

**Kalpitiya Pradeshiya Sabha**

**Puttlam District**

**1. Financial Statements**

**1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 27 March 2015 and the financial statements for the preceding year had been presented on 30 May 2014. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 13 August 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 Kalpitiya Pradeshiya Sabha as at 31 December 2014 and the financial result of its operations and cash flows for the year then ended.

**1.3. Comments on Financial Statements**

**1.3.1. Accounting Deficiencies**

The following deficiencies are observed.

- a) The compost fertiliser compacting machine valued at Rs225,000, purchased for the waste management centre had not been brought to account.
- b) A sum of Rs.11,154 paid in advance had not been brought to account under creditors.
- c) Tape Tractor bearing number JB-2770 and Lorry bearing number LE-9727 had not been valued and brought to account.
- d) 23 units of lands and buildings owned by the Sabha and included in the register of fixed assets had not been valued and brought to account.

- e) The capital aid amounting to Rs.5,000,000, receivable from the Ministry of Local Government and Provincial Councils, had been overstated in accounts. Therefore the revenue debtors and capital aid had been overstated by a similar amount.

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

The total balances of items of accounts in the financial statements submitted in respect of the year under review amounted to Rs.31,147,963, whilst the total balances according to the relevant schedules had been Rs.30,958,340. Therefore a net difference of Rs.189,623 was observed.

### **1.3.3. Accounts Receivable and Payable**

The value of accounts receivable as at 31 December 2014 amounted to Rs.45,184,022, whilst the value of accounts payable as at the same date amounted to Rs.40,714,817. Out of this, the total balances of accounts receivable and carrying forward over a period of 01 year amounted to Rs.14,812,893, whilst the total balances of accounts payable over a period of 03 year amounted to Rs.19,403,405.

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

The assets and liabilities totalling to Rs.85,930,400 in respect to 08 items of accounts, could not be verified satisfactorily, due to non-submission of sufficient evidence to the audit, to support the assets and liabilities.

### **1.3.5. Non-compliance with Laws, Rules and Regulations**

The instances of non-compliance with laws, rules and regulations, observed during the sample audit examination are indicated below.

- a) Action had not been taken to properly collect, all the rates and taxes, lease rent, licence fees, court fines and stamp fees, amounting to Rs.45,194,021 receivable by the Sabha, as stipulated in the Sections 129 (2) (a) and (d), of the Pradeshiya Sabha Act No. 15 of 1987. According to the Section 134 of the Act, two percentages cannot be imposed on rates and taxes for the same zone in the Pradeshiya Sabha, but the Sabha had imposed rates and taxes of 9% for houses and 12% for business entities, in the same zone. Similarly necessary legal action had not been taken as stipulated in the Section 150 (4) of the Act with respect with respect to the personnel in business entities located within the area

under the authority of the Sabha, that default the licence fees. Further, action had not been taken in accordance with the Section 158 of the Act, to confiscate the movable property and recover the arrears, from the personnel who had defaulted the rates and taxes and acre taxes, in the area under the authority of the Sabha.

- b) The assets of the Sabha had not been surveyed and a report had not been prepared at the end of each year.
- c) 818 deposits, valued at Rs.5,726,734, had been deposited in the Sabha over a period of 2 years, and action had not been taken to credit this as revenue, as stipulated in Financial Regulations 571 of the Republic of Sri Lanka.
- d) The Goods and Services Taxes collected for number of years, as stipulated in the Goods and Services Tax Act No. 34 of 1996, amounted to Rs.289,387, and this had been retained without remitting to the Commissioner General of Revenue.
- e) The Value Added Taxes collected as stipulated in the Value Added Taxes Act No. 14 of 2002, during the 4<sup>th</sup> quarter in the years 2010, 2011, and 2012, and the first quarter during the year 2013, amounted to Rs.4,326,351, and this had been retained without remitting to the Commissioner General of Revenue.
- f) The Nation Building Taxes collected as stipulated in the Nation Building Tax Act No. 09 of 2009, during the period before the year 2011 and during the years 2012 and 2013, amounted to Rs.53,221, and this had been retained without remitting to the Commissioner General of Revenue.

## **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 2014 amounted to Rs.8,991,395, as compared with the excess of revenue over recurrent expenditure amounting Rs.1,006,144 for the preceding year. In the year under review and in the preceding year; the capital aid amounted to Rs.48,484,620 and Rs.4,226,054 respectively; and the capital expenditure

amounted to Rs.43,995,821, and Rs.13,456,424, respectively. When these amounts are considered, there had been a surplus of Rs.13,480,194 in the year under review, and a deficit of Rs.8,224,226 in the preceding year. Therefore, in comparison to the preceding year, the financial result in the year under review had been improved by Rs.21,704,420.

## 2.2. Revenue Administration

### 2.2.1. Performance on Revenue Collection

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

Item of Revenue	2014			2013		
	Estimated	Actual	Cumulative	Estimated	Actual	Cumulative
			Arrears			Arrears
			as at 31-Dec			as at 31-Dec
	Rs.000,	Rs.000,	Rs.000,	Rs.000,	Rs.000,	Rs.000,
Rates and Taxes	2,765	2,728	8,159	2,910	335	6,216
Lease Rent	7,032	5,189	8,760	5,515	4,000	9,111
Licence Fees	27,775	19,334	74	2,007	2,007	81
Other Revenue	3,362	1,877	-	16,560	10,288	7,472

### 2.2.2. Analytical Financial Review

32% of the provisions allocated for the recurrent expenditure in the budget for the year under review, had not been utilised, whilst out of the total capital expenditure of Rs.101 million, only 44 million, representing around 44% had been utilised.

### 2.2.3. Rates and Taxes

The rates and taxes in arrears as at 01 January 2014 had been 6,216,006, whilst the billed amount during the year under review was Rs.2,619,202. Therefore the total amount recoverable was Rs.8,835,208, and out of this around Rs.1,557,475 had been recovered, and it represents 18%. The total arrears as at the end of the year under review had been Rs.7,277,733.

#### **2.2.4. Lease Rent**

The lease rent in arrears as at 01 January 2014 had been 7,996,342, whilst the billed amount during the year under review was Rs.5,101,870. Therefore the total amount recoverable was Rs.13,098,212, and out of this only Rs.4,337,794 had been recovered, and it represents 33%.

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

The court fines, collected by a Magistrate Court under different Acts, and sent to the Chief Secretary, amounting to Rs.2,930,298 was receivable by the Sabha as at 31 December 2014. The stamp fees collected by Chief Secretary of the Province, from the Registrar General, amounting to Rs.12,960,860 was receivable by the Sabha as at 31 December 2014.

### **3. Operating Review**

#### **3.1. Operating Inefficiencies**

The following are observed.

- a) The total balances of employees' loans receivable as at 31 December 2014 amounted to Rs.4,719,189, and this includes Rs.141,361 receivable for more than 06 years from 64 employees who had retired from service and vacated post.
- b) The post of Secretary had been vacant for number of years, whilst there were 29 vacancies in the Secondary and Primary Grades. 71 employees had been recruited for the primary grade posts on casual and temporary basis.
- c) Advances amounting to Rs.397,124 had not been settled as at 31 December 2014, and out of this, the value of advances over 02 years amounted to Rs.278,696.

#### **3.2. Idle and Underutilized Physical Resources**

04 items of assets totalling to a value of Rs.1,469,515 and 03 items of assets, of which the value cannot be ascertained, had been idle and underutilized for number of years.

**3.3. Internal Audit**

Sufficient internal audit had not been carried out with respect to finance and stores functions, as stipulated in Pradeshiya Sabha Rule (Finance and Administration) number 5(7).

**4. Systems and Controls**

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

- a) Accounting
- b) Revenue Administration
- c) Asset Management