

**Kundasale Pradeshiya Sabha****Kandy District****1. Financial Statements****1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 28 March 2014 and the financial statements for the preceding year had been presented on 30 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 16 January 2015.

**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 Kundasale 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. Accounting Policies**

The accounting policies followed during the preparation of accounts had not been disclosed in accounts.

**1.3.2. Accounting Deficiencies**

The following deficiencies are observed.

- (a) The value of the 228 buildings owned by the Sabha had not been identified and brought to account.
- (b) The discount of Rs.45,288 received at the purchase of library books during the year under review, had not been brought to account, and the value of library books also had been understated by a similar amount.

- (c) The value of 08 works constructed and developed by the Sabha during the year under review, spending Rs.5,840,000 had not been capitalized.
- (d) The interest on fixed deposits amounting to Rs.263,219, received as direct credits, in the year under review, had been shown in the accounts as interest receivable, without accounting as income of the year.
- (e) 12 in number toner purchased during the year under review at a cost of Rs.118,600, had been debited to plant and machinery account and capitalized.
- (f) The camera of Samsung brand valued at Rs.13,990, purchased during the year under review had been debited to plant and machinery account twice.
- (g) 03 Helmets and 03 Jackets received free of charge, with 03 Motorcycles purchased during the year under review, had not been assessed and brought to account.
- (h) Medicine valued at Rs.275,000, had been received by the Sabha during the year under review, and the expenditure and closing stock relevant to the year, had not been computed and brought to account.
- (i) A sum of Rs.24,750 had been paid for 75 office identity cards purchased during the year under review, and this had been brought to account under furniture and office equipment account and capitalized.
- (j) The assessment cards purchased during the year under review at a cost of Rs.154,485 had been capitalized as furniture and office equipment, instead of accounting as stationary expenditure.
- (k) The items and equipment such as, calculators, microphones, microphone stands, electric kettles, office bags, electric fans, wall clocks, and cameras, purchased at various instances during the year under review, had been brought to account without a proper basis of categorization.

- (l) Provisions had not been made for audit fees payable as at 31 December of the year under review.
- (m) The water, electricity and telephone chargers amounting to Rs.112,587 payable as at 31 December of the year under review, had not been brought to account as accrued expenditure.
- (n) The surcharges on rates and taxes, and fines for delays amounting to Rs.805,217 relevant to the year under review, had been brought to account under rates and taxes, though it should have been brought to account under fines and warranty charges.
- (o) Though the balance, in the bank savings account relevant to Urban Development Authority as at 31 December of the year under review amounted to Rs.1,620,472, it was shown in the ledger account as Rs.1,526,156. Therefore it had been understated by Rs.94,316.
- (p) Though the balance of contributions for pension payable as at 31 December of the year under review amounted to Rs.481,336, it had been shown in the account as Rs.448,374, understating the amount by Rs.32,962.
- (q) The Sabha had not adopted a stores advance account system.

### **1.3.3. Un-reconciled Control Accounts**

According to the control account, the total account balances relevant to two items of accounts was Rs.36,880,572, whilst the total account balances of the same according to the schedules was Rs.15,589,700. Therefore a difference of Rs.21,290,872 was revealed.

### **1.3.4. Suspense Accounts**

A credit balance of Rs.15,383 existed in the suspense accounts as at 31 December of the year under review, and action had not been taken to identify and settle this balance.

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

Transactions totalling Rs.39,669,841 relevant to 04 items of accounts presented in financial statements, could not be examined satisfactorily, 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.49,292,516, as compared with the excess of revenue over recurrent expenditure amounting Rs.49,012,492 for the preceding year. Therefore the financial result had been improved by Rs.280,024.

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

Though a sum of Rs.20,465,294 had been received as salary reimbursement for the year under review, Rs.33,233,073 had been paid as salaries and allowances. Therefore it is observed that a sum of Rs.12,767,779 spent from the income of the Sabha, for the payment of salaries to the employees of the Sabha. This amount is 16% of the recurrent revenue of the Sabha, excluding the salary reimbursement.

### 2.3. **Revenue Administration**

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

##### **Estimated Revenue, Actual Revenue and Revenue in Arrears**

The information with respect to Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review, submitted by the Chairman are indicated below.

Item of Revenue	Estimated	Actual	Cumulative Arrears
	Rs.'000	Rs.'000	as at 31 December Rs.'000
(i) Rates and Taxes	23,278	9,479	6,173
(ii) Lease Rent	9,353	9,320	848
(iii) Licence Fees	5,801	5,511	---
(iv) Other Income	38,365	43,792	14,171

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

The arrears at the beginning of the year under review amounted to Rs.8,400,379 and the collection out of the amount billed for the year was Rs.4,562,179. Therefore the percentage of collection during the year had been 62.76%. The balance due as at 31 December 2013 amounted to Rs.6,173,360 and action had not been taken even as at 31 May 2014 to recover the arrears, in accordance with Articles 158 (1) and 159 (1) of the Pradeshiya Sabha Act No. 15 of 1987

### **2.3.3. Taxes on Waste**

The arrears at the beginning of the year under review amounted to Rs.1,022,397, whilst the arrears at the end of the year amounted to Rs.912,687. The recovery level of arrears remained at a weak state of 35%, and the Sabha had not implemented a proper procedure to recover this money.

### **2.3.4. Stall Rentals**

The following matters are observed.

- a) The instalments payable according to the lease agreements, had not been paid by the leaseholders who had obtained stalls owned by the Sabha. Therefore an arrears of Rs.991,830 remained as at 31 December 2013.
- b) The stall rental in arrears due for years 2008 and 2009, with relevant to Beef Stalls Number 01 and 02 in Digana, amounted to Rs.1,300,188.

### **2.3.5. Licence for Three-wheeler Parks**

The following matters are observed.

- (a) The Sabha had adopted a procedure of issuing licences for Three-wheelers at a fee of Rs.600 per year. The balance in arrears as at 31 December 2013 amounted to Rs.1,861,151, and no proper procedure had been followed to recover this balance in arrears.

- (b) There had been instances where the licence fees had been charged from Three-wheelers, but non-issuing of proper licences to those Three-wheelers.
- (c) The issuing of licences for Three-wheelers and the collection of income required by the Sabha had been entrusted as a duty of Revenue Inspectors. But licences had not been issued for certain Three-wheeler-parks, and the collection of income also remained at a weak state.

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

The court fines amounting to Rs.226,752 and stamp fees amounting to Rs.13,096,013 had been receivable as at 31 December 2013, from the Chief Secretary of the Provincial Council and other authorities.

### **2.3.7. Transmission Tower Charges**

The following matters are observed.

- (a) The sample physical inspection carried out within the area under the authority of the Sabha revealed, that 22 transmission towers had been constructed without the authority, and this had not been subjected to any follow-up process by the Sabha. According to the Gazette Extra Ordinary Notification No. 1597/8 dated 17 April 2009, of the Republic of Sri Lanka, the fees for telephone transmission towers should be charged at the rate of Rs.20,000, up to the height of 05-20 metres and Rs.100 for every additional metre in height. But action had not been taken to charge the fees with relevant to 22 unauthorised transmission towers installed within the area under the authority of the Sabha. Therefore the Sabha had been deprived of approximately over Rs.440,000.
- (b) The field officers had not reported to the Sabha, about the unauthorised transmission towers installed within the area under authority, and had not taken proper action. The possibility of charging Rs.10,000 on this, for every 05 metres of height, when regularising the unauthorised transmission towers had not been considered either, as stipulated in the Schedule V of the relevant Gazette Notification.

- (c) The annual assessment of each land where transmission towers had been constructed should be increased, and the officers responsible had not taken action accordingly for relative increase of rates and taxes.
- (d) The Local Government Commissioner's Circular No. 2014/4 dated 18 June 2014, addressed to all the Heads of Local Authorities in the Central Province, stipulates that the Secretary of the Sabha, Revenue Inspectors, Revenue Administrator and Officer in Charge of the Subject are vested with the mandated responsibility of revenue collection. But action had not been taken either, to identify the companies which had been provided with communication facilities through 09 telephone transmission towers, and collect the business taxes up to the year 2013.

### 3. **Operating Review**

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

The following matters are observed.

- (a) Though the sports grounds owned by the Sabha had been given on hire, a register had not been maintained to record the charges.
- (b) 31 cemeteries valued at Rs.207,340,000 owned by the Sabha and 323 blocks of lands for which the value had not been indicated, had not been valued and brought to account.

#### 3.2. **Working Capital Management**

The ratio between total current assets and current liabilities was 1:1.43, whilst the ratio of 1:1.25, in the preceding year was not in a superior level. Further, 28% of the total current assets amounting to Rs.25.3 million had been works debtors, whilst 59% of total current liabilities amounting to Rs.76.8 million consisted of security deposits and sundry deposits.

#### 3.3. **Idle and Underutilized Assets**

03 types of assets valued at Rs.561,000 as at the end of the year under review, had been kept idling and underutilised for a period of over 01 year.

### **3.4. Contract Administration**

The following matters are observed.

- (a) Though a total of Rs.30,000 had been paid to fix hoardings for works in 05 roads, at the rate of Rs.6,000 per road, the relevant hoardings had not been fixed in relevant roads.
- (b) Though the payment had been made for 618 feet in respect of Pinthaliya Junction – Gal Maduwa Road, which had been constructed and completed with laid interlocking concrete blocks, the physical inspection revealed that the length of the road was 615 feet. Though the concrete safety kerb should be constructed with a thickness of 6 inches, the inspections carried out on 04 instances along a stretch of 36 feet at the end of the road, revealed that the concrete kerb had been constructed with the thickness of 4", 6", 3 1/2".

## **4. Accountability and Good Governance**

### **4.1. Corporate Plan**

A corporate plan had not been prepared for the Sabha by the year under review.

### **4.2. Procurement Plan**

Though capital expenditure of Rs.88,985,611 had been incurred by the Sabha, a procurement plan had not been prepared for the year under review.

### **4.3. Audit and Management Committees**

Audit and Management Committees had not been established in the year under review

### **3.5. Internal Audit**

Adequate internal audit had not been carried out by the Sabha during the year under review.



#### **4.6. Budgetary Control**

The following are matters observed.

- (a) When the estimated revenue and expenditure in the budget prepared for the year under review were compared with the actual revenue and expenditure, variances in the range of, 74% to 186% in respect of 06 items of revenue, and variances in the range of 672% to 12% in respect of 08 items of expenditure were observed. Therefore it was observed during the audit that the budget had not been made use of as an effective tool of control.
- (b) The budgeted revenue of 10 sub items of revenue relevant to 03 revenue heads amounted to Rs.35,602,594 and the relevant percentage of revenue collection was 29%.
- (c) Action had not been taken to earn the budgeted revenue of Rs.150,000 relevant to 04 sub items and 05 revenue heads.

#### **5. Systems and Controls**

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

- a) Accounting
- b) Internal Audit
- c) Revenue Administration