrete posts. However, the building remained covered with shrubs from that day onwards and the iron bars at the top of the concrete posts had corroded. A physical verification carried out on 22 June 2015 revealed that the expenditure of Rs.255,045 incurred on this had become fruitless.
- (c) A sum of Rs.90,892 had been spent to renovate the 148th kilometer post of the Colombo – Batticalo Road to lay concrete plates on the surface of the road for the road users. 51 concrete posts of 500 mm x 770 mm x 125 mm had been prepared by August 2015 in this connection. However, action had not been taken to lay concrete plates up to 31 March 2016, the date of audit.
- (d) Contracts relating to work had been entrusted to Community Based Organizations without examining documents relating to their financial status and confirmation of documents relating to their experience. Direct contracts aggregating Rs.10,734,100 had been entrusted to community based organizations on 25 occasions contravening the provisions in Section 3.2 of the Public Finance Circular No.11/2012 of 05 January 2012.
- (e) The contracts should be awarded to community based organizations/societies within the authoritative limits. It was observed that community based organizations of areas other than those within the authoritative area had been awarded contracts valued at Rs.4,391,996 on 10 instances.

3.3 Assets Management

Idle Assets

It was observed that vehicles, machinery and equipment of the Sabha aggregating Rs.6,625,000 were idling for a period of 1 to 3 years.

3.4 Belihul Oya “Diya Pahasa” Rest Inn

The following matters are observed.

- (a) The Belihu Oya “Diya Pahasa” rest inn belongs to the Imbulpe Pradeshiya Sabha. The lessee had made some constructions within this premises in 2014 without the written authority of the Sabha. The technical officers had estimated it at Rs.289,682 on the instructions of the Chairman. The following observations are made in this connection.
 - (i) This construction was in contravention of Section 6 of the agreement entered into by the lessee and was contrary to the provision in the procurement procedure.

- (ii) The arrears of rent of Rs.55,924 due to the Sabha had been deducted from these construction and the balance of Rs.233,758 had been paid to the lessee by the Sabha resulting in an illegal burden of expenditure to the funds of the Sabha.
- (b) The lessee should not sell, vest or sub let the rights of any of the portion of the rest Inn to another person in terms of Section 11 of the agreement concerned. But, the lessee who had obtained it for Rs.155,000 had sub let it for Rs.250,000. However, the Sabha had not taken action against the lessee for breach of agreement.
- (c) The “Diya Pahasa” rest inn is a place of tourist attraction. As such, the Sabha could maintain it with the aim of earning revenue. In spite of this, a wrong identification had been made by the Sabha and action had not been taken to frame by-laws In terms of provisions in Section 122 and 126 of the Pradeshiya Sabha Act No. 15 of 1987 to levy fees accordingly.

3.5 Control of Vehicles

The following matters are observed.

- (a) Although log books and daily running charts had been maintained, such action had not been taken with regard to the Cab No.WP-PL 7541 and the JCB Loader No.WP-ZA-5076.
- (b) Action had not been taken to prepare monthly performance summaries and daily running charts with regard to 10 vehicles of the Sabha.
- (c) A register of vehicles containing particulars such as, date of purchase, cost, type and specifications etc., had not been maintained with regard to motor vehicles of the Sabha.
- (d) Action had not been taken in terms of the provision in the letter of the Secretary to the President No.PCMo/Pr/2013 of 05 June 2013 and the Public Finance Circular No.02/15 of 15 July 2015 with regard to the condemned Hero Honda motor cycle bearing No.53-5630.
- (e) Consumption of fuel by vehicles should be tested every 06 months. But, action had not been taken in terms of provisions in Section 02 of the Public Administration Circular No.41/90 of 10 October 1990 with regard to 10 vehicles of the Sabha. Contracts should be awarded to community based organization/societies of the authoritative area. However, it was observed that contravening this, contracts valued at Rs.4,391,996 had been offered to community based organizations elsewhere on 10 occasions.
- (f) Necessary action had not been taken to acquire ownership of 15 vehicles of the Sabha.

3.6 Delay in Projects

Action had not been taken, even during the year under review, to commence activities relating to 12 projects valued at Rs.3,749,000 approved under the National Programme of Strengthening Pradeshiya Sabhas – 2015.

4. Good Governance and Accountability

4.1 Budgetary Control

A comparison of the estimated expenditure of the Sabha for the year under review with the actual expenditure revealed that there were variances ranging from 22 to 59 per cent in the provision made for Capital Expenditure and variances of 36 to 87 percent of the provision made for recurrent expenditure were observed showing that the budget had not been utilized as an efficient instrument of management control.

5. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Stores Control
- (d) Financial Control
- (e) Human Resources Management
- (f) Assets Management
- (g) Control over Vehicles.