

Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha

Kandy District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 07 April 2015 while Financial Statements relating to the preceding year had been submitted on 28 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 27 August 2015.

1.2 Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha as at 31 December 2014 and its financial performance for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following observations are made.

- (a) Interest Revenue amounting to Rs.1,055,442 relevant to the year under review had been accounted as Rs.1,001,275 in the Revenue and Expenditure Account. Due to that, Interest Revenue for the year and the balance of Other Revenue in Arrears had been understated at the rate of Rs.54,167.
- (b) Payment of arrears of salaries of Street Lamps Guardian and a librarian relevant to the period from the year 2005 to 2013 had been accounted as an expenditure relevant to the year under review. Due to that, expenditure for the year had been overstated by Rs.294,886 in the accounts.
- (c) The sum of Rs.235,862 paid for the Geographical Technology Report prepared for deciding the suitability of the Project for the construction of Ampitiya Newly Designed Shopping Complex had been accounted as recurrent expenditure under Repairs and Maintenance of Capital Assets of the year under review.
- (d) Insurances Expenses amounting to Rs.101,516 relevant to the ensuing year had been accounted as expenditure of the year under review.

- (e) Water Charges in arrears amounting to Rs.4,861,933 due to be recovered from water consumers which was being brought forward from the year 2012 had been set off against the Water Security Deposits payable amounting to Rs.14,431,712 and the balance amounting to Rs.9,569,779 had been written off against the revenue without obtaining proper approval.
- (f) The value of Stamp Fees amounting to Rs.35,047,010 receivable from the Colombo District Registrar's Office relevant to the period from 1982 – 2012 had been accounted as Rs.35,295,887. Due to that, the balance of Other Revenue in arrears had been overstated in a sum of Rs.248,877.
- (g) Fixed Assets valued at Rs.176,859 purchased during the year under review had been omitted in the accounts.
- (h) Fixed Assets valued at Rs.164,877 received as donations during the year under review had not been accounted.
- (i) Action had not been taken to assess and capitalize the block of lands belong to the Sabha for common amenities in 05 land sales in the area of authority of the Sabha.

1.3.2 Non-reconciled Control Accounts

When balances according to control accounts relevant to 08 items of accounts are compared with the total of relevant schedules a difference of Rs.34,158,291 was observed.

1.3.3 Accounts Receivable

While the total value of Accounts Receivable balances as at 31 December 2014 amounted to Rs.119,211,969, out of that total of balances which had exceeded a period of 05 years had been Rs.16,199,330.

1.3.4 Accounts Payable

While the total value of Accounts Payable balances as at 31 December 2014 amounted to Rs.95,070,860, out of that total of balances which had exceeded a period of 01 year had been Rs.181,619.

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Following instances of non-compliance are observed in audit.

Reference to laws, rules, regulations etc.	Non-compliance
<hr/> <p>(a) Pradeshiya Sabha Act No.15 of 1987</p> <hr/> <p>Section 19 xi</p>	<hr/> <p>Although the lands belong to the Pradeshiya Sabha cannot be leased without sanction of the relevant minister in charge of the subject, 02 blocks of land belong to the Sabha had been leased out for a sum of Rs.70,000.</p>
<p>(b) Financial Regulations of the Republic of Sri Lanka</p> <hr/> <p>F.R. 371(2)</p>	<p>Although an ad-hoc advance given should be settled immediately after completion of the relevant work for which such advance was given, advances amounting to Rs.51,326 granted in 11 instances had been carried forward without being settled.</p>
<p>(c) Public Administration Circular No.41/90 dated 10 October 1990.</p> <hr/>	<p>Although a proper check once In 06 months with Regard to fuel consumption and an examination by a competent engineer in order to evaluate the fuel consumption quantity should be carried out, such tests had not been carried out with regard to vehicles belong to the Sabha.</p>

2. Financial 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 2014 amounted to Rs.63,030,752 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.35,156,167 indicating an improvement of Rs.27,874,585 in the financial result.

2.2 Revenue Administration

While there was balance of arrears of revenue amounting to Rs.161,245,118 as at the end of the year under review, out of that a balance of Rs.159,131,492 was further outstanding to be recovered as at 31 July 2015.

2.3 Environment Permit Charges

A revenue amounting to Rs.294,000 receivable to the Sabha had been lost due to non-issue of permits for 42 Business Entities liable to obtain environmental permits according to the Extraordinary Gazette Notification No. 1533/16 dated 25 January 2008 issued under Section 23(a) of the National Environmental Act no. 47 of 1980

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- (a) While salaries amounting to Rs.24,536,058 had been paid for officers of the Sabha for January to December of the year under review, out of that salaries amounting to 5,244,190 had been paid from the Sabha Fund without being reimbursed.
- (b) Inquiries had not been carried out under Financial Regulation 104 of the Republic of Sri Lanka with regard to 462 books valued at Rs.79,359 and 138 books valued at Rs.25,490 not submitted for survey in Ampitiya and Tennekumbura Public Libraries respectively, according to reports of the Board of Survey carried out relevant to the year 2014.
- (c) Action had not been taken to transfer two cab vehicles provided to the Sabha during the year 2009 and the year under review in favor of the Sabha even as at 30 June 2015.

3.2 Solid Waste Management

A proper methodology had not been followed for garbage management over a number of years by the Sabha. Although a sum of Rs. 1,000,000 had been provided during June 2014 for waste management under National Program for Strengthening Pradeshiya Sabha – 2014, that Project had not been implemented during the year under review.

3.3 Staff Loans

Action had not been taken to recover Staff Loans amounting to Rs.599,712 remaining unrecovered for more than a time range of 10 years, due from 31 employees who had served in the Sabha and left on transfers, retired after interdiction and deceased.

3.4 Improper Transactions

- (a) In terms of provisions in paragraphs 02(i) and 02(iv) of the Circular No. MOFP/01/2010/01 dated 11 October 2010 of the Secretary to the Ministry of Finance and Planning, it was required to obtain approval of the Minister in charge of the subject properly before going abroad. When it is not adhered to, allowances granted for going abroad should be recovered. While prior approval for leave had not been obtained by the Chairman for a tour abroad to attend a Buddhist Conference in Japan from 06 to 14 December 2014, a sum of Rs.75,532 had been paid as Warm Clothes Allowance and incidental expenses. Action had not been taken to get the approval from the Minister or to refund the relevant allowances even up to 17 July 2015, date of audit.
- (b) The balance of Expense Creditors of the Pradeshiya Sabha amounting to Rs.6,215,726 which continued to be brought forward since a period prior to the year 2010 had been written off from accounts on the basis of a Sabha decision taken during December 2014 without an approval of the Minister in Charge of the Subject.

3.5 Contracts Administration

National Program for Strengthening Pradeshiya Sabha

- (a) Projects approved for the year 2014 through letter No. PL/3/1/47 dated 24 April 2015 of the Additional Secretary to the Ministry of Public Administration, Local Government and Democratic Governance should have been finalized before 31 December 2014. It had been informed that all Projects not so finalized would be cancelled. In spite of that a sum of Rs.3,000,000 had been provided under the said Program for 07 Projects through the Ministry of Local Government and Provincial Councils and out of that only one Project had been completed during the year 2014. Accordingly a sum of Rs.2,021,775 had been saved as at the date of end of the year under review and therefore objectives expected from this Program had not been fulfilled.

- (b) In terms of clause 05 in Circular No. 01/2014 dated 05 May 2014 of the Secretary to the Ministry of Provincial Councils and Local Government progress of every month should be reported to the Commissioner of Local Government before 5th day of the ensuing month. However, those instructions had not been complied with.

3.6 Human Resources Management

The posts of Water Laborer, Water Meter Reader and the Water Pipes Fitter in the approved cadre were not required as the water supplies had been assigned to the Water Supply and Drainage Board through the Sabha. Accordingly it had not been reviewed and got the approval for cadre based on requirements.

4 Accountability and Good Governance

4.1 Internal Audit

An adequate internal audit had not been carried out in the Sabha in terms of Financial Regulation 133 of the Republic of Sri Lanka and Circular No. DMA/2009/01 dated 09 June 2009 of the Management Audit Department.

4.2 Procurements Plan

Although capital expenditure amounting to Rs.20,284,560 had been Incurred, a Procurement Plan in terms of clause 4.2 of the Government Procurement Guidelines had not been prepared for the year under review.

4.6 Budgetary Control

Following matters are observed.

- (a) It was observed according to the budget prepared for the year under review, that the budget had not been made use of as an effective tool of management as there were variations from 15 per cent to 81 percent in 06 items of revenue and variations from 7 per cent to 100 per cent in 06 items of expenditure, when the estimated revenue and expenditure are compared with the actual revenue and expenditure.
- (b) When estimated revenue in 02 items of revenue is compared with the actual revenue, revenue amounting to Rs.11,597,641 had been underestimated.

5. Systems and Controls

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

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