

**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 to audit on 31 March 2014 and the financial statements for the preceding year had been presented on 28 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 05 December 2014.

**1.2 Opinion**

In my opinion, except for the effects of the matters referred to in Paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kurunegala Pradeshiya Sabah as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a.) According to the Register of Value Added Tax, the amount payable as at end of the year under review was Rs.232,264 and according to the financial statements it was Rs.449,729. Therefore, the creditors for Value Added Tax had been overstated by Rs.217,465.
  
- (b.) The value of motor vehicles and carts as at end of the year under review amounted to Rs.19,432,945 and this included a water bowser valued at Rs.102,000 which had been removed during the year 2012 and the waste cart valued at Rs.347,145 which is not available with the Sabha at present.

- (c.) According to the Board of Survey Reports the value of library books as at the end of the year under review amounted to Rs.5,935,229 and according to the financial statements the value was Rs.6,346,457. Therefore, library books had been overstated in the accounts by Rs.411,228. Further, the counterfoil books valued at Rs.90,353 as at end of the year under review had not been brought to account.
- (d.) Income from salary reimbursements relating to the year under review was Rs.26,030,646 as per financial statements and this included sum of Rs.600,000 received for performance competitions from the Department of Local Government that should be accounted as other revenue. Further, the salary reimbursements relating to the year under review amounted to Rs.24,796,074 whereas it had been accounted as Rs.25,430,646 overstating by a sum of Rs.634,572.
- (e.) Sundry creditors (works) account and the capital expenditure had been debited and credited respectively by Rs.44,932,404 through Journal Entry No.15. However this had been shown in the sundry creditors (works) ledger account as Rs.44,301,195 understating by Rs.631,209.
- (f.) A sum of Rs.3,000,000 had been invested in fixed deposits at the National Savings Bank on 03 September 2013 at an interest of 10.5% and the interest there on amounting to Rs.105,000 for the year under review had not been accounted under interest income and revenue debtors.
- (g.) Stamp Fees relating to the year under review had not been billed and brought to account and a sum of Rs.11,619,727 received for the year 2009 and a sum of Rs.29,700,107 received for the year 2011 totaling Rs.41,319,834 had been brought to account as stamp fees income relating to the year under review. Further, a sum of Rs.1,601,524 for the year 2010, a sum of Rs.22,500,000 for the year 2011 and a sum of Rs.8,398,476 for the year 2012 totaling Rs.32,500,000

accrued as at end of the year under review had not been brought to account under stamp fees revenue and debtors.

- (h.) Repairs to the Maraluwawa Sub-office and erection of a fence had been done at a cost of Rs.2,466,295 during the year under review under Item of Expenditure “Land Development and Buildings” (No.309) and these expenditure had not been capitalized. Further, warrant charges and fines amounting to Rs.4,477,749 accounted for the year under review included court fines amounting to Rs.817,421 received in respect of the preceding year.
- (i.) A balance of works creditors amounting to Rs.1,434,136 relating to the year under review had not been accounted.

### **1.3.2 Contingent Liabilities**

The contributions payable to the Local Government Pensions Fund in respect of the employees who had retired from the service of the Pradeshiya Sabha had not been duly paid by the Sabha and due to this s balance of Rs.5,566,647 had been payable to the said Fund as at end of the year under review.

### **1.3.3 Unreconciled Control Accounts**

There were differences totaling Rs.101,526,159 between the accounts and the relevant registers in respect of 11 items of accounts under the closing balances of the year under review.

### **1.3.4 Accounts Receivable and Payable**

- (a.) The value of balances of accounts receivable as at 31 December 2013 amounted to Rs.127,835,918 and age analyses had not been submitted in respect of Rs.12,973,327.
- (b.) The value of balances payable as at 31 December 2013 amounted to Rs.94,455,834 and of this, a sum of Rs.2,949,830 were old than 01 year.

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

Transactions totaling Rs.94,903,911 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.25,825,051 as compared with the excess of revenue over recurrent expenditure amounting to Rs.17,896,724 thus indicating an improvement of financial results by Rs.7,928,327. When this financial result is adjusted with the capital aid amounting to Rs.45,988,085 and capital expenditure amounting to Rs.69,730,327, the excess of the year under review is decreased to Rs.2,082,809.

### **2.2 Analytical Financial Review**

The following observations are made.

- (a.) The total recurrent revenue of the Sabha for the year under review amounted Rs.115,183,526 and 83% of this amounting to Rs.95,250,153 consists of court fines, stamp fees, salary reimbursements which are non-generated income of the Sabha. The entire capital revenue of Rs.45,988,085 consists of money received for development works of the area from other institutions such as Gama Neguma, Maga Neguma etc.
- (b.) The total recurrent expenditure for the year under review amounted to Rs.89,358,474 and 38% of this amounting to Rs.34,059,141 consists of personal emoluments and 76% of this amounting to Rs.26,030,646 had been reimbursed by the Commissioner of Local Government as salaries and had been accounted under other revenue. The total capital expenditure amounted to Rs.69,730,326 and of this Rs.20,768,941 representing 30% had been spent out of the Sabha funds and the balance 70% amounting to Rs.48,961,385 had been spent from the provisions of other institutions such as Gama Neguma, Maga Neguma etc.

## **2.3 Revenue Administration**

### **2.3.1 Performance of Revenue Collection**

Although there was no formal authority for field collection of revenue such as trade licence, business tax, stall rent, lease rent etc. the Revenue Collectors of the Sabha had so collected rates and taxes and trade licence fees through-out the year.

### **2.3.2 Rates and Taxes**

The following observations are made.

- (a.) The arrears of rates and taxes of the area of the Head Office of the Pradeshiya Sabha for the year under review amounted to Rs.1,519,431 and the annual billing amounted to Rs.2,470,365 and as such, the arrears of rates and taxes was 61% of the amount billed. Although list of arrears had been prepared on defaulters up to the 3<sup>rd</sup> quarter of the year under review in terms of Section 158 and 159 of the Pradeshiya Sabha Act No.15 of 1987 and Pradeshiya Sabha Rules 33-42, final notices had not been issued and the properties had not been confiscated.
- (b.) The balances of arrears of rates and taxes relating to the Wellawa Sub-office as at end of the year under review amounted to Rs.3,320,612 and the annual billing amounted to Rs.3,209,318 and as such, the arrears of rates and taxes was 103% of the amount billed.

### **2.3.3 Taxes on Land Sales**

Out of the 1% tax receivable by the Sabha for approval of block-out plans, a sum of Rs.598,460 relating to 06 block-out plans approved by the Sabha had not been received even as at end of the year under review.

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

Court fines receivable from the Chief Secretary of the Provincial Council as at end of the year under review amounted to Rs.544,331.

### **2.3.5 Surcharges**

Surcharges valued at Rs.95,000 levied by the Auditor General against the persons responsible in terms of provisions of Section 172(3) of the Pradeshiya Sabha Act No.15 of 1987 had been recoverable as at 31 December 2013.

## **3. Operating Review**

### **3.1 Performance Evaluation**

The following observations are made.

- (a.) Street lamps installed within the area of the Sabha was 2,250 and a sum of Rs.2,947,875 had been spent during the year under review for the maintenance of these street lamps.
- (b.) Six works planned to be carried out during the year under review at an estimated cost of Rs.5,500,000 had not been carried out.
- (c.) The political authority and the staff of the Sabha had made 02 foreign tours during the year under review and a sum of Rs.4,345,969 had been spent from the Sabha funds for these tours.

### **3.2 Management Inefficiencies**

The following weaknesses were observed.

- (a.) The Sabha had approved 1103 building plans during the period 2008-2010 and only 84 conformity certificates had been issued. The Sabha had not taken action on non-obtaining of conformity certificates or extension of time on 1019 applications. If all the buildings had been constructed the Sabha could have earned an income of Rs.254,750 on issuing conformity certificates and if these buildings had not been completed the Sabha could have earned an income of Rs.395,000 as extension of time of building applications.

- (b.) The building which was used as Wellawa General Market had been given to the Wellawa Police Station at a monthly rent of Rs.1,775 since number of years. However, the Sabha had not maintained a file containing the relevant agreements. At present, the Wellawa Police Station is in process of acquiring the said land, and as the documents to confirm the ownership of this land are not available with the Sabha, there is a risk of losing this land.

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

##### **4.1 Budgetary Control**

Although an income of Rs.133,205,094 excluding other revenue had been estimated as per the budget for the year under review, only an income of Rs.46,034,668 representing 35% had been achieved. Further capital revenue had been estimated as Rs.80,000,000 and only 1% amounting to Rs.941,701 had been achieved.

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

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

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