

Kurunegala Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 29 March 2011 and the financial statements for the preceding year had been presented on 19 April 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Kurunegala Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kurunegala Pradeshiya Sabha as at 31 December 2010 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

1;3:1 Accounting Deficiencies

- (a) The revenue from the interest on fixed deposits for the year under review had been overstated by a sum of Rs.88,032 comprising interest amounting to Rs.21,366 on the fixed deposit of Rs.610,462 with the National Savings Bank and interest amounting to Rs.66,666 on the fixed deposit of Rs.2,000,000 with the People's Bank.
- (b) The value of work done under 02 items of account up to the end of the year under review according to the Register of Fixed Assets amounted to Rs.2,118,142. That had been shown under fixed assets in the balance sheet as Rs.2,845,000 thus resulting in an overstatement of Rs.726,858.

- (c) The revenue from interest on the fixed deposit of Rs.1,500,000 with the People's Bank, for the year under review had been understated by a sum of Rs.20,625.
- (d) According to the schedules furnished with the financial statements the Works Creditors balance amounted to Rs.53,139,228 and that had been brought to account as Rs.47,742,024. Thus the works creditors as at the end of the year under review had been understated by a sum of Rs.5,397,204.
- (e) According to the schedules furnished with the financial statements, the value of furniture and fixtures amounted to Rs.2,900,354 and that had been brought to account as Rs.2,839,379. Thus the value of the furniture and fixtures as at the end of the year under review had been understated by a sum of Rs.60,975.
- (f) The reimbursement of salaries in respect of 05 Programmes amounting to Rs.23,781,913 received had been brought to account only under the Programme 1.
- (g) Even though the Value Added Tax, Stamp Duty and the Nation Building Levy recovered in the year under review had been credited to the respective accounts, the payment made in that connection to the Commissioner General of Inland Revenue totalling Rs.1,239,227 had been debited to the Sundry Deposits Account instead of debiting the respective accounts. As such, an erroneous balance totalling Rs.1,239,227 had arisen in those Tax Accounts as at the end of the year under review.
- (h) A Fixed Deposit Account of Rs.2,000,000 opened in the year under review had been debited to the Fixed Deposits Account and Credited to the Sundry Deposits Account. Thus the Sundry Creditors Account had been overstated by a sum of Rs.2,000,000.
- (i) Even though the Accumulated Fund should be debited and the Salary Reimbursement Account should be credited for the rectification of the overstatements of Rs.696,915 under salary reimbursement receivable as at the end of the year 2009 the Outstanding Salary Reimbursements had been

debited and the Accumulated Fund had been credited by Journal Entry No. 30. Thus the balances of those accounts as at the end of the year had been overstated by a sum of Rs.696,915.

- (j) Even though the Salary Reimbursement Account should be debited and the Accumulated Fund should be credited for the rectification of the understatement of Rs.1,715,560 for the year 2009, in the year under review, the Accumulated Fund had been debited and Salary Reimbursements (Assets) Account had been credited by Journal Entry No. 34 and the Salary Reimbursements (Assets) Account had been debited and the Recurrent Grants Account had been credited by Journal Entry No. 37. Thus the recurrent grants for the year under review had been overstated by a sum of Rs.1,715,560.
- (k) Salary reimbursement amounting to Rs.4,005,191 relating to the year 2009 received in the year 2010 had been debited to the Outstanding Salary Reimbursements Account and credited to the Recurrent Grants Account by Journal Entry No. 38. Thus the recurrent grants for the year under review had been overstated by a sum of Rs.4,005,191.

1:3:2 Unreconciled Control Accounts

The balances of 19 items of account according to the Control Accounts totalled Rs.139,292,387 whereas according to the subsidiary registers /records the balances of the accounts totalled Rs.138,930,641.

1:3:3 Unexplained Differences

An unexplained balance of Rs.6,016,164 existed in relation to 10 items of account.

1:3:4 Accounts Payable

The value of balances payable older than 01 year as at 31 December 2010 amounted to Rs.3,966,165.

1:3:5 Lack of Evidence for Audit

Non – submission of Information to Audit

Transactions totalling Rs.35,924,663 could not be satisfactorily vouched in audit due to the non – submission of evidence required for audit.

2 Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2010 amounted to Rs. 13,427,594 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.1,419,560 for the preceding year.

2:2 Financial Control

- (a) The creditors balances amounting to Rs.3,124,440 relating to 05 items of accounts remaining over a period exceeding 03 years had not been settled even up to the end of the year under review.
- (b) A balance amounting to Rs.2,129,960 relating to 07 items of account brought forward over a number of years had not been settled even up to the end of the year under review.
- (c) Action had not been taken to adjust the accounts in connection with 02 uncashed Money Orders totalling Rs.1,150 brought forward from year 2009, debit tax amounting to Rs.6,876 charged by the Bank in the year 2005 and a sum of Rs.36,000 recovered on an advertising hoarding in the year 2003 relating to 01 Bank Account and four cheques valued at Rs.38,775 remaining up to December of the year under review while no recoveries could be made even up to the end of the year under review as timely action had not been taken.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Chairman is given below.

Item of Revenue	<u>2010</u>			<u>2009</u>		
	Estimated	Actual	Cumulative Arrears as at 31 December	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	1,727	1,782	2,185	1,722	1,776	256
(ii) Rents	1,858	1,984	212	2,034	2,231	48
(iii) Licence Fees	2,373	2,688	798	2,333	2,747	938
(iv) Other Revenue	61,069	60,337	3,952	16,785	51,134	3,949
Total	67,027	66,791	7,147	22,874	57,888	5,191

2:3:2 Courts Fines

Courts fines amounting to Rs.4,088,176 collected by a Magistrate's Court up to 31 December 2010 under various Ordinances remained receivable by the Sabha.

2:3:3 Stamp Fees

Stamp fees amounting to Rs.7,328,238 remained receivable as at 31 December 2010 from the Registrar General.

2:3:4 Business Tax

An arrears balance of business tax amounting to Rs.12,000 under 02 instances relating to the year 2009 existed.

The Chairman informed me on 06 December 2010 that a sum of Rs.6,000 out of that cannot be recovered as the lessee had left the area at present.

2:3:5 Rates

The rates billed for the year by the Sabha for the year under review amounted to Rs.1,727,447 and the arrears of rates as at the end of the year under review amounted to Rs.2,029,614 which was close to the amount billed. Out of that, the arrears of the Wellawa Sub – office amounted to Rs.1,373,262. Attention had not been paid to recover the arrears by taking action in terms of Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 and Rules 33 to 41 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988.

2:3:6 Tax on Land Auctions

The tax recoverable at 1 per cent of the Auctioneers valuation of the Land called Kawudawatta Menerihena, the fragmentation plan of which was approved in the year 2007 amounted to Rs.48,600. The tax computed at 1 per cent of the valuation of the Revenue Officer of the Sabha amounted to Rs.40,030. Thus the Sabha had under – recovered tax amounting to Rs.8,570.

2:4 Expenditure Structure

The budgeted and the actual expenditure of the Sabha for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	<u>2010</u>			<u>2009</u>		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
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	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	27,681	26,318	1,363	25,364	25,271	93
Others	27,009	26,972	37	25,490	31,198	(5,708)
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Sub-total	54,690	53,290	1,400	50,854	56,469	(5,615)
Capital Expenditure	92,690	92,690	--	82,454	66,255	16,199
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Grand Total	147,380	145,980	1,400	133,308	122,724	10,584
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2:5 Surcharges

According to the surcharges imposed by me against the persons responsible in terms of Section 172 (3) of the Pradeshiya Sabha Act, No. 15 of 1987 the value of surcharges that remained recoverable as at 31 December 2010 amounted to Rs.95,000.

2:6 Human Resources Management

Approved and Actual Cadre

Information on the approved and the actual cadre of the Sabha as at 31 December 2010 is given below.

Category of Posts -----	Approved -----	Actual -----
Executive Grades	01	01
Secondary Grades	24	21
Primary Grades	67	63
Other (Casual, Temporary)	22	22

2:7 Assets Management

2:7:1 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.78,995,728 and the balances older than 01 year totalled Rs.398,346.

2:7:2 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.77,047. The balances that remained outstanding for over 01 year as well amounted to Rs.77,047.

2:7:3 Non – moving Current Assets

There were balances of 02 idle accounts valued at Rs.230,000 existing for over 03 years by the end of the year under review.

2:8 Uneconomic Transactions

- (a) A surcharge of Rs.1,210 had been paid to the Employees' Trust Fund Board for the delay in the remittance of the contributions for January 2010 due to the failure to take action in compliance with the provisions of the Employees' Trust Fund Act, No. 46 of 1980 and the Orders and regulations made thereunder.
- (b) A sum of Rs.390,000 had been paid to the Sri Lanka Institute of Local Governance on 27 September 2010, to arrange for the participation of 03 Officers of the Sabha in a Special Training Workshop scheduled to be held in a foreign country. Even though that course had been cancelled, the money had not been recovered even up to the end of the year under review.

2:9 Transactions of Contentious Nature

Acquisition of Lands for Widening Pimburuwella Helawa Road

A sum of Rs.196,200 had been deposited with the Divisional Secretary, Maspotha in the year 2004 for the acquisition of lands for the widening of the Pimburuwella Helawa Road. In view of a construction done by one of the land owners, the acquisition had been cancelled by the letter dated 01 April 2008 addressed to the Chief Secretary and it had been valued again for Rs.310,000 on 08 April 2009. Even though the outstanding balance of Rs.113,800 had been deposited with the Divisional Secretary, Maspotha, the land had not been acquired and road had not been widened up to the end of the year under review.

The Chairman informed me on 06 December 2010 that it was due to the delay on the part of other institutions.

2:10 Operating Inefficiencies

The following observations are made.

- (a) The pensionary contributions payable to the Local Government Service Pension Fund on behalf of the employees of the Sabha who had retired from service had not been paid by the Sabha regularly and as such the

balance payable to that Fund by the end of the year under review amounted to Rs.5,068,344. Even though the Fund had charged a sum of Rs.15,419 as the monthly installment, the particulars of the employees relating to that amount had not been notified to the Sabha.

- (b) According to the Board of Survey Report as at 31 December 2004, shortages of 100 steel chairs of gauge 19 valued at Rs.23,000 and 200 plastic chairs valued at Rs.83,000 had been revealed. Action had not been taken even up to the end of the year under review to recover the value thereof and the Departmental charges from officers responsible.

2:11 Performance

Eight welfare projects planned for execution with provisions amounting to Rs.2,400,000 from the budget for the year 2010 had not been implemented.

2:12 Contract Administration

Provision of Rs.1,000,000 had been received by the Sabha under the Provincial Specific Grants of the year 2008 for the Garbage Bins Production Project and 218 garbage bins costing Rs.588,600 only had been produced by the end of the year under review. The Sabha could not obtain the balance sum of Rs.411,400 as the project period had ended in the year under review.

2:13 Internal Audit

An adequate internal audit of the institution had not been carried out.

3. Systems and Controls

Special attention is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Financial Control
- (e) Contract Administration
- (f) Assets Management