

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 26 March 2014 while Financial Statements relating to the preceding year had been submitted on 28 March 2013. The Auditor General's Report relating to the year under review was issued to the Chairman on 22 December 2014.

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 2013 and its financial performance and Cash Flow for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Public Sector Accounting Standards

Although Local Authorities should prepare the financial statements according to the Sri Lanka Public Sector Accounting Practices with effect from 01 January 2011, in terms of circular No.PED/54 dated 19 January 2010 of the Director General of Public Enterprises, those standards had not been followed.

1.3.2 Accounting Policies

Accounting Policies followed by the Sabha had not been disclosed together with the financial statements.

1.3.3 Accounting Deficiencies

Following observations are made.

- (a.) Provision for Audit Fees for the year under review had not been made in the financial statements.
- (b.) Purchases and Donations of Fixed Assets amounting to Rs. 1,726,355 had not been capitalized.
- (c.) Inventory Goods valued at Rs. 58,120 purchased during the year under review had been capitalized causing overstatement of the balance of the Furniture and Fixtures Accountant the balance of Contribution from Revenue to Capital Outlay Account in the financial statements.
- (d.) Although the Courts Fine Revenue for the year under review was Rs. 1,351,211, it had been shown as Rs. 1,400,875 in the financial statements causing overstatement of revenue for the year and the Debtors by Rs. 49,664.
- (e.) 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. 3,758,861 as at 31 December of the year under review

- (f.) The Loan Balance of Rs. 4,899,106 payable as at 31 December of the year under review of the loan of Rs. 8,000,000 obtained from the bank had been omitted in the financial statements.
- (g.) While the value of 07 Lands handled by the Sabha had not been assessed and shown in the financial statements, a title deed or a transfer order with regard to these were not in the possession of the Sabha.

1.3.4 Non-reconciled Control Accounts

A difference of Rs. 738,195 was observed between the balances according to control accounts relevant to 11 items of accounts and the balances according to subsidiary registers.

1.3.5 Lack of Evidence for Audit

Evidences such as Title Deeds, up dated Register of Fixed Assets, Board of Survey Reports, Schedules, and up dated Inventory of Electrical Goods connected with transactions totalling Rs. 132,800,029 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 2013 amounted to Rs. 6,377,946 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 5,079,312.

2.2 Revenue Administration

2.2.1 Rates, Acreage Tax and Weekly Fair Tax

Action in terms of Section 158 of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover Rates amounting to Rs.1,858,897, Acreage Tax amounting to Rs.63,969 and Weekly Fair Tax amounting to Rs. 797,145 due to be recovered to the Pradeshiya Sabha during the year under review and preceding years.

2.2.2 Trade License Fees

Action had not been taken to recover Trade License Fees amounting to Rs. 123,350 relevant to the year under review and previous years in terms of Section 159 of the Pradeshiya Sabha Act No.15 of 1987 during the year under review.

2.2.3 Court Fines and Stamp fees

Courts Fines amounting to Rs. 1,612,292 and Stamp Fees amounting to Rs. 11,218,720 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013.

2.2.4 Lease of Maha Adanda Trade Complex

Following matters were observed at the physical inspection carried out on 23 January 2014 in connection with leasing out of 12 stalls in the upper stalls and 12 stalls in the lower floor of the Maha Adanda Trade Complex.

- (i.) Although the lease money should be paid on or before 15th day of every month in terms of condition 01 of the lease agreement, there were arrears of rent as at 31 December 2013 amounting to Rs. 67,152 due for the stalls. Although it is required to pay an additional charge of 1% for each day of delay in making payments under this condition, recording of that additions charge in the registers or recovery had not been made by the Sabha.
- (ii.) Although the property taken on lease should not be sub-leased in terms of condition 04 of the Agreement, it was observed that 07 stalls had been sub-leased.
- (iii.) According to Condition 08 in the agreement, trading material should not be kept outside except in the stall taken on lease. However, the lessee of the stall No. 1 in the lower floor had covered the opened part underneath the staircase with an iron gate and had stored trading material therein and in the latrine constructed for the Trading Complex.

2.2.5 Weekly Fair

Following matters were observed at the physical inspection carried out on 13 December 2013 in connection with the collection of revenue of the Uragasmansandiiya Weekly Fair.

- (i.) The seal of the Head Office or Sub-office had not been placed on the fair tax receipts books.
- (ii.) Although there were 322 numbered sheds, out of those number of sheds used for trading activities had been 150.
- (iii.) While the sheds had not been used for the trading activities, trading activities had been carried out having put up tents in front of the sheds and the sheds had been used for requirements such as stacking stocks and parking motor cycles.
- (iv.) Although trading activities had been carried out in 26 stalls constructed in the weekly fair by the Southern Province Economic Promotion Project, lease money had not been recovered from those.

3. Operational Review

3.1 Management Inefficiencies

Non-remittance of Tax Collected to the Department of Inland Revenue

Tax recovered amounting to Rs.12,066,058 recovered by the Sabha from the year 2005 to 2013 in terms of Section 66/67 of the Value Added Tax Act No.14 of 2002; Stamp Fees

recovered amounting to Rs. 394,855 in terms of Stamp Fees special Provisions Act No.12 of 2006 and Specified Charges amounting to Rs. 16,940 totalled as Rs.12,477,253 had not been remitted to the Department of Inland revenue even up to November 2014.

3.2 Improper Transactions

- (a.) A sum of Rs. 200,000 had been paid out of Sabha Funds to the Karandeniya Pradeshiya Sabha Welfare Association for an entertainment tour during August 2013. It was observed in audit that this payment had been paid for a matter for which legal provisions are not provided in terms of Section 132 of the Pradeshiya Sabha Act No. 15 of 1987.

- (b.) Although it had been approved by the Minister in charge of the subject of Local Government to spend a sum of Rs. 2,000 monthly out of Sabha Funds for the private telephone bills to the Chairman, according to the letter No. SPSLG/B/05/6/GEN dated 23 April 2009 of the Southern Province Commissioner of Local Government, contrary to those directions, a sum of Rs. 36,000 had been paid as Private Mobile Telephone Allowance at the rate of Rs. 4,000 per month from January 2012 to September 2012, as per decision of the Monthly Sabha Meeting held on 07 April 2011.

4. Accountability and Good Governance

Audit Queries not Replied

While replies had not been furnished to 19 audit queries as at 31 December of the year under review, value of transactions that could be computed connected with those audit queries was Rs.31,859,181.

5. Systems and Controls

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

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