

Pelmadulla Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented to audit on 27 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 13 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 give a true and fair view of the financial position of the Pelmadulla 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 matters were observed.

- (a) Rates and taxes amounting to Rs.102,464 received in advance in the year 2016 had been debited to rates and taxes account. As such revenue of rates and taxes had been understated by Rs.204,928.
- (b) Rates and taxes amounting to Rs.149,767 received in advance in respect of the year 2018 had been debited to revenue received in advance account and credited rates and taxes account of the year under review. As such revenue had been overstated by Rs.299,534.
- (c) As per the recommendations of the Reports of the Boards of Survey for the year under review, the fixed assets disposed in the year 2018 had been adjusted to the accounts of the year under review. As such the fixed assets had been under stated by Rs.168,278.

- (d) The stamp duty revenue and court fines revenue of the year under review had not been correctly identified, while estimated revenue of Rs.9,000,000 and Rs.1,000,000 respectively had been brought to account.
- (e) The multi-purpose building and the weekly fair constructed for an expenditure of Rs.50 million under Puraneguma Project and handed over to the Sabha on 09 June 2017 had not been capitalized. As such Property, Plant and equipment had been understated by similar amount.
- (f) Even though, a balance totalling Rs.480,930 had been shown in the General Stores stock account and General Stores Premix account, such a balance was not made available physically and as such the current assets at the last date of the year under review had been overstated by similar amount.
- (g) The cost of 12 buildings belonging to the Sabha had not been assessed and brought to account.

1.3.2 Unreconciled Accounts

There was a difference of Rs.15,483,972 between the balances as per financial statements as at the end of the year under review in respect of 06 items of accounts and the balances as per Subsidiary Registers.

1.3.3 Accounts Payable

The balance of Value Added Tax payable amounting to Rs.385,350 remained brought forward since the year 2013 had not been settled even in the year under review.

1.3.4 Lack of written Evidence required for Audit

Four items of accounts totalling Rs.78,050,759 could not be satisfactorily verified in audit due to non-submission of required information.

1.3.5 Non-compliances

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

The instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
-----	----- Rs.	-----
(a) 1988 Pradeshiya Sabha (Finance and Administration Rules) Rule 204		Action had not been taken in respect of shortages of goods pointed out by the Report of the Boards of Survey as at 31 December 2016.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----		
(i) Financial Regulation 371 (2)(c)	32,930	Sub-imprest grants in 10 instances during the year 2014 had not been settled.
(ii) Financial Regulation 1645		The log books of the motor vehicles belonging to the Sabha had not been updated.
(c) Public Administration Circular No.30/2016 dated 29 December 2016.		The fuel consumption tests in respect of 03 motor vehicles belonging to the Sabha had not been properly carried out.
(d) Extra-ordinary Gazette No.520/7 of the Democratic Socialist Republic of Sri Lanka dated 23 August 1988. By-law 5(5) of Section iv (b)		Even though, the written notification had been made to remove 27 unauthorized constructions or to regularize of those which identified during the year under review

and the preceding year, action had been taken to remove 23 unauthorized constructions for which had not been responded.

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 2017 amounted Rs.7,131,585 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.6,357,734.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue

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

Source of Revenue	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and taxes	6,605,752	6,648,612	6,781,723	8,860,800	5,827,686	7,374,539	7,183,593	9,269,317
Lease rent	2,078,640	1,855,444	2,071,623	1,402,993	2,876,100	1,859,880	2,803,700	1,619,272
Licence fees	464,000	763,880	737,130	-	386,000	642,685	628,705	13,980
Other revenue	13,172,000	14,175,199	8,901,345	23,273,718	13,097,000	13,978,843	8,052,678	18,019,898

2.2.2 Performance in Collection of Revenue

A comparison of the estimated revenue with the revenue collected for the year under review showed an increase in the revenue collected with regard to items of revenue such as rates and taxes, licence fees, service charges and warrant charges and fines by 03 per

cent, 59 per cent, 31 per cent and 122 per cent respectively and revenue collected with regard to items of revenue such as other revenue and contributions made by the Government had decreased by 69 per cent and 40 per cent respectively as compared with the estimated amount.

2.2.3 Rates

The balance of arrears of rates and taxes recoverable as at 31 December 2017 amounted to Rs.8,395,715 and it included a balance of arrears totalling Rs.4,001,337 relating to 785 units of rates remained brought forward for over a period of 05 years. The action of the Sabha in respect of recovery of arrears of taxes had remained at a very poor position.

2.2.4 Licence Fees

The following matters were observed.

- (a) (i) Even though, the legal actions should be taken in respect of the industries which had not obtained the environment protection licences in terms of the National Environment Act No.47 of 1980 as amended by the Act No.56 of 1988 and Act No.53 of 2000 and the regulations imposed thereto, the Sabha had not followed a proper methodology to identify the industries which had not obtained those licences.
- (ii) A revenue of Rs.572,000 had been deprived by the Sabha due to not obtaining Environment Protection Licences by 130 institutions of which should be obtained those licences. As the Sabha had not made an evaluation on the environmental effect arise in maintaining respective businesses the responsibility of the Sabha in respect of the Environment Protection of the authoritative area of the Sabha had not been executed adequately.
- (b) The trade licences for the year under review had not been obtained by 19 institutions of which should be obtained trade licences.
- (c) Even though, the licence fees for the year under review had been paid by 259 industries and businesses which should be obtained trade licences, the amount of licence issued by September 2017 had been to 54.
- (d) A survey had not been carried out in respect of the institutions from which to be recovered industries tax, business tax, trading licence fees and environment protection licence fees in the authoritative area of the Sabha.

2.2.5 Court Fines and Stamp Fees

The following matters were observed.

- (a) The court fines amounting to Rs.1,274,208 receivable from District Courts, Pelmadulla in respect of the period from March to November 2017 had not been recovered even by April 2018 and the revenue of court fines receivable from Magistrate Courts, Ratnapura in respect of the period from May to December 2017 had not been identified.
- (b) Action had not been taken to identify and recover the stamp fees revenue receivable in respect of the period from April 2017 to December 2017.

3. Operating Review

3.1 Sustainable Development Goals

As the Sabha had not known the 2030 Agenda in respect of the Sustainable Development Goals the long term plans for upgrading livelihood and the health of the people of the authoritative area through global indicators for that objectives had not been prepared even by May 2018.

3.2 Operating Inefficiencies

The ownership of lands in which situated the cemeteries in the authoritative area of the Sabha had belonged to the Land Reform Commission. The Land Reform Commission had informed that the said lands could not be transferred with free of charge to the Sabha by the Letter No.ED/LRC dated 16 May 2017. Nevertheless, according to the Pradeshiya Sabha Act, No.15 of 1987 and the Sabha is the competent authority relating to the cemeteries under Cemetery Ordinance, the Sabha had requested to transfer above lands. But that issue could not be settled even by March 2018.

3.3 Assets Management

The following matters were observed.

- (a) A cab vehicle given to the Sabha by the Ministry of Finance and Planning in the year 1993 of which ownership had not been duly transferred and had been parked in the Sabha premises as the vehicle was not in running condition. The Sabha had not paid attention to solve the problem in respect of the ownership of the cab vehicle and either to repair or to dispose the vehicle.

- (b) Five tractors out of 07 tractors belonging to the Sabha had remained idle without being run for a period ranging from 02 months to 08 months.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters were observed.

- (a) The entire provisions amounting to Rs.613,004 made for 10 Objects had been saved.
- (b) The savings out of the total provisions of Rs.4,660,500 made for 05 Objects had ranged from 83 per cent to 99 per cent.

4.2 Internal Audit

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

4.3 Audit and Management Committees

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

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of controls.

System

- (a) Accounting

- (b) Revenue Administration
- (c) Assets Utilization
- (d) Budgetary Control

Deficiency

- (i) Failure to identify the expenditure.
 - (ii) Over statement of revenue.
 - (iii) Non-reconciliation of ledger accounts and subsidiary registers.
- Non-recovery of due revenue.
- Existence of idle and underutilized assets.
- Savings on provisions.