

Pelmadulla 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 20 March 2017 and the financial statements for the preceding year had been presented on 19 April 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 14 July 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Pelmadulla Pradeshiya Sabha as at 31 December 2016 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

13.1 Accounting Deficiencies

The following matters were observed.

- (a) As the provisions had been under provided for creditors by Rs.28,700 for the year under review, the value of the creditors as at 31 December 2016 had been understated by similar amount.
- (b) Revenue received in advance in the year under review had been overstated by Rs.120,700.

- (c) Even though, the total value of the bills of the trading licence revenue amounted to Rs.241,610, that had been recorded as Rs.281,530 and as such the revenue for the year had been overstated by Rs.39,920.
- (d) A sum of Rs.297,873 paid in the year 2015 relating to the year under review had not been adjusted to the expenditure for the year under review and a sum of Rs.265,200 paid during the year under review relating to the next year had been included in the expenditure of the year under review. Accordingly, the expenditure for the year under review had been understated by Rs.32,673 and the expenditure paid for the future years had not been accounted in the pre-paid account.

1.3.1 Unreconciled Control Accounts

The following matters were observed.

- (a) A difference of Rs.4,029,926 was observed between the balances as per the financial statements as at the end of the year under review and the balances appearing in the subsidiary registers with regard to 04 items of accounts.
- (b) A difference of Rs.312,792 was observed between the balances of the votes ledger and the balances appearing in the financial statements with regard to 10 Objects.

1.3.2 Accounts Receivable and Payable

The following matters were observed.

- (a) Proper action had not been taken even by 31 December 2016 to recover a staff loan balance amounting to Rs.162,850 in respect of the period from the year 1996 to the year 2014 from 21 officers who retired and transferred out according to the Staff Loan Register.

- (b) A sum of Rs.79,175 had remained receivable even by 27 January 2017 out of the sum which agreed to pay by the insurance company in respect of the accident caused to the tractor of the Sabha which turnover at the garbage disposing place, Ketethenna in the year 2015.
- (c) As per the Creditors Register, a creditor balance totalling Rs.20,048,165 had existed by 06 October 2016 while action had not been taken to settle those balances.

1.3.4 Lack of Written Evidence for Audit

The following matters were observed.

- (a) The detailed schedules to prove the value of 02 balances of accounts totalling Rs.480,930 which brought forward for number of years had not been furnished to audit.
- (b) Even though, the difference of staff loan account amounting to Rs.132,088 shown under the Unreconciled Control Accounts in the Report of the Auditor General for the year 2015 had been adjusted to the accumulated fund of the year under review, the reasons for the difference had not been furnished.

1.3.5 Non-compliance with Laws, Rules and 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

**(a) Pradeshiya Sabha Act No.15 of
1987.**

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| <ul style="list-style-type: none"> (i) Sub-sections 1 (a) and (b) of Section 24 | <p>Even though, action should have been taken by the Sabha for demarcation of the limits with regard to the roads and narrow streets</p> |
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and publish a name list, proper action had not been taken by the Sabha to publish in the Gazette in respect of the roads belonging to the Sabha or to obtain the information thereon after 05 April 1962.

(ii) Section 126(ix)(b)

The Sabha had failed to impose by-laws in respect of sewerage service and to achieve the targets shown as expected activity to be executed during the year 2014 under No.01 of sub paragraph of the Solid Waste Management action plan 2014-2016 even by the year 2016.

(b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 571
(2)(3)

Action had not been taken to settle the lapsed deposits amounting to Rs.1,197,883.

(ii) Financial Regulation 760

Action had not been taken in respect of the shortage of 03 items of furniture, equipment and machinery revealed in the Boards of Survey for the year 2015.

(c) National Environmental Act No.47 of 1980 as amended by the Acts No.56 of 1988 and No.53 of 2000 and Sub-sections 3.3.1 and 4.2 of the Guidelines relating to vesting powers to the Local Government

Even though, the validity period of an Environment Protection Licence should be renewed after 03 years, action had not been taken to renew 07 licences issued and new licences renewed in the years 2012 and 2013 by the Sabha. Further, action had not been

Institutions and the implementation of powers in issuing Environment Protection Licences, for due projects stated in part 'C' of the Extra- ordinary Gazette No.1533/16 dated 25 January 2008 in accordance with the Regulations imposed thereunder.

taken to make a survey on the industries newly commenced within the authoritative area of the Sabha and to grant licences.

- (d) Circular No.02/2011 of the Department of Pensions dated 24 February 2011.

Section 4.1

Even though, it was informed that all Local Government Institutions should be contributed to the Public Service Provident Fund for the employees recruited on casual and temporary basis, the contributions had been paid for Employees Provident Fund and Employees Trust Fund on behalf of 21 employees recruited on casual and temporary basis.

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 2016 amounted Rs.6,357,735 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.5,395,358 indicating an improvement of Rs.962,377 in the financial results as compared with the preceding year.

2.2 Analytical Financial Review

Increase of 02 items of revenue by Rs.1,323,258 and decrease of 03 items of expenditure by Rs.279,004 had mainly attributed for the increase of financial results by Rs.962,377.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information with regard to the estimated revenue, actual revenue and the arrears of revenue furnished 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	5,828	7,375	9,269
Lease rent	2,876	1,860	1,619
Licence fees	386	643	14
Other revenue	69,799	40,185	20,230

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 in the revenue collected with regard to items of revenue such as rates and taxes, licence fees and service charges by 23 per cent, 63 per cent and 64 per cent respectively and revenue collected with regard to items of revenue such as lease rent, warrant charges and fines, other revenue and contributions made by the Government had decreased by 03 per cent, 25 per cent, 61 per cent and 54 per cent respectively as compared with the estimated amount.

2.3.3 Rates and Taxes

A balance of arrears amounting to Rs.4,428,288 from 3,455 assessment units had existed even by 30 June 2016 and arrears of rates amounting to Rs.967,937 in respect of 114 units over Rs.5,000 had included in that balance. It represented 21 per cent of the total arrears.

2.3.4 Lease Rent

The arrears of lease rent relating to 04 trade stalls given on lease by the Sabha for the period from the year 2011 to 2013 amounting to Rs.297,368 had not been recovered even by 05 October 2016.

2.3.5 Other Revenue

The following matters were observed.

- (a) A balance of arrears amounting to Rs.64,759 had remained recoverable from 126 units of acreage tax in the authoritative area of the Sabha and action had not been taken to recover the arrears even by 05 October 2016.
- (b) A survey relating to the industries and businesses in the authoritative area of the Sabha should be carried out and a register should be maintained. Without doing so, only the taxes of the businesses and industries arrived and paid to the Sabha had been registered. Further, the business tax, industries tax and trade license fees for the year 2016 had not been recovered from 186 places even by 05 October 2016 as compared with the preceding year.
- (c) As per the Decision No.13 of the Council dated 16 October 2014, it was decided to recover revised garbage tax from the year 2015 on the garbage generated daily. Nevertheless, the tax had been recovered as per old tax even by 05 October 2016 and as such a revenue from garbage tax amounting to Rs.60,500 had been deprived by the Sabha.

- (d) In constructing telecommunication transmission towers, a sum of Rs.2,658,850 had been under recovered from 15 telecommunication transmission towers established in the authoritative area of the Sabha contrary to the charges due as per the Schedule V of the revisions made to the Directives of Planning and Buildings of the Urban Development Authority published in the Extra- ordinary Gazette No.1597/8 dated 17 April 2009 of the Democratic Socialist Republic of Sri Lanka dated 13 October 2014. In addition to that, only the building application fee for 03 constructions had been recovered but the due charges had not been recovered.

2.3.6 Court Fines and stamp Fees

Action had not been taken to identify and recover the stamp fees recoverable from the office of the Land Registry Ratnapura in respect of the period from January 2015 to 05 October 2016.

3. Operating Review

3.1 Performance

The following matters were observed.

- (a) Even though, 14 works totalling Rs.2,261,083 had been proposed to implement under the Pradeshiya Sabha Funds as per the Budget for the year 2016, no work whatsoever had been implemented even by 31 December 2016.
- (b) Even though, 61 works totalling Rs.29,857,996 had been budgeted under other financial grants, only 03 works out of that had been completed by incurring Rs.444,653.
- (c) Twenty five works which not included in the Budget had been implemented by incurring Rs.11,259,681 and 02 works had been implemented by incurring Rs.1,289,277 under the provisions of the Ministry of Provincial Council and Local Government.

3.2 Management Inefficiencies

The following matters were observed.

- (a) The advertisements should not be displayed without the approval under a licence issued by the Pradeshiya Sabha in terms of the by-law 01 of the Chapter 39 of the Part IV (b) of the Extra-ordinary Gazette No.520/7 of the Democratic Socialist Republic of Sri Lanka dated 23 August 1988. Nevertheless, action had not been taken to conduct a survey in respect of the advertising hoardings displayed in the authoritative area of the Sabha and to increase the revenue of the Sabha.
- (b) According to the Boards of Survey Report for the year 2016, it was recommended to auction furniture and fittings valued at Rs.74,465, but action had not been taken to auction those items.
- (c) Action had not been taken to settle cash and cheques amounting to Rs.8,915 and Rs.517,447 which had not been banked by the Marapona sub-office and the Head Office respectively and the balance mentioned as unidentified from the year 2003 amounting to Rs.259,296 according to the Bank Reconciliation Statement of August 2016.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) Even though, there were 44 cemeteries in the authoritative area of the Sabha, 06 cemeteries out of that only had been vested in the Sabha. The progress in respect of the vesting activities relating to 21 cemeteries situated in the lands of the Land Reform Commission had remained at a low level.
- (b) Fourteen places of unauthorized constructions in the Ketethanna area had been identified by the officers of the Sabha on 27 July 2015 and had been informed the responsible parties to regularize those unauthorized constructions in August 2015. But the follow up action had not been taken thereon. Even though, a period of one year had elapsed after referring letters by June 2017, the Sabha had not taken

action to implement further actions on the said constructions which not regularized or to send reminders. Even though, the verbal and written instructions had been given to the responsible parties for 18 unauthorized constructions identified through petitions in addition to that, the follow-up actions had not been carried out thereon.

3.4 Idle and Under- utilized Assets

A cab vehicle of the Sabha had been parked in the premises of the Sabha for a long period and action had not been taken either to repair or to dispose even by 05 October 2016.

3.5 Contract Administration

The following matters were observed.

- (a) The work of concreting the sub road of the Marshall Weliwatta Road constructed incurring Rs.489,931 on the provisions of the Sabaragamuwa Provincial Ministry of Provincial Roads Development, Rural Infrastructure Facilities, Tourism, Sports and Youth Affairs had been completed on 10 January 2016. The following matters were revealed at the physical audit examination carried out on 05 October 2016.
 - (i) As per the measurement sheet, the length of the road had been 61.85 metres but, as per the physical examination it was 61 metres. Therefore, a sum of Rs.4,499 had been paid for 0.85 metres of which not executed.
 - (ii) A crack was shown within first 21 metres for entire width in taking measurements from the beginning of the road and the metal evicted on the surface of the road in several places.
 - (iii) The above road had been an access road only for one house.

- (b) The work of construction of a small bridge near the Narangoda Nidangala Bodhi Viharaya commenced at an estimated value amounting to Rs.1,650,000 through Sabaragamuwa Provincial Council under “Dorin Dorata- Gamin Gamata” Development Programme 2014 had been terminated due to non-availability of financial provisions while 03 concrete columns and a side wall had been constructed by 23 June 2015. Advances of Rs.200,000 had been released for this work and by the time it had become an abandoned project. In addition to that, it was pointed out by the previous audit queries that the access road of this bridge was not consisted an adequate width, and it was revealed according to the statements of the Reverend Monk of the temple and the villagers that the water flowing of the river was blocked in rainy season due to these constructions and the buildings and lands of the both sides of the road were inundated due to over flowing the river.

3.6 Solid Waste Management

Action should be taken to put soil or such type of material on the waste to cover it daily in disposing of waste to the land according to the Solid Waste Management Guidelines published in the year 2006 by the Central Environmental Authority. But it was revealed that action had not been taken so on.

4. Good Governance and Accountability

4.1 Budgetary Control

The following matters were observed.

- (a) The entire provisions totalling Rs.3,696,100 made for 19 Objects in the year under review had been saved without being utilized.
- (b) Out of entire provisions totalling to Rs.3,575,000 made for 07 Objects in the year under review provisions ranging from 84 per cent to 99.8 per cent had been saved.

4.2 Unresolved and Unreplied Audit Queries

The replies for 04 audit queries had not been furnished by 31 December 2016. The value of quantifiable transactions of those queries amounted to Rs.5,001,431.

4.3 Internal Audit

An internal audit had not been carried out for the year under review and for the preceding year.

5. Systems and Controls

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

System	Observation
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(a) Accounting	(i) Classification errors. (ii) Not making provisions. (iii) Overstatements (iv) Non-reconciliation of ledger accounts and subsidiary registers.
(b) Revenue Administration	Non-recovery of due revenue.
(c) Assets Control	Existence of idle and underutilized assets.
(d) Contract Administration	Payments made for the works not executed.
(e) Budgetary Control	Savings on provisions.
(f) Solid Waste Management	Not disposing properly.