

Rattota Pradeshiya Sabha

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Matale District  
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1. Financial Statements

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1.1 Presentation of Financial Statements  
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The financial statements for the year under review had been presented to audit on 6 April 2017 and the financial statements for the preceding year had been presented on 19 May 2016.

1.2 Qualified Opinion

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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 Rattota Pradeshiya Saba as at 31 December 2016 and its financial performance for the year then ended are in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

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1.3.1 Accounting Deficiencies  
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The following accounting deficiencies are observed.

- (a) The value of 3 buildings amounting to Rs.36,269,045 constructed on year 2014, 2015 and year under review had not been capitalized.
- (b) Capital expenditure amounting to Rs.208,422 and salary reimbursement amounting to Rs.1,786,645 had been overstated.
- (c) Interest amounting to Rs.200,000, of a Rs.10,000,000 worth fixed deposit had been understated.
- (d) Whether the loans had been settled stores creditors amounting to 3,058,938 had been overstated due to non availability of issue orders.
- (e) Value of 6 buildings with no physical existence amounting to Rs.634,455 and value of library books amounting to Rs.847,322 had been overstated.
- (f) Value of 116 galvanized pipes amounting to Rs.128,429 had been omitted in financial statements.

1.3.2 Un reconciled Control Accounts

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- (a) The balances relating to 4 items of accounts totaling Rs.38,655,887 as per financial statements and the value appearing in the related subsidiary registers and reports differed by Rs. 2,685,860.

- (b) Amount stated in Revenue Contribution to Capital Outlay account and Fixed Assets account differed by Rs.775, 666.

1.3.3 Suspense Account

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Action had not been taken to settle even during the year under review the balance of Rs.15,462 of the Suspense Account which continued to be brought forward for 19 years.

1.3.4 Accounts Receivable

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The balances of 10 items receivable aggregated to Rs.38,434,702. The balances of over 5 years aggregating Rs. 4,299,150 had been included therein.

1.3.5 Accounts Payable

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The balances of 2 accounts payable aggregated to Rs.28,575,594. The balances of over 5 year aggregating Rs.1,879,963 had been included therein.

1.3.6 Lack of Evidence for Audit

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Seven items of accounts aggregating Rs.123, 803,288 could not be satisfactorily vouched in audit due to non-rendition of adequate evidence.

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

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The following instances of non-compliances with laws, rules, regulations etc. were observed in audit.

Reference to Laws , Rules, Regulations  
etc.,

Non –compliance

- (a) Section 24 (3) 1 of the Pradeshiya Sabha Act No.15 of 1987

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Actions had not been taken to publish the properly prepared inventory of roads in the Gazette.

- (b) 1988 Pradeshiya Sabah (Finance and Administration) Rules

- (i) Rule 203

Inventory items and stores goods of Sabha had not been subject to verification.

- (ii) Rule 218

Survey of land and buildings of the Sabha had not been carried out after 1987.

(c) Circulars and Others  
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- (i) Paragraph 5.1 of the circular No. 2016/3 dated 17 March 2016 of the Commissioner of Central Provincial Local Government. Action had not been taken to assess the trade stall rent once 5 years, and to enter in to new agreements including the amendments.
- (ii) Circular No.1986/6 dated 17 June 1986 of the Department of Local Government - Land had been rented to the Peoples Bank for a long term period of 50 years, and no approval had been obtain by the Minister in charge.  
- Without proper assessment a rent of Rs. 8,000 per month had been charged since year 2009.

2. Financial Review  
-----2.1 Financial Results  
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According to the financial statements presented, the revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs 16,758,888 as compared with the revenue over recurrent expenditure of the preceding year amounting to Rs. 14,254,378 resulting in an improvement in financial results of the year under review by Rs.2,504,510.

2.2 Analytical Financial Review  
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Increase in revenue by Rs.4,308,443 in 2 items of revenue and decrease in expenditure by Rs.2,104,978 in 2 objects resulted in the improvement in financial results.

2.3 Revenue Administration  
-----2.3.1 Rates  
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- (a) The balance of arrears of rates as at 31 December 2016 amounted to Rs.761,564 and the balances of Rs.729,332 relating to more than 1 to 5 years had been included in this. Due to non identification of the properties properly, an irrecoverable balance amounting to Rs.193,255 had been included therein since year 2012.
- (b) Actions in terms of section 158(1) of the Pradeshiys Sabha Act, No. 15 of 1987 had not been taken for the recovery of the long term arrears of Rates.
- (c) Whether the arrears of rates relating to government institutions amounting to Rs.108,273, the buildings had not been identified physically. There had been an irrecoverable balance amounting to Rs.264,745 from 14 properties of the houses of Nikawalla road which were not subject to verification.

### 2.3.2 Lease rent

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- (a) The arrears of lease rent amounted to Rs. 761,470, of which arrears of Rs.285,538 remain recoverable on 14 June 2017.
- (b) Even after 6 years from construction action had not been taken to acquire the ownership of the land of 5 trade stalls built by the Reap Project on behalf of the Sabha. Accordingly the land had to be handed over to the Divisional Secretariat by removing the trade stalls and by losing the trade stall rent since August 2016.
- (c) Buildings had been rented for Police Quarters and Police Station in year 2006. Without a proper assessment a lease rent of Rs.650 and Rs.3,500 per month had been charged for these buildings as decided in year 2006,

### 2.3.3 License Fees

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The balance of arrears license fees as at 31 December 2016 amounted to Rs.405, 685 existing over 5 years.

### 2.3.4 Other Income

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#### (a) Acreage Tax

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The arrears of acreage tax amounted to Rs.349,673 and the balance of Rs.327,813 relating to 1 to 5 years had been included therein.

#### (b) Water Charges

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(i) Out of the billed amount of Rs.7,211,011 only Rs.1,957,875 had been recovered and it represents 27 percent of the billed amount. The balance of arrears water charges as at the end of the year amounted to a higher value of Rs.6,624,398.

(ii) Without fixing water meters a fixed monthly fee had been charged from 3458 consumers.

### 2.3.5 Court Fines and Stamp Fees

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Court Fines of Rs.843,000 and stamp fees of Rs.10, 916,723 remained recoverable as at December 2016.

### 2.4 Surcharges

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The surcharge of Rs. 9,543,067 imposed during the previous years in terms of provisions in the Pradeshiya Sabha Act remained recoverable.

### 3 Operating Review

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#### 3.1 Performance

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Action had not been taken to utilize the Sathipola Building constructed under the Puranaguma Project, and action had not been taken to do the landscaping of the Kuruwawa children park as per the budget policy statement.

#### 3.2 Management Inefficiencies

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The following matters are observed.

- (a) No action had been taken to recover the loan balances amounting to Rs.522,195 relating to the officers who transferred, retired, left duties and dead.
- (b) No action had been taken to settle the balances amounting to Rs.2,624,047 of trade debtors relating to the period of year 2000 to 2013, Rs.406,131 of unsettled advances relating to the period of year 1999 to 2013 and Rs.8,911,692 of creditors relating to the period of year 2006 to 2014.
- (c) Even though 14 excess labours are available payment of Rs.1,180,371 had been made by employing 4 persons on days' pay and allowance pay basis.
- (d) A fixed asset register had not been maintained and updated.

#### 3.3 Operating Inefficiencies

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The following matters are observed.

- (a) The Sabha owns 11 water projects. Due to distribution of water without purification, trash stocks in the pipes interrupting the water distribution.
- (b) From 356 building applications received within the year under review only 241 applications had been approved, of which only 12 compliance certificates had been issued

#### 3.4 Idle and Under Utilized Assets

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The following matters are observed.

- (a) Necessary actions had not been taken regarding 9 vehicles valued at Rs.1,615,975 which were not in a running condition, 2 photocopy machines valued at Rs.213,000, two printers valued at Rs.159,000, and a roneo machine valued at Rs.106,000 set aside without being used.
- (b) Water pipes and fittings purchased for Rs.228,643 in year 2012, children park equipment purchased for Rs.848,250 in year 2014 and, the Sathipola Building constructed by spending Rs.12,064,929 in year 2014 remained unused.

### 3.5 Identified Losses

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The following matters are observed.

- (a) Against the Public Administration circular No.25/2014 dated 12 November 2014, eight persons who worked on allowance basis were presented with permanent appointment and later the appointments were cancelled. Due to that the said persons filed a case against the Sabha on Supreme Court. Lawyer fees amounting to Rs.325,000 had been borne by the Sabha which was an in vain expense due to taking action against circulars and without having proper advice.
- (b) Due to expanding a road in a property of a private party and Gazette it as a Sabha road the said party filed a case in Matale District Court in year 2010 and lawyer fee amounting to Rs. 115,000 had been paid from 2010 to 2016.
- (c) Due to nonavailability of the documents within the Sabha to prove the ownership of a cemetery, a private party captured a plot of the land. Lawyer fee amounting to Rs.76,500 for year 2011 to 2016 had been beard for the Court Case for that reason.

### 3.6 Contract Administration

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The following matters are observed.

- (a) Even though an estimate amounting to Rs.765,000 had been prepared for the construction of the Kuruwawa Children's Park in the year 2015 under the provisions of the Sabha, a sum of Rs.330,400 had been spent for the preparation of land without a proper approval despite provisions had not been made available by the budget and the revelent land had been overgrown in the year under review.
- (b) Day today needed equipment had been purchased for water projects by spending Rs.500,000 received under Strengthening of Pradeshiya Sabha Programme, Water equipment amounting to Rs.327,575 had been included in this where the necessity for purchase had not been revealed.

### 3.7 Delays in Projects

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Six projects with the funds of Rs.3,250,000, proposed to conduct under the Strengthening of Pradeshiya Saba Programme in year 2016 had not been implemented. And from Rs.1,000,000 advance received in 2016 June only one project amounted to Rs.500,000 for maintainence and repairs of water schemes had been executed.

### 3.8 Solid waste management

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Sabha owns a waste management building constructed for the value of Rs.2,971,053, and about 10 kilograms of compost fertilizer had been producing using 2 metric tons of garbage collected within the authoritative areas of the Sabha.

#### 4. Accountability and Good Governance

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##### 4.1 Budgetary Control

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The following matters are observed.

- (a) The revenue target for 9 revenue items had not been earned by 58 to 88 percent and estimated revenue of 11 other items of revenue had exceeded the estimate resulting in variance ranging from 62 to 4767 percent.
- (b) Provisions made for 11 items of expenditure amounted to Rs.1,540,864. This had been saved without any expenditure being incurred. The variance between the net provision and the actual expenditure of 17 items ranged from 55 to 99 percent.
- (c) Significant variances were observed between the budgeted and actual revenue and expenditure consequent to the transfer of provisions among the items of revenue and expenditure during the year under review showing that the budget had not been utilized as an effective instrument of management control.

##### 4.2 Internal Audit

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An internal audit method had not been adopted in terms of Rule 5(7) of the 1988 Pradeshiya Sabha (Finance and Administration) code of rules.

##### 4.3 Audit and Management Committees

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Action had not been taken to establish Audit and Management Committees even until 31 December of the year under review.

#### 5. Systems and Controls

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

- (a) Debtors' and Creditors' control.
- (b) Staff Management.
- (c) Assets Management.
- (d) Budgetary Control.