

**Kuliyapitiya 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 31 March 2014 and the financial statements for the preceding year had been presented on 14 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 September 2014.

**1.2. Opinion**

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kuliyapitiya Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations for the year then ended.

**1.3. Comments on Financial Statements**

**1.3.1. Decrease in Net Assets**

According to the financial statements presented, the net assets at end of the year under review was Rs.160,060,482, and the net assets for the preceding year was Rs.206,402,002 indicating a decrease in net assets by Rs.46,341,520.

**1.3.2. Accounting Deficiencies**

The following accounting deficiencies were observed.

- a) Though the sum of taxes payable as at end of the year under review had been Rs.254,516 as per financial statements, actually there was no such tax liability. Therefore the taxes payable had been overstated in the accounts by Rs. 254,516.

- b) The stamp fees payable as at end of the year under review had been overstated in the financial statements by Rs.52,007. Similarly the work aid related to the year under review had been understated in the financial statements by Rs.36,431,161.
- c) The work expenditure related to the year under review had been understated in the financial statements by Rs.7,391,118.
- d) The crematorium built with the consent of Kuliypitiya Urban Council, at a cost of Rs.1,204,619, and a Jeep valued at Rs.800,000, received by the Sabha from Department of Livestock Products and Health, had not been brought to the financial statements of the Sabha.
- e) The stamp fees billed for the year under review, had been overstated in the accounts by Rs.31,665,599.
- f) The value of salary reimbursements of the year under review, had been understated by Rs.236,114. Similarly the value of salary reimbursements receivable at end of the year under review had been understated by Rs.355,787.

### **1.3.3. Contingent Liabilities**

The Sabha had not paid the contributions properly to the Local Government Pension Fund, with respect to the employees, who have served in the Pradeshiya Sabha and retired. Therefore the balance payable to the Fund, as at end of the year under review amounted to Rs.1,686,472.

### **1.3.4. Unreconciled Control Accounts**

Differences amounting to Rs.4,538,284 were observed between the balances of 06 items of accounts, as at end of the year under review and the corresponding values in relevant registers.

### **1.3.5. Accounts Receivable and Payable**

- a) The value of balances of accounts receivable as at 31 December 2013 amounted to Rs.87,975,815, and of this, age analysis had not been presented for Rs.87,806,080.

- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.66,613,662, and out of this, Rs.21,569,393 represent balances for a period of 1 to 3 years.

### **1.3.6. Lack of Evidence for Audit**

#### **Non-submission of Information to Audit**

Transactions amounting to Rs.154,476,420 could not be examined in detail, due to non-submission of required information to audit.

## **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 2013 amounted to Rs. 44,903,732, as compared with the excess of revenue over recurrent expenditure amounting Rs.4,816,679 for the preceding year. Therefore the financial result had been improved by Rs.40,087,053. When the capital aid of Rs.14,892,793 and capital expenditure of Rs.105,757,756 are adjusted, the financial result, for the year under review had been converted to a deficit of Rs.45,961,231.

### **2.2. Analytical Financial Review**

The following observations are made.

- a) The total recurrent revenue of the Sabha for the year under review amounted to Rs.103,177,653, and of this, Rs.93,881,335 representing 91% consists of non-generated revenue, such as court fines, stamp fees, and salary reimbursements. The entire capital revenue amounting to Rs.14,456,043 had been received from other institutions for development work in the area under authority, through sources such as Gama Neguma and Maga Neguma.
- b) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.58,273,920 and of this, Rs.31,835,567 representing 55% was expenditure related to personal emoluments. Of this, 72% amounting to Rs.22,785,721 had been received from

the Commissioner of Local Government in the form of salary reimbursements, and it had been brought to account under other revenue. Similarly the capital expenditure amounted to Rs.105,757,756 and 64% of this, amounting to Rs.67,654,820 had been spent from Sabha funds, and the balance 36% amounting to Rs.38,102,936 consists of development works carried out from provisions of other institutions, through sources such as Gama Neguma, and Maga Neguma.

### **2.3. Revenue Administration**

#### **2.3.1. Performance on Revenue Collection**

Though the revenue collectors do not possess the legitimate authority to collect revenue such as trade licences, stall rentals, lease rentals in the field, the revenue collectors of the Sabha had collected such revenue in the field through-out the year.

#### **2.3.2. Rates and Taxes**

The arrears of rates and taxes relevant to the area under authority of the Sabha as at end of the year under review amounted to Rs.196,198 and it represents 89% of the total annual billings amounting to Rs.220,000. The arrears of rates and taxes relevant to the area under authority of the Horombawa Sub Office as at end of the year under review, amounted to Rs.186,796 and this accounts for 42%, of the total annual billings of Rs.446,016 for 1153 units. Action need to be taken to prepare the list of arrears quarterly, issue the notices and recover the arrears in rates and taxes after retaining the properties, but this had not been carried out in terms of Pradeshiya Sabha (Finance and Administration) Rules 32-42 of 1988.

#### **2.3.3. Business Taxes and Trade Licence Fees**

Action had not been taken to recover the taxes from industry owners and businessmen, as stipulated in the Pradeshiya Sabha (Finance and Administration) Rules 59-67 of 1988 and Articles 150 (1) and 152 (1) of Pradeshiya Sabha Act No. 15 of 1987.

#### **2.3.4. Court Fines and Stamp Fees**

The court fines receivable from the Chief Secretary of the Provincial Council as at 31 December 2013 was Rs.2,363,995.

### **3. Operating Review**

#### **3.1. Management Inefficiencies**

The Sabha had approved 1086 building applications during the period from 2008 to 2013, and even as at end of the year under review, Certificates of Conformity had not been obtained with respect to 1003 permits. Similarly the Sabha had not taken any action against those permit holders for not extending the period of building permits, or utilizing the buildings without obtaining the Certificates of Conformity. The Sabha had not promulgated the by-laws also with respect to recovery of Certificates of Conformity charges, and charges for delay.

#### **3.2. Court Cases against the Sabha**

- a) There had been a court case against the Sabha with respect to a problem related to concreting of Wevagama Gamamedda access road, under 'Jathika Saviya Gamaneguma Programme' - 2010, but there was no progress reported of this case.
- b) According to the judgement of court case No. 9049 related to leasing of meat stall in the year 1988, the Sabha had been ordered to pay a daily charge of Rs.1,800 to the plaintiff for a period of one year. The Sabha had filed an appeal in Appellant Courts against the judgement and it had cost Rs.100,000 to the Sabha. Since the Appellant Courts had rejected the appeal, on 30 January 2014 there was a risk, involving the related payment.

#### **3.3. Delayed Projects**

The following observations are made.

- a) Funds amounting to Rs.3,500,000 had been allocated for Dangolla Watta Drinking-water Project and Katupotha Dembrawewa Water Project, under operational aid in 2012. The projects had not been in operational state even as at end of the year under review, due to non-implementation of works according to the time schedule and insufficiency of funds.
- b) The Sabha had purchased PVC pipes at a cost of Rs.438,180 on 15 October 2012 for Karaliyedda and Godagama Water Projects. Even at the date of audit, these pipes had not been used for the projects and had been stacked insecurely in the Sabha premises.

### **3.4. Solid-Waste Management**

Out of waste collected from the area under authority of the Sabha, the carbonic waste had been despatched to Solid-waste Management Centre of Kuliyaipitiya Town Council, for production of compost fertilizer. The other waste had been disposed off to dumping pits in 3 private lands without sorting out the waste.

### **4. Systems and Control**

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

- a) Accounting
- b) Financial Control
- c) Revenue Administration
- d) Assets Management