

Pallepola Pradeshiya Sabha
Matale District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017, had been presented to audit on 29 March 2018 and the Auditor General's Report on the financial statement had been sent to the Chairman on 28 June 2018.

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 gave a true and fair view of the financial position of the Pallepola 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 Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- a) Salary reimbursements had been overstated in the accounts by Rs.359, 833.
- b) Capital expenditure of the year under review had been overstated by Rs. 1,529,361.
- c) The estimated value of 7 contracts of Rs. 2,055, 000 which had not been approved to be performed had been taken in to accounts as Creditors. Hence the value of creditors had been overstated by the same amount in the accounts.
- d) Seventy four GI pipes received as donations in the year 2014 had not been assessed and taken in to accounts.
- e) The value of Rs.59, 641 of the Office water tank which was not physical existence had been included in the balance of buildings thus the balance of that account had been overstated by the same amount.
- f) The value of 2 machines auctioned had not been written off from accounts. Hence the balance of machinery and equipment account had been overstated by Rs. 169,399.

1.3.2 Unreconciled accounts

A difference of Rs. 5,922,975 had been observed between the balances of 2 accounts items aggregating Rs. 5,623,945 shown in the financial statements and relevant subsidiary registers and records.

1.3.3 Receivable and payable accounts

a) Accounts Receivable

The total of 8 receivable accounts as at the end of the year under review was Rs. 18,969,640 and according to the age analysis presented a balance of Rs.4,120,431 remained unsettled over a period more than 3 years had included in it.

b) Accounts Payable

The total of 13 balances of payable accounts as at the end of the year under review was Rs. 11,430,366 and according to the age analysis presented balances of Rs.5,594,981 remained unsettled over a period more than 3 years had included in it.

1.3.4 Lack of Written Evidence for Audit

Information not being presented to Audit

Five items of accounts aggregating Rs. 158,780,756 could not be satisfactorily verified due to non-availability of necessary information.

1.3.5 Non- compliances with Laws Rules Regulations and Management Decisions

Instances of non-compliance with laws rules regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and management decisions	Amount	Non - Compliance
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Rs.

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|---|--|--|
| a) The Slaughter House Act No. 09 of 1893 | | A gurentee bond had not been submitted for the slaughter house conducting in the jurisdiction of the Sabha. |
| (i) Section 6 (i) | | |
| (ii) Section 9 a (2) b | | Actions had not been taken according to the sections of the Act when issuing license for conducting slaughterhouse business. |
| (iii) Section 10 | | Details relating to cattles killed in each month had not been obtained as per the format (d) of th Section. |

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|---|---------|--|
| <p>b) Section 7 of the Stamp Fees (special provision) Act No. 12 of 2006</p> | 28960 | <p>Stamp fees collected during the year under review had been remained in the general deposit account even up to 6 April 2018 without being remitted to the Department of Inland Revenue.</p> |
| <p>c) Pradeshiya Sabha Rules of 1988 (Financial and Administration)</p> <p>(i) Rule 217</p> <p>(ii) Rule 218</p> | | <p>A fixed assets register as per the G.S.46 format had not been maintained in respect of land and buildings. Surveys on land and buildings relating to 16 divisions out of 44 had not been completed.</p> |
| <p>d) Financial Regulation 571 of The Democratic Socialist Republic of Sri Lanka</p> | 365,351 | <p>Retention money of contracts and water deposits of Kirawanalla water project which was out of order since the year 2011 had been remained in the general deposit account without being settled.</p> |
| <p>e) Public Administration Circular No.30/2016 dated 29 December 2016.</p> | | <p>Fuel consumption had not been tested over a number of years.</p> |
| <p>f) Circulars and others</p> <p>(i) Section 31 of the part “a” of the schedule “A” of the special gazette No. 16/1533 dated 25 January 2008.</p> <p>(ii) Circular of the Commissioner of Local Government No. 2017/3 dated 03 August 2017</p> | | <p>Environment licence which should be obtained from the central environment authority had not been obtained for the slaughter house conducted in the jurisdiction of the sabha . Proper register for court cases had not been maintained.</p> |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the sabha for the year ended 31 December 2017 in excess of the recurrent expenditure was Rs.10,277,901 whilst the corresponding revenue in excess of recurrent expenditure of the previous year was Rs.7,247,515.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Bill amount of Revenue, collected revenue and Outstanding Revenue

Source of Income	2017				2016			
	Estimated Revenue	Bill amount of Revenue	Collected Revenue	Total outstanding as at 31 December	Estimated Revenue	bill amount of Revenue	Collected Revenue	Total outstanding as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
i. Rate and Taxes	4,900,000	5,748,132	5,535,964	1,711,579	4,785,090	4,970,013	4,964,179	1,518,337
ii. Rent	442,400	456,359	466,360	-	600,000	997,275	977,850	19,425
iii. Licences Fees	700,000	607,520	626,945	-	600,000	997,275	977,850	19,425
iv. Other Revenue	20,184,000	12,906,771	10,464,833	7,019,924	14,356,000	13,379,423	8,187,912	10,666,638

Details relating to the estimated revenue bill amount of revenue collected revenue and outstanding revenue presented for the year under review and the previous year are given below.

2.2.2 Performance of Collecting Revenue

Although a sum of Rs.4, 200.000 had been estimated as revenue from renting out the multipurpose building as per the budget presented for the year under review, any amount had not been earned.

2.2.3 Rate and Taxes

a) Rates

The outstanding balance of rate tax as at the end of the year under review was Rs. 237,567 and actions had not been taken to recover the outstanding rate tax as per the Section 158 (i) of the Pradeshiya Sabha Act No.15 of 1987.

b) Acreage Tax

The outstanding balance of acreage tax as at the end of the year under review was Rs. 36,070.

c) **Water Charges**

- (i) The outstanding balance of water charges as at the end of the year under review was Rs. 1,437,941.
- (ii) A monthly rental of Rs. 100 had been charged from 1,078 customers of supplying water under 5 water projects of the Sabha without fixing water meters.
- (iii) Outstanding balance of water charges amounting to Rs. 373,811 had remained to be recovered from 158 customers who the water supply was out of order and 55 customers who the water connection had been disconnected.
- (iv) The opportunity to increase the relevant charges had been lost to the Sabha due to the fact that the water meters were not being fixed properly.

2.2.4 **Court Fines and Stamp Fees**

The receivable amount of Court Fines and Stamp Fees from the chief secretary to the provincial council and other authorities as at 31 December of the year under review was Rs.744,456 and Rs.9,922,182 respectively.

3. **Operating Review**

3.1 **Performance**

The following observations are made in respect of duties which should be fulfilled by the Sabha relating to formulate and administer public health, common utility services and common roads, people's cordiality, convenience and welfare.

a) **By Laws**

Although by laws should be enacted to fulfil 4 key functions under the section 126 of the Pradeshiya Sabha Act, such by laws had not been enacted.

b) **Non achieving of expected production level**

- (i) Work relating to 4 contracts proposed to be fulfilled under the Sabha Fund in approved provision of Rs. 1,600,000 had not been completed and actions had not been taken by the Sabha to fulfil 3 contracts in approved provision of Rs. 700,000.
- (ii) Six contracts valued at Rs. 630,000 which had been proposed to be fulfilled under the Sabha fund could not get approved or fulfilled due to the delay of sending for the approval.

c) **Relinquished Activites**

Two activities had been commenced during the year under review and the preceding year and a sum of Rs.926,357 had been incurred in this regard. However those contracts had been relinquished as at the end of the year under review without obtaining expected outcome. Details are given below.

Activity	Money incurred up to 31. 12. 2017	Observation
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	Rs.	
Improvement of Municiple Auditorium on the approved provision of Rs.2,500,000 under the city development programme 2015	677,033	It had been entered in to an agreement at Rs.2,112,125 and the final bill amounting to Rs.2,123,341 had been submitted.However the problems occurred relating to construction of the contractor, only a sum of Rs.677,033 had been paid and constructions had been terminated since 2016.
Modernization of the building of Information Technology Center on the provision of Rs.1,500,000 under the city development programme 2015.	249,324	(i) Although an advance of 20 per cent had been paid to the contractor, only work valued at Rs. 169,128 had been completed as at the end of the year 2016 and the contract had been terminated. Hence the loss occurred to the Sabha was Rs. 80,196. (ii) Liquidated damages amounting to Rs. 119,787 which should be recovered as per the agreement had not been recovered. (iii) Although actions had been taken to complete the building as 2 trade calls incurring a sum of Rs.350,000 from the Sabha fund,it also had been done incomplete. Hence the building was remained idle.

d) Solid Waste Management

- (i) Although a compost yard and a half completed store room had been constructed incurring a sum of Rs. 1,329,560 under the provincial specific grant in the years 2015 and 2016 for solid waste management project, this center had not been conducted properly due to non-availability of water and electricity facilities.
- (ii) In the jurisdiction of the Sabha, almost 01 tractor load of garbage is collected daily and sufficient facilities and plans were not available to produce fertilizer.
- (iii) A methodology for removing bottles etc. had not been identified and oddment had been burnt on the spot without removing properly.
- (iv) Due to the fact that the land 60 per cent in extent approximately was in a residential area, there was an opportunity in which environmental issues might be occurred.

e) Sustainable Development Goals

Although actions should be taken to achieve sustainable development goals identifying targets which should be fulfilled to achieve sustainable development goals, prevailing issues affected to fulfill those targets and indicators to measure the achievements, actions had not been taken accordingly.

3.2 Management Inefficiencies

The following observations were made.

- a) Although there were 2 Ayurveda buildings belonged to the Sabha, actions had not been taken to establish an Ayurveda in the jurisdiction of the Sabha.
- b) Outstanding rent amounting to Rs. 20,000 which should be recovered from a sales outlet of the Department of Apparel Industries conducted in a Sabha building located in Millawana area had not been recovered and actions had not been taken to settle the outstanding stall rent of Rs.38, 000 which should be recovered from 2 stalls of the public market.
- c) Although the period of renewing license had been lapsed, eleven businesses were allowed to be carry out their businesses without taking actions to renew environment license.
- d) Out of 74 building applications presented during the year under review, approval had been granted for 34 applications. However Certificates of Completion had been obtained by 11 persons only.

3.3 Human Resources Management

- a) Although 3 years had been lapsed for issuing letters of permanent appointments for 18 employees as per the Public Administration Circular No. 25/2014 dated 12 November 2014, actions had not been taken to permanent posts.
- b) Although a sum of Rs. 457,143 had been remitted to the Department of pensions as widows and orphans instalments on behalf of the above mentioned employees, actions had not been taken to issue he widows and orphans number.
- c) Actions had not been taken to get confirmed educational qualifications of those 12 employees.
- d) Contribution of the Sabha in respect of the employees provident fund amounting to Rs. 273,516 which should be remitted to the Department of Pension as per 1.2 and 1.3 of the Pension Circular No.02/2011 dated 20 July 2011 (1 Amendment) had been paid to the employee deviating the requirement of granting the right of pension/widows and orphans.
- e) A library assistant appointed in the year 2009 had been kept on incorrect salary scale and as a result a sum of Rs. 131,884 had been overpaid from the Sabha Fund since the year 2009 to the year 2016.
- f) Twenty three vacancies were remained in 54 secondary and primary posts relating to the Sabha. Hence the activities of the sabha could not be fulfilled efficiently.

3.4 Operating inefficiencies

The following observations were made.

- a) Although the sabha should act in its own jurisdiction as the general administration authority of germination and securing of public health, competeness tests of water had been done only for 13 water projects out of 5 water projects maintained by the sabha and 24 water projects maintained by community based organizations.
Water of 8 water projects was not in a suitable level for drinking . Nevertheless actions had not been taken to make rectifications for reffering to a refinery process.
- b) Actions had not been taken to recover the value of 226 books which had not been presented to the board of survey of the year 2016 amouning to Rs.40,554.
- c) In a ground of the bakco loader No.ZA-5036 had been hired using a driver of the Sabha in needful situations, a backo machine had been obtained outsourced incurring a sum of Rs.21,750 as during the year under review.

3.5 Assets Management

3.5.1 Assets not being secured

As a result of actions not being taken to confirm the ownership by installing boundaries, a trespasser had resided in the Pallepola Akuramboda Mahayaya Arambeyaya Kosgahumulawaththa land which had transferred to the Sabha by a person in 2010 and legal actions had to be taken of acquire the property.

3.5.2 Assets not being transferred

The following observations were made.

- a) The land of which the multipurpose building constructed incurring a sum of Rs.67, 424,443 from the provision of the Ministry of Provincial Council and Local Government under the programme for urban development and handed over to the Sabha had not got transferred to the Sabha properly. Hence the clear ownership could not be obtained removing residents of an old house located in the land.
- b) Out of the land given to the Sabha by the Land Reform Commission in the year 2006 under the lease base, a portion of land 2 Acres 3 ruda and 37 per chasa in extent had been used as the playground of the Sabha. However the Land Reform Commission had informed that outstanding lease rent of Rs.2, 358,311 and 10 per cent surcharge on the absence of non-payment of lease rent from the year 2006 to the year 2017 should be charged.

3.5.3 Idle and Underutilized Assets

The following observations were made.

- a) Work relating to Paldeniya Thambahitiyawa crematorium constructed in the years 2015/2016 incurring a sum of Rs.3, 632,510 had not been completed and the T.B Thennakoon children's park constructed in the years 2014 and 2015 incurring a sum of Rs. 2,972,240 had not been used. Therefore those properties had been remained idle.
- b) Two vehicles in the total value of Rs. 884,400 in damaged condition and without being used and a concrete mixer valued at Rs. 143,000 had been remained idle over a number of years.
- c) Two computers purchased in the year 2015 in order to establish "E Nanapiyasa Computer Center" had been remained in the stores without being used.
- d) The tube well constructed in the year 2015 incurring a sum of Rs. 469,000 had been remained idle due to the fact that a water pump no being fixed.
- e) A balance of Rs. 35,344 had been remained as at the end of the year under review in a savings account which had been opened in the year 1996 and not operated since the year 2013.
- f) Two water motors valued at Rs.859, 670, a fax machine and a photocopy machine had been remained idle.

3.5.4 Vehicle Utilization

Three vehicles given by the Ministry of Provincial Council without identifying requirements had been remained without being used incurring insurance fees by the Sabha fund.

3.6 Identified losses

The following observations were made.

- a) According to the judgment of the case No.MR.6220, the sabha had been proved innocent and a sum of Rs. 225,270 incurred as lawyers charges up to 13 May 2016 had to be recovered from the plaintiff. However actions had not been taken to recover even up to the end of the year under review.
- b) The accident of backo loader No.ZA-5036 had been taken place in the year 2015 and an inquiry which should be carried out to fix the responsibility as per the financial Regulations 104 regarding the accident had not been carried out even up to the end of the year under review. A sum of Rs. 406,739 for repairing of the machine which had not been reimbursed from the Insurance Corporation and Rs.262, 909 to renovate the damaged house had been incurred by the sabha fund.

3.7 Procurement

3.7.1 Procurement Plan

According to the Government Procurement Guideline 4.2.1, a master procurement plan and a detailed procurement plan including civil works and goods and other services had not been prepared whilst purchasing's of Rs. 1,253,295 had been made during the year under review. According to the Guideline 4.2.2, a procurement timetable had also not been prepared.

3.7.2 Contract Administration

Construction of Drainage System in front of the Pallepola Multipurpose Building

Quotations had been called on an estimate of Rs.3, 200,000 prepared by the Provincial Road Development Authority for implementation of a part of the above mentioned project under the programme for development of 1000 k.m of rural roads of the Ministry of Provincial Council and Local Government and it had been entered in to an agreement with a selected contractor to fulfill that contract at Rs. 2,615,658. Further work had been completed on 22 December 2017 and the bill had been presented for Rs.2, 579 874.

The following observations are made in respect of the procurement process and submission of bills.

- a) The estimated price of Rs. 60,000 in the engineering estimate relating to work items 1, 2, and 3 had been erroneously printed as Rs. 600,000 in bidding documents, quotations had been called and bids had been evaluated based on the erroneous prices.
- b) Contractor had been selected on the basis of offering the lowest price due to the fact that lower value had been stated as 180,000 only by him and in a ground of neglecting the price of Rs. 600,000 mentioned erroneously, entire contract price submitted by him was not the lowest.
- c) When preparing estimates, specifications had been prepared based on Highway Scheduled Rates (HSR) and even though the HSR price of work item No.7 according to the specification ST-047 was Rs.14, 714, it had been estimated as Rs. 17,277 that was overestimated by Rs.2, 564.

- d) A unit price of Rs.24, 423 had been submitted by the selected bidder for said work item and it had been agreed to pay high unit rate without evaluating the fairness through requesting a price analysis for such high rates.
- e) Accordingly it was observed that the Technical Evaluation Committee relating to the procurement process of said contract had not fulfilled their own responsibility and duties properly as per the paragraph 2.4,2.5 and 2.6 of the Government Procurement Guideline and had acted deviating the basis of optimum economic benefits and fairness.
- f) An erroneous bill which had been exceeded the estimate and had not been confirmed as fulfilled amounting to Rs. 104,215 had been recommended because erroneous values of Rs. 600,000 had been shown in bidding documents instead of estimated work items of Rs. 60,000 and a sum of Rs.164,215 had been taken in to bills and recommended for payments.
- g) It had been agreed to pay a unit price of Rs. 24,432 over than 41 per cent of the engineering estimate relating to work item 7 without being carried out any fair evaluation. In addition a sum of Rs.994, 400 had been taken in to bills in this regard and it had been recommended that those bills were correct. As a result an erroneous bill amount of Rs. 285,643 which was exceeded the estimate had been recommended.

4. Accountability and Good Governness

4.1 Budgetary Control

Even after transferring provisions between the heads of revenue and expenditure in the year under review, considerable variations were observed between the budgeted and the actual revenue and expenditure thus observing that the budget had not been made use of as an effective instrument of control.

The following observations are made in this regard.

- a) Actions had not been taken to recover any estimated revenue relating to 8 revenue items and it had been failed to recover the targeted revenue relating to 16 revenue items in a range of 13 per cent to 99 per cent.
- b) Revenue relating to 21 revenue items had been recovered in a range of 11 per cent to 1088 per cent exceeding the estimated revenue.
- c) Variations were observed in a range of 38 per cent to 100 per cent between the estimated provision and actual provision relating to 21 expenditure items.

4.2 Audit and Management Committees

According to the letter of the Commissiner of Local Government No CPC/CLG/1/9/1/4 dated 08 August 2014 and the Secratary to the Chief Minister of Central Province No.CPC/CMS/1/06/ dated 01 August 2014, audit and management committees should be held in 4 instances as 01 per each quarter. However only 1 turn of committees had been held for the year under review.

5. Systems and Controls

Defficiencies observed in the course of audit were brought to the notice of the Sabha from time to time and Special attention is needed in respect of the following areas of control.

	System -----	Deficiency -----
a)	Debtors/Creditors	(i) Non-recovering of money from debtors (ii) Non-settlement of creditors (iii) Over accounting of creditors
b)	Assets/Properties	(i) Assets not being accounted properly (ii) Accuracy of assets not being confirmed (iii) Assets being underutilized and idle.
c)	Budgetary Control	(i) Provisions not being utilized. (ii) Revenue targets not being achieved.
d)	Vehicle Administration	(i) Fuel consumption not being tested (ii) Underutilization and idle of vehicles