

Karadeniya Pradeshiya Sabha
Galle District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 20 March 2015 while Financial Statements relating to the preceding year had been submitted on 26 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary to the Sabha on 21 July 2015.

1.2 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 Karadeniya Pradeshiya Sabha as at 31 December 2014 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

Following observations are made.

- (a) Provision for Audit Fees payable for the years 1994, 1998, and 2004 amounting to Rs.80,042 and Audit Fees for the year under review had not been made in the financial statements. Although Audit Fees of the year 2009 amounting to Rs.40,356 had been paid during the year 2011, provisions amounting to Rs.50,000 had been made again during the year under review . Due to that, Creditors and Expenditure had been overstated by Rs.50,000 in the financial statements.

- (b) Although the purchases of library books during the year under review had been Rs.305,786, it had been capitalized as Rs. 344,117. Due to that, the balance of the Library Books Account and the Contribution from Revenue to Capital Outlay Account balance had been overstated by Rs. 38,331.

- (c) Provision had not been made in the financial statements for Pension Contributions payable to the Department of Pensions on behalf of the Retired Local Government Employees amounting to Rs.3,849,522 as at 31 December of the year under review.
- (d) The value of 07 Lands used by the Sabha had not been assessed and shown in the financial statements.
- (e) Although the Capital Grants Receivable for 03 Works relevant to the year under review was Rs.2,896,854, provision for that had been made as Rs. 2,985,278 in the financial statements. Due to that, Debtors and Capital Grants had been overstated by Rs. 88,424.
- (f) Provision had not been made for Capital Grants receivable for 04 Works relevant to the year under review amounting to Rs.720,771 and for expenditure in respect of those works. Due to that, Capital Revenue and Expenditure; Debtors and Creditors had been understated at the rate of Rs.720,771 in the financial statements.
- (g) Provision had been made twice during the year under review for expenditure amounting to Rs.500,000 for development works of the Kerayketiya Road near Amgahahandiya Sil Arrama. Due to that, Creditors and Capital Expenditure had been overstated by Rs.500,000 in the financial statements.
- (h) Provision for Creditors had not been made in the financial statement for 02 Works amounting to Rs.400,000 under Special Projects – 2014. Due to that, Creditors and Capital Expenditure had been understated by Rs.400,000 in the financial statements.

- (i) Although the Courts Fines Revenue Receivable for the month of January of the year under review from Elpitiya Court was Rs.97,167, when billing, it had been shown as Rs.199,417. Due to that, revenue for the year under review and Debtors had been overstated by Rs.102,250 in the financial statements.
- (j) A sum of Rs. 60,832 being Surcharge on Rates, had been shown under Rates Revenue without being shown under Warrant Charges and Fines. Due to that, Rate Revenue had been overstated in a sum of Rs.60,832 for the year under review while Warrant Charges and Fines Revenue had been understated in a sum of Rs.60,832.

1.3.2 Non-reconciled Control Accounts

A difference of Rs.638,604 was observed between the balances according to control accounts and the balances according to subsidiary registers relevant to 10 items of accounts.

1.3.3 Lack of Evidence for Audit

Evidences such as Title Deeds, up dated Register of Fixed Assets, Board of Survey Reports, Schedules, up dated Inventory of Electrical Goods, Register of Advances and Loans Register connected with transactions totalling Rs.143,698,997 shown in the financial statements were not furnished to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of The Sabha for the year ended 31 December 2014 amounted to Rs.5,730,520 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 6,377,946.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Action in terms of Sections 158 (1) (a), 159 (1) and 152 (4) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover Rates amounting to Rs.2,253,864, Acreage Tax amounting to Rs.68,854, Fair Tax amounting to Rs. 797,145 and Trade License Fees amounting to Rs.123,350 due to be recovered to the Pradeshiya Sabha during the year under review and past years.

2.2.2 Court Fines and Stamp fees

Courts Fines amounting to Rs. 1,424,500 and Stamp Fees amounting to Rs. 14,105,186 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2014.

3. Operational Review

3.1 Un-authorized Transactions

Following observations are made.

(a) Foreign Study Tours

A sum of Rs.378,025 had been spent out of the Sabha Fund for two Foreign Study Tours which is a function not falling under functions referred to in Section 132 of the Pradeshiya Sabha Act No.15 of 1987 where legal provisions are made with regard to application of the Pradeshiya Sabha Fund.

(b) Expenditure for Functions

The total expenditure to be incurred for functions relating to a matter connected with common interest should not exceed one thousand Rupees per annum and in the event of exceeding that prior written sanction of the Minister in Charge of the subject should be obtained in terms of Section 132(a) of the Pradeshiya Sabha Act No. 15 Of 1987. However, a sum of Rs.139,910 had been spent out of the Sabha Fund by the Sabha without obtaining sanction of the Minister in Charge of the Subject .

3.2 Management Inefficiencies

Non-submission of Declarations of Assets and Liabilities

Declarations of Assets and Liabilities had not been furnished by the Chairman of the Sabha, Vice Chairman and 08 Members of the Sabha for the year 2014 in accordance with requirements in the Deceleration of Assets and Liabilities Act No. 01 of 1975 as amended by Act No.74 (Amendments) of 1988.

3.3 Operational Inefficiencies

Following observations are made.

(a) Non-remittance of Tax

Specific Taxes amounting to Rs. 516,718 retained when making payments for constructions works or services supplied during the period from the year 2007 to 2011 by the Sabha and Value Added Tax recovered from various services supplied from the Sabha in terms of provisions in Value Added Tax Act No. 14 of 2002 amounting to Rs. 12,016,058 had not been remitted to the Commissioner General of Inland revenue even up to 20 March 2015, date of audit.

(b) Arrears of Lump Sum Money

Lump Sum Money amounting to Rs. 592,113 had not been recovered from 05 stalls in Market Complexes belong to the Sabha situated at Maha Aedanda and near Uragasmonhandiya Post Office.

3.4 Identified Losses

Supply of Galvanized Pipes (GI Pipe)

The Ministry of Local Government and Provincial Councils had provided 488 Galvanized Pipes of size 1¼” to the Sabha during November 2014.

- (i) Receipt of 488 Galvanized Pipes had not been recorded in the Inventory. Out of those pipes, 100 pipes had been given to the Divithura Pradeshiya Sabha as requested by the Chairman of that Sabha.
- (ii) It was confirmed at the physical inspection carried out on 01 April 2015 that there were 261 Galvanized Pipes in the possession of the Sabha and 85 Pipes in the possession of the Divithura Sabha.

- (iii) Accordingly, there was a shortage of 142 pipes out of the 488 Galvanized Pipes of size 1 ¼". The value of the shortage of pipes was Rs. 157,194.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that there were variations of revenue between the budget estimates and the actual and there were savings in certain items of expenditure. Accordingly, it was observed that the budget had not been made use of as an effective tool of management.

4.2 Audit Queries not Replied

While replies had not been submitted to 19 Audit Queries as at 31 December of the year under review, value of transaction which could be computed subject to those Audit Queries was Rs.31,419,747.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Revenue Administration
- (d.) Assets Management