

Kalawana Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 27 May 2014 while Financial Statements relating to the preceding year had been submitted on 03 May 2013. The Auditor General's Report relating to the year under review was sent to the chairman of the Sabha on 01 December 2014.

1.2 Adverse Opinion

I am of opinion that the Financial Statements presented do not disclose a true and fair view of the financial position as at 31 December 2013 and operations for the year then ended of the Kalawana Pradeshiya Sabha in accordance with the Sri Lanka Public Sector Accounting Standards, due to importance of the matters referred to in paragraphs 1.3 in this report.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Following statements which should be submitted along with the set of Financial Statements in accordance with Paragraph 21 of Sri Lanka Public Sector Accounting Standard 01 had not been submitted.

- (i.) Cash Flow Statement
- (ii.) Summary of Important Accounting Policies

1.3.2 Accounting Deficiencies

Following observations are made.

- (a.) The sum of Rs.106,187 paid during the year under review as interest relevant to the preceding year for the loan obtained through the Local Loans and Development Fund for the construction of Crematorium had been adjusted to the expenditure for the year under review. Due to that, surplus for the year under review had been understated by that amount.
- (b.) A sum totalling Rs. 4,628,610 as Rs. 3,290,135 for the construction of the Crematorium and as Rs.1,338,475 for the construction of Bus Stand was due to be paid to the Local Loans and Development Fund. However, a debit balance of Rs. 306,668 had been shown in the Financial Statements under Local Loans and Development Fund.

- (c.) While sum of Rs. 363,000 had been identified as revenue on account of Court Fines, a sum of Rs. 437,000 had been overstated in the Financial Statements as Court Fines, by showing Billed Revenue as Rs. 800,000. Further, Revenue Receivable amounting to Rs. 383,000 had been shown as Rs. 562,771 overstating the Current Assets.
- (d.) Out of Stamp Fees Revenue receivable to the Pradeshiya Sabah, a sum of Rs. 119,191 payable to the Balavinna Concrete Yard had been deducted direct through the Department of Local Government and remitted to that Institution. Due to that, the sum of Rs. 119,191 to be accounted as Stamp Fees Revenue had not been accounted during the year under review.
- (e.) Although the actual Stamp Fees Revenue Receivable as at the end of the year under review amounts to Rs.6,277,700, that value had been shown as Rs.1,964,341 understating the Current Assets in a sum of Rs.4,313,359.
- (f.) Assets valued at Rs. 430,000 purchased during the year under review had not been capitalized through Revenue Contribution to Capital Outlay Account.
- (g.) Although a sum of Rs. 701,673 had been shown in the Financial Statements as an amount payable to Commissioner General of Inland Revenue on account of Value Added Tax, Nation Building Tax and Stamp Fees, Such a liability had not been confirmed at the end of the year under review.
- (h.) Instead of taking into accounts under Capital Aids and spending the sum of Rs.637,426 received under Roads Maintenance Programme for concreting the Thapassarakanda, Suruttuwaththa Road, for the year under review, it had been spent under General Deposits Account.
- (i.) A sum of Rs.574,590 received as Deposits during the year under review had been taken to a separate Cash Book of Deposits and spent that amount, without accounting that through the main cash account.
- (j.) A sum of Rs.35,000 paid as an advance for a foreign training programme had been accounted as expenses without settlement.
- (k.) Although the Salary Reimbursement Revenue including the Reimbursement of Salaries and Members Allowance was Rs. 8,157,667, the revenue billed had been shown as Rs.8,756,130 overstating the Salary Reimbursement Revenue for the year under review in a sum of Rs.598,463. While that revenue receivable at the end of the year was Rs.1,748,186, it had been shown as Rs.1,716,686 in the Ledger Account, understating a sum of Rs.31,500 in the accounts.

- (l.) A sum of Rs. 223,000 had been debited to the Accumulated Fund Account, having credited that amount to the Salary Reimbursement and Members Allowance account without identifying the amount and the reasons specifically.
- (m.) Any step had not been taken during the year under review for settlement of Creditors amounting to Rs. 926,758 remained un-settled over a number of years.
- (n.) Expense Creditors amounting Rs. 147,524 relevant to the year under review had not been taken as expenditure for the year under review.
- (o.) The difference of Rs. 2,798,962 of the year under review between the Rates Registers and the Leger Account had been written off against the Accumulated Fund without identification and any approval.
- (p.) Discount amounting to Rs. 40,693 allowed for Rates had been adjusted to the Accumulated Fund without taking to accounts as expenditure for the year.
- (q.) Although a sum of Rs. 963,950 had been identified as Trade License Income of the Head Office and the Sub Office, it had been accounted as Rs. 1,037,321. Instead of correcting the sum of Rs.73,371 accounted in excess after identification, it had been written off against the Accumulated Fund Account.
- (r.) Receipts relating to another Item of Revenue Head too had been taken together with the Public Market Stall Rent (5-22) and had been accounted that as Rs.1,203,172 erroneously. . Instead of transferring that specific amount to the correct Revenue Head after identification, a sum of Rs.246,482 had been transferred to the Accumulated Fund Account through Journal Entry Number 21.
- (s.) A revenue of Rs.1,864,007 was receivable on account of hiring out the Road Roller on an agreement entered into with the State Development and Construction Corporation during the period from the year 2009 to the year 2011.A sum of Rs.150,000 received on the Receipt No. 23318 out of those arrears had been accounted as an income during the year under review. The balance sum of Rs. 1,714,007 outstanding from the above mentioned Corporation had not been disclosed in the Financial Statements as an Account Receivable Balance.
- (t.) Recommendations made to destroy/auction,with regard to the goods valued at Rs. 1,271,315 through the Board of Survey Reports for the year 2013 had not been implemented up to 06 August 2014. However, the necessary adjustments had been made in the Contribution from Revenue to Capital Outlay Account and the Fixed Assets Accounts before implementation of the recommendations.

1.3.3 Non-reconciled Control Accounts

- (a.) While the total of balances as at 31 December 2013 relating to 10 Items of Accounts according to Control Accounts had been Rs.14,891,925, the total of those balances according to relevant subsidiary registers was Rs.19, 090,911, and the difference had been Rs.4,198,986.
- (b.) When adjusting the balance amounting to Rs.4,756,785 allocated on behalf of the Creditors for the year under review, to the Expenditure Heads there had been increases and decreases.

1.3.4 Lack of Evidence for Audit

Evidence required for the confirmation of balances relating to 04 items of accounts totalling Rs. 62,340 included in the Financial statements were not furnished to audit.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

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

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Pradeshiya Sabha Act No. 15 of 1987 ----- Clause 132 (k)	- Payments amounting to Rs. 63,500 had been made for Charity and Welfare Works in 04 instances without prior approval of the Minister in Charge of the Subject
(b.) Financial regulations of the Republic of Sri Lanka - 1992 ----- Financial Regulation No. 371 (2)	- Action had not been taken to settle Advances amounting to Rs. 246,000 in terms of the Regulation.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of operational revenue over recurrent expenditure for the year ended 31 December 2013 amounted to Rs. 8,447,530 as compared with that during the excess of operational revenue over recurrent expenditure for the preceding year amounted to Rs. 3,844,692.

2.2 Analytical Financial Review

While the surplus in the Financial Operations for the year under review had been increased by 120 percent when compared with that for the preceding year, increase in the Other Revenue during the year under review had been the main reason for that when compared with that during the preceding year.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	6,498	1,610	3,925
(ii)	Lease Rent	970	6,511	128
(iii)	Licence Fees	1,187	1,331	-
(iv)	Other Revenue	13,772	20,420	389

2.3.2 Performance in Revenue Collection

When revenue collected during the year under review is compared with the estimated revenue, revenue collection relating to Rates and Taxes, had been reduced by 303 percent.

2.3.3 Rates

Out of the total Rates in arrears as at 30 September 2013, date of audit, 43 percent of the individual balances had been balances over Rs. 5,000 and total value of those balances amounted to Rs. 1,380,130. It was 12 percent of the total number of units liable for Rates. Accordingly, it had been possible to recover large amount of Rates from a low percentage of units, and action had

not been taken to recover Rates paying attention to that matter. Instances of defaulting payments over a period ranging from 01 to 49 years too were observed.

2.3.4 Other Revenue

The following observations are made.

- (a) Twenty five lorries available for hire, 119 three wheelers and 15 vans had been registered in the sabha for the year 2013. The hiring charges per month were Rs 445, Rs 134 and Rs 150 respectively. Action had not been taken to recover at the rate of Rs 93,500, 191,352 and Rs 27,000 respectively by framing bye-laws.
- (b) Action had not been taken to recover arrears of revenue due from 15 traders as open air market charges in 2011, 2012, and 2013 which amounted Rs 111,340, Rs 58,080 and Rs 46,680 respectively, all of which aggregated Rs 216,100.

3. Operating Review

3.1 Management Inefficiencies

A sum of Rs. 28,500 had been paid to a Member of the Sabah being travelling expenses incurred by him due to ill health, on the basis of the Sabah approval subject to covering approval of Commissioner of Local Government on agreement to recover that from the Member, if it is not approved by the Commissioner of Local Government. Action had not been taken to recover that amount from the relevant Member as approval of the Commissioner of Local Government had not been received up to 06 August 2014, date of audit.

3.2 Improper Transactions

While the Cab Vehicle No. WP LF 4827 belongs to Sabah was in running condition during January, February, March, April and September 2013, hire charges at the rate of Rs. 120,000 per month totalling to Rs. 600,000 had been paid for a private vehicle used for the Chairman's travel during the five months, without approval of the Minister in charge of the Subject.

3.3 Contract Administration

It had been planned during the year 2009 to construct the Bus Stand with Kalawana Public Market Complex and Agreement had been entered in that year for a sum of Rs. 8,867,228. While a sum of Rs. 7,704,504 had been spent from that time to date of this report, it was observed that the benefits to the parties expected to be benefited are getting delayed continuously due to abandonment of this work at present.

4. Accountability and Good Governance

4.1 Internal Audit

Although it is function of the Chairman in conducting an adequate internal audit with regard to Finance and Stores in terms of Rule 5(7) of the Pradeshiya Sabha Rules (Finance and Administration) Series of 1988, action had not been taken accordingly.

4.2 Budgetary Control

Out of Provisions made available for 16 Items of Expenditure, Provisions amounting to Rs.16,443,585 had been saved at the end of the year under review.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Budgetary controls
- (d.) Contracts Administration