

Soranathota Pradeshiya Sabha
Badulla District

01. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2017 had been submitted for audit on 2018 March 27 and the report of the Auditor General had been sent to the Chairman on 2018 July 24.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in Paragraph 1.3 of this report, Financial Statements give a true and fair view of the financial position of the Soranathota Pradeshiya Sabha as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on the Financial Statement

1.3.1 Accounting Deficiencies

The value of 09 works amounting to Rs.3,955,526 completed in the year under review had been overstated in the Financial Statements and as such assets were overstated by that amount.

1.3.2 Unreconciled Accounts

Although the balance of the General Deposit amounted to Rs.1,717,374 as at 31 December of the year under review, according to relevant schedules the amount was Rs.1,785,425 as such a difference of Rs.68,051 had been observed.

1.3.3 Accounts Receivable and Payable

a. Accounts Receivable

At the end of the year under review, accounts recoverable balance amounting to Rs.20,984,891 including Arrears of Rates amounting to Rs.95,638, arrears of Capital Donation amounting to Rs.16,632,455 and Arrears of Miscellaneous Revenue amounting to Rs.4,256,798.

b. Accounts Payable

At the end of the year under review, account payable balance included expenditure and work creditors amounting to Rs.25,512,070, and Miscellaneous Deposits amounting to Rs.1,717,374.

1.3.4 Lack of Documentary Evidence for Audit

Due to the lack of documentary evidence 05 accounting items amounting to Rs.687,850,618 could not be satisfactorily vouched or verified.

1.3.5 Non-compliance

1.3.4.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Following instances of non-compliance with Laws, Rules, Regulations and Management decisions were observed in audit.

	Reference to Laws, Rules, Regulations and Management Decisions	Value Rs.	Non-compliance
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a.	Urban Development Authority Act No.41 of 1978 and the order No.67 of the Gazette No.392/9 dated 10 March 1986		Compliance certificate had been issued only to as low as 37 per cent of the building applications approved by the Council
b.	1988 Pradeshiya Sabha regulations (Financial and Administration)		
i.	Rule 202		All items purchased and issued had not been entered to the stock registers and books after properly calculated.
ii.	Rule 203,204		Six stock verification recommendations made in the year 2016 had not been implemented.
c.	Section 1.6 of the Chapter XXIV of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	57,630	Actions had not been taken to recover staff loans from 4 staff members/employees who had been transferred, retired or has left the service.
d.	F.R.571 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	23,753	Fifteen deposits exceeding 2 years as at 31 December of the year under review had not been cleared.
e.	Section 3.9.1 of the National Procurement Agency Circular No.8 dated 25 January 2006	2,552,940	Although contracts exceeding 2 million rupees should not be given to the same community-based

organization, contracts had been given to the same society contrary to Circular Instructions.

- f. Circular No.PF/FS/funds/MA/25/152 of the Secretary to the General Treasury dated 18 September 2009 Insurance cover for the cab vehicle had not been taken after 06 September 2017
- g. Public Administration Circular 987,674 No.30/2016 dated 29 December 2016 Fuel tests had not been done for 6 vehicles belonging to the Pradeshiya Sabha.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, surplus of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.145,039 and the corresponding surplus of revenue over recurrent expenditure for the preceding year amounted to Rs.35,210.

2.2 Revenue Administration

2.2.1 Estimated Income, Billed Income, Collected Income and Arrears of Income

The details about the Estimated Income, Billed Income, Collected Income and Arrears of Income for the year under review and the preceding year is stated below.

	Source of Income	2017				2016			
		Estimated Income	Billed Income	Collected Income	Arrears as at 31 December	Estimated Income	Billed Income	Collected Income	Arrears as at 31 December
		Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
(i)	Rates and Tax	5,096,724	1,995,311	1,682,654	312,657	5,096,740	1779372	1,521,842	257,530
(ii)	Rent	509,800	395,364	358,600	36,764	1,526,000	373,963	344,145	29,818
(iii)	License Fees	800,000	-	-	-	686,000	-	-	-
(iv)	Other Income	4,317,457	4,396,624	1,208,725	3,187,821	1880500	1,602,871	3,662	1,601,766
	Total	10,723,981	6,787,299	3,249,979	3,537,242	9,189,240	12,945,446	1,869,449	1,889,114

2.2.2 Performance in Revenue Collection

- a. The total billed revenue for the year ended 31 December 2017 amounted to Rs. 6.8 million while collected revenue amounted to Rs. 3.3 million. However, revenue amounted to Rs.3.5 million had to be collected as at the end of the year and in compare to the preceding year the arrears of revenue collection was increased by 84 per cent.

- b. Although an amount of Rs.1,000 should be recovered per Annual Permit according to Gazette No.1998 dated 16 December 2017, However as a result of unrecovered fees for 73 three wheelers of the council, a loss of Rs.73,000 was observed.

2.2.3 Trade License

Trade License for the year under review were not obtained by 8 businesses before 31 March according to Section 152(1) Pradeshiya Sabha Act No.15 of 1987 and Gazette No.1998 dated 16 December 2016.

2.2.4 Court Fines and Stamp fees

The Court Fines and Stamp recoverable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017 amounted to Rs.1,509,000 and Rs.2,009,914 respectively.

3. Operational Review

3.1 Performance

It was revealed after the analyzing the execution of activities by the Pradeshiya Sabha in accordance with section 3 of the Pradeshiya Sabha Act of 1987 such as regulation of health of the public, common utility services and public road facilities and maintenance of people's prosperity, welfare and development is given below.

a. Action Plan

An action plan for the year under review had not been prepared to be executed by the Council.

b. Not obtaining the Expected Outcome

Although an amount of Rs.996,958 had been spent for 2 works initiated by the Council as at 31 December of the year under review, the expected outcome had not been obtained.

c. Abandoned Work

Although estimates amounting to Rs.20,400,000 had been prepared for two works after the proposals were passed in the year under review, they were abandoned due to lack of funds and problems with the construction.

- d. Due to not paying loan installments and interest for a loan obtained from the Local Loan and Development Fund, there was an arrears of Rs.2,198,378 as at 31 December.

e. Environmental Conflict

- i. Although the by-laws on Solid Waste Management were accepted by the Council as according to Extraordinary Gazette No.1178/45 of Democratic Socialist Republic of Sri Lanka dated 05 October 2012, actions had not been taken to identify the areas where tax should be reevaluated as at 31 December 2017.
- ii. Environmental licenses that should be obtained for 14 businesses of 06 sectors had not been issued according to guidelines of National Environmental Act No.47 of 1980 amended by Act No.56 of 1988 and No.53 of 2000.

f. Goals of Sustainable Development

Due to the Council not being aware of 2030 agenda of Goals of Sustainable Development, long term plans for the global view of such purposes to enhance the living standards and health of the people living in the Council area of authority had not been initiated to date 31 December 2017.

3.2 Management Inefficiencies

- a. Action had not been taken to recover arrears rental amounting to Rs.233,525 as at 31 December of the year under review
- b. Although six months security deposits should be recovered when renting out property within the area as according to Section (a) XIV Circular No.2012/02 dated 16 October 2012 of the commissioner of the local government, a deposit of Rs.30,000 for six months had not been obtained for the upper floor of Dunhinda junction shopping complex which was rented out for Rs.5,000 since 06 March 2017 to 06 March 2022.

3.3 Human Resource Management

There were 04 vacancies and 20 excess cadre in the Council at 31 December of the year under review.

3.4 Identified Loss

A loan amounting to Rs.8,834,609 had been obtained by the Council for the construction of the building of Soranathota Pradeshiya Sabha on 14 June 2012 and due to non-settlement of the loan installments and interest, the loan was restructured on 28 September 2015 having a new value of Rs.11,320,648. As such a loss of Rs.2,486,029 had been acquired by the Council.

3.5 Procurement

3.5.1 Procurement Plan

A procurement plan had not been prepared by the Council for the year under review.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that there was a considerable variation in the budgeted revenue and expenditure in the budget prepared by the Council for the year under review with the actual revenue and expenditure and that indicating the budget had not been used as an effective tool of management control.

4.2 Internal Audit

An internal audit for the year 2017 had not been conducted in the Council.

05. System and Control

Weaknesses were observed in comparison of the revenue and expenditure in the budget prepared by the Council for the year under review with the actual revenue and expenditure through by the Council and indicating that the budget had not been used as an effective tool of management.

System -----	Fault -----
a. Fixed assets	i. Fixed asset and inventory items had not been identified and documented.
b. Stock control	i. Material requisition orders and receive orders were not issued for purchasing and issuing of goods from the stores of the Council for miscellaneous works.
c. Vehicles and machinery	i. Proper permission and supervision was not given when renting out machinery belonging to the Council to third parties. ii. Details of daily running charts were not maintained. iii. Supervision of technical officers were not obtained regarding the control and maintenance of vehicles.