

Godakawela 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 26 April 2016 and the financial statements for the preceding year had been presented on 18 March 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 22 June 2016.

1.2 Qualified Opinion

In my opinion, except for the effects 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 Godakawela 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.

- (a) The stamp fees receivable from the Land Registry, Ratnapura amounted to Rs.2,968,488. Of this, the credit balance payable to the Sabaragamuwa Construction and Machinery Authority amounting to Rs.147,439 for purchase of tyres had been deducted and Rs.2,821,049 only had been shown as net value in the accounts.
- (b) The estimated value of stamp fees for the year under review amounting to Rs.6,000,000 had been accounted for. According to the schedule, a revenue of Rs.5,970,650 had been identified for 2015 for the Land Registry, Embilipitiya alone. Stamp fees is received from the Land Registry, Ratnapura too. As such, there was deficiency in the revenue billed for the year.
- (c) Stores materials and pharmaceutical purchased had not been accounted through the Stock Control Account. The entire value of stock had been debited to the Expenditure Account and subsequently transferred to the Stock Account which was a wrong procedure.
- (d) The Pradeshiya Sabha had been dissolved on 15 May of the year under review and Rs.22,000 had been paid to members for 15 days amounting Rs.11,000 entitled to them only had been reimbursed. The Salaries Account had been overstated by Rs.11,000 and Rs.110,000 due from members had not been disclosed in the accounts.

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

According to the Circular No.25/2014 of 12 November 2014 of the Secretary to the Ministry of Public Administration and the Circular Letter No.22/2014 of the Secretary of the Public Service Commission of the Sabaragamuwa Province of 18 November 2014, permanent appointments could be given to those who have completed 180 days of continuous service as at 24 October 2014 service. But, 07 casual and temporary officers of the head office of the Pradeshiya Sabha commercial projects and Rakwana sub offices without 180 days of service had been made permanent. 03 employees with 180 days of service had not been made permanent.

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.8,932,743 as compared with the excess of revenue over recurrent expenditure for the preceding year amounting to Rs.9,779,362.

2.2 **Analytical Financial Review**

The financial operating surplus of the year under review had decreased by Rs.846,619 compared with that of the previous year and it was observed that it was a decrease of 8.65 per cent than the previous year. The decrease in recurrent revenue and the increase in recurrent expenditure of the year under review as compared with the previous year had mainly attributed to this.

2.3 **Revenue Administration**

2.3.1 **Estimated Revenue, Actual Revenue and the Arrears of Revenue**

The information furnished with regard to the estimated revenue, actual revenue and the arrears of revenue for the year under review appears below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
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	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	2,861	3,136	727
Lease Rent	8,183	6,274	225
Licence Fees	1,054	988	-
Other Revenue	41,831	44,924	13,264

2.3.2 **Performance in Collection of Revenue**

A comparison of the estimated revenue with the revenue collected for the year under review showed a decrease of 28 per cent 2.5 per cent and 48 per cent and 20 per cent respectively in the revenue collected with regard to the lease rent service charges, warrant charges and fines and other revenue.

2.3.3 **Rates and Taxes**

The balance of the rates and taxes within the authoritative area of the Sabha as at 30 September 2015 amounted Rs.611,154. Of these, the amount due from 07 units with arrears of over Rs.5,000 amounted to Rs.173,426 which represented 28 per cent of the total arrears.

2.3.4 **Business Tax and Licence Fees**

The Sabha faced difficulties in obtaining revenue of Rs.172,460 from 206 institutions on behalf of business tax and trade licences for 2015 as compared with 2014. As a result, the funds of the Sabha faced a risk of losing Rs.172,460. Accordingly, the Sabha faced a situation where extensive revenue may be deprived of due to non-identification of business entities, productive businesses, factories, hotels, canteens etc., by carrying out a survey within the area of the Sabha.

2.3.5 **Acreage Tax**

The arrears of acreage tax within the authoritative area of the Sabha amounted to Rs.98,251. Of this, there were arrears of over 1,000 in 20 units. This was 45 per cent of the entire arrears of Rs.44,092.

2.3.6 **Other Revenue**

The following observations are made.

- (a) According to Section 04 of the Circular of the Commissioner of Local Government No.2009/01 of 09 March 2009, the lease rent of stalls should be considered as minimum bid during the following year. Without considering this, the fish stalls No.03 and 05 of Godakawela Weekend Fair had been decided less by Rs.86,041 and as Rs.234,122 and decided as Rs.122,300 and Rs.121,378 in 2015 as compared with 2014. Action had not been taken to allow for competitive bids. As a result, the loss of the Sabha in 2015 as compared with 2014 was Rs.320,163.
- (b)
 - (i) Tenders had been called for, with a decision of recovering an annual lease rent of Rs.303,220 for the fish stall No.02 of the Godakawela Weekend Fair. But, tenders had not been received and the lease for 2015 had not been granted. Action had not been taken to call for competitive bids. Therefore, the Sabha faced a financial loss.
 - (ii) The minimum lease rent of Rs.454,080 for 03 months or rent for 06 months should be paid as deposit before signing the agreement for Godakawela

Weekend Fair as per Circular No.98/3 of 10 December 1998 of the Commissioner of Local Government. However, only Rs.332,992 had been recovered as security deposit for 02 months.

- (c) The monthly rent of stalls at the Public Markets of Godakawela and Rakwana had been revised as per assessment reports of the Provincial Assessor dated February 17 and 24. But, without revisions, the monthly rent had been increased by 10 per cent only and recoveries made accordingly.
- (d) The manner in which fees should be levied for advertisement boards exhibited within the authoritative area of the Sabha had been referred to in the Gazette Notification No.1894 of 19 December 2014 of the Republic of Sri Lanka. But, revenue had been collected from 11 institutions only where advertisement boards had been exhibited. Action had not been taken to obtain revenue from 07 identified institutions. As a result, the Sabha faced a risk of losing a revenue of Rs.350,769.
- (e) Stalls 24, 25, 29 and 30 of the upper floor of the Rakwana Old Trade Complex had been given on lease from 2012 without calling for tenders. As a result, an extensive loss of revenue had occurred every year.

2.3.7 **Court Fines and Stamp Fees**

The following observations are made.

- (a) Proper procedure to recover court fines had not been adopted. As such, court fines had not been recovered from the Magistrate's courts of Embilipitiya, Pelmadulla and Balangoda from August 2014, March 2015 and July 2002 respectively.
- (b) Stamp fees had not been obtained from the Land Registry, Ratnapura and the Land Registry, Embilipitiya upto December 2015 and April to December 2015 respectively.
- (c) Reason for differences of Rs.90,250 between the stamp fees as per schedule and the amount actually remitted by the Land Registry had not been identified.

3. **Operating Review**

3.1 **Management Inefficiencies**

The following observations are made.

- (a) The expenditure on the JCB machine of the Sabha in 2015 was Rs.548,481 and it was observed it continued to be in a condemned stage. Further, the Pradeshiya Sabha machine had not been used to close the garbage pit of the Pradeshiya Sabha and to reopen pits

again etc., Other JCB machines had been used by spending Rs.176,250 whenever the JCB machine of the Pradeshiya was not available.

- (b) An agreement had been entered into between the auctioneer and the Pradeshiya Sabha to separate and sell the land of Katupila Naduwehena land of the Pradeshiya Sabha area into blocks. 10% of the land sold, that is, 138.47 perches should be allocated for common amenities by a deed, as per order of the Minister in charge of the subject by the Gazette Notification No.392/9 of 10 March 1986. Instead of allocating an acceptable land, a slope land of 78.7 perches had been allocated. A further land of 59.77 perches of the said land could have been acquired by the Sabha. But, it had not been done and a nominal loss of Rs.400,000 had occurred. The tax of Rs.376,898 due from the blocks of land sold had been recovered after 02 years, after being pointed out in audit.
- (c) A commercial account had been maintained for income and expenditure on behalf of Balawinna Farm and for usage of the Becko machine. The expenditure transferred from the main account to the commercial account had been treated as advances and accounted for. Action had not been taken to settle the advances of Rs.704,454 granted from the main account. The commercial account had ceased functioning by end of the year under review and the expected objective of the commercial account could not be achieved.
- (d) A balance of Rs.1,461,040 was observed during 2013 and 2014 as a result of not settling the creditors' balance as per register of creditors or due to non-maintenance of registers. Action had not been taken even by end of the year under review to settle or rectify the registers relating to loans.
- (e) The value added tax obtained through the revenue obtained by the Sabha in 2013 was Rs.145,537. Instead of setting off the Value Added Tax to the expenditure of the year and to remit the balance due to the Commissioner General of Inland Revenue, it had been retained as deposits even by end of the year under review.
- (f) Stall rent and ground tax of Rs.179,479 were due from Rakwana Trade Complex Stalls and from the portion of land belonging to the Sabha. Action had not been taken to recover those arrears.

3.2 **Operating Inefficiencies**

Almyrahs, tables, chairs and street lamps had been purchased for Rs.113,240 on behalf of the Pradeshiya Sabha. The head of the institution had not appointed a technical evaluation committee to identify the specifications in terms of 2:8:4 of the Procurement Procedure 2006. But, such action had not been taken. Purchases should have been made for necessary items to enable the institution to get the highest benefit. But, purchases had been made on the basis of lowest quotations. The technical evaluation committee report or the report of the technical officer of the Sabha had not been furnished to audit.

3.3 **Irregular Transactions**

The Sabha had issued a one page supplement in Lankadeepa relating to its success and progress by spending Rs.80,808 from the funds of the Sabha. This was an expenditure irrelevant to Section 132 of the Pradeshiya Sabha Act No. 15 of 1987 and was observed as contravention of the provisions of the Act. Further, the approval of the minister in charge of the subject had not been obtained for this.

3.4 **Renovation of the Fish Stall Premises**

- (a) An unauthorized fish stall had functioned daily on an extensive scale in the vicinity of the Madampe Junction on the Ratnapura – Embilipitiya main road and the government had acquired the barren land opposite the Divisional Secretariat, Kahawatta. The funds of the ministry of Local Government and Provincial Councils had been used as a first step to renovate the land and make it a fish trade centre by filling it with soil, subject to the approval of the Commissioner of Local Government.
- (b) The technical officer of the Godakawela Pradeshiya Sabha had prepared an estimate for Rs.1,000,000 for soil filling on 05 February 2014. The Chairman had approved it and an agreement had been entered into with a farmer's association for Rs.966,435 on 25 February 2014 for a period of 03 months.
- (c) The sum of Rs.1,000,000 obtained from the Ministry of Local Government and Provincial Councils on 23 September 2014 had been credited to the funds of the Sabha. A sum of Rs.270,039 had been deducted as miscellaneous deductions and Rs.729,961 had been paid to the contractor on 25 September 2014.

However, evidence to confirm that the society had transported soil by tipper had not been obtained from a responsible officer or through external sources. Accordingly, the total sum of Rs.10,000,000 paid was observed in audit as money paid for the society for work not performed.

3.5 **Contract Administration**

- (a) Eight construction work performed under the Village to village and Door to door programme of the Ministry of Economic Development of 2014 had been completed and a sum of Rs.11,349,433 was payable to the contractor.
- (b) Four jobs valued at Rs.1,458,095 for which agreements had been signed had not been commenced even by end of May 2016.

3.6 **Solid Waste Material Management**

There was no proper procedure regarding garbage management even during the year under review. The garbage collected in the town continued to be dumped in the soil irrespective of the fact whether the garbage was decayable or not, in an open space, at the Balawinna Farm. The

becko machine of the Pradeshiya Sabha had been used for digging the soil. In addition, another becko machine had been used by spending Rs.176,250. The certificate of the Environmental Authority had not been obtained for this.

3.7 **Assets Management**

(a) **Idle and Underutilised Assets**

The cab No.53-5625 and the Kubota tractor No.37-9509 remained idle without being used for activities of the Sabha or for revenue earning activities. The Kubota tractor No.37-9509 had been repaired in 2015 by spending Rs.319,880.

(b) **Irregular Usage of Assets not Acquired**

(i) The old library building of the Sabha had been given on lease to various people and revenue obtained. But, this belonged to the Divisional Secretariat, Godakawela and it had been requested to release the land as the Pradeshiya Sabha had not acquired it. Accordingly, the Sabha faced the risk of losing the building and the land which earns money to the Sabha as a result of not taking action to acquire it legally.

(ii) The Sabha was not in possession of registration certificates for the recently obtained 09 cabs, tractors and trailers, water tanks, water bowsers and Foton Drump Trucks and it was observed that the Sabha had not properly acquired them.

4. **Good Governance and Accountability**

4.1 **Annual Procurement Plan**

A procurement plan had not been prepared and implemented for the year under review.

4.2 **Internal Audit**

An internal audit unit had not been established and necessary facilities given to operate it.

4.3 **Implementation of Audit and Management Committees**

Action had not been taken to establish and implement Audit and Management Committees.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Contract Administration
- (e) Solid Waste Material Management.