

## **Karadeniya Pradeshiya Sabha**

### **Galle District**

#### **1 Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial statements for the year under review and the preceding year had been presented to audit on 06 April 2016 and 20 March 2015 respectively. The report of the Auditor General for the year under review had been sent to the Secretary of the Sabha on 22 November 2016.

##### **1.2 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Karadeniya Pradeshiya Sabha as at 31 December 2015 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 Policies**

Accounting policies followed in accounting had not been disclosed in the financial statements.

###### **1.3.2 Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a) Contributions of Rs.12,098,987 payable to the Local Government Pensions Fund as at 31 December of the year under review had not been brought to accounts.
- (b) Court fine revenue of Rs.102,083 and the stamp fees of Rs.2,752,020 receivable for the year under review had been understated in the financial statements.
- (c) The motor cycle installments of Rs.138,890 recovered from the members allowances of the year under review had been deducted from members allowances of the year under review and the balance had been shown as members allowance in the financial statements.
- (d) The expenditure totaling Rs.25,647,448 of 4 projects performed by the Puraneguma Project had not been capitalized.
- (e) Provision for payables totaling Rs.3,846,641 in respect of 7 works carried out during the year under review had not been made in the financial statements.

### 1.3.3 **Unreconciled Control Accounts**

There were differences totaling Rs.831,560 between the balances in 9 items of accounts totaling Rs.7,054,732 shown in the financial statements and the related subsidiary books and records.

### 1.3.4 **Accounts Receivable**

Action had not been taken to settle the pre-paid balance totaling Rs.200,000, arrears of stamp fees totaling Rs.19,323,775 brought forward since the year 2001 and the arrears of court fines totaling Rs.1,068,083 brought forward since the year 2011, the value of 12 accounts receivable balances totaling Rs.25,678,630 which had been brought forward without being changed in the financial statements even by the end of the year under review.

### 1.3.5 **Accounts Payable**

Action had not been taken to settle the value added tax amounting to Rs.11,768,747 payable to the Commissioner General of Inland Revenue prior to the year 2006 and the specific taxes of Rs.301,177 payable since 2008, loans and interest of Rs.697,224 payable to the National Housing Development Authority since 2012, the creditors balance of Rs.14,970,665 even in the year under review.

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

Due to non-remission of evidence such as the updated register of fixed assets prepared in terms of classes of assets and schedules in respect of Land and Buildings, Plant and Machinery, Motor Vehicles and Carts, Furniture and Fittings totaling Rs.206,580,767, Board of Survey reports in respect of Library books valued at Rs.2,829,238, the updated loan register and the balance confirmations in respect of loans of National Housing Development Authority and the People's Bank totaling Rs.1,866,051 and the confirmation of balances in respect of fuel deposits totaling Rs.285,248, they could not be satisfactorily examined in audit.

### 1.3.7 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

Even though 549 deposit balances totaling Rs.1,599,170 elapsed as at 31 December 2015 had existed, action in terms of provision in Financial Regulations 570 and 571 (1)(2) had not been taken in that regard.

## 2. **Financial Review**

### 2.1 **Financial Results**

According to the financial statements presented to audit, the revenue over recurrent expenditure for the year ended 31 December 2015 amounted to Rs.12,722,654 as compared with the revenue over recurrent expenditure for the preceding year amounted to Rs.5,730,520. As compared with the preceding year, an improvement of Rs.6,992,134 in the financial results of the year under review had indicated.

## 2.2 Analytical Financial Review

The following matters were observed.

- (a) As compared with the preceding year, the recurrent expenditure of the year under review had indicated a decrease of 10 per cent as compared with the recurrent revenue. However, the existence of 77 per cent of recurrent expenditure from the recurrent revenue, it was observed that the expenditure of the Sabha had been a high level as compared with the revenue.
- (b) A detailed summary of revenue grants, self-operating revenue and recurrent expenditure of the year under review and the 2 preceding years is given below.

Year	Total recurrent revenue	Revenue grants	Self-operating revenue	Total recurrent expenditure	Recurrent expenditure over self-operating revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	55,046,884	27,949,954	27,096,930	42,324,230	15,227,300
2014	45,478,068	23,473,070	22,004,998	39,747,548	17,742,550
2013	42,157,014	14,382,078	27,774,936	35,779,067	8,004,131

The following observations are made in this connection.

- (i) An improvement had indicated in the receipt of revenue grants during the year under review and the 2 preceding years and the self-operating revenue in the year under review as compared with the preceding year.
- (ii) Although the recurrent expenditure had increased continuous speed, the attention of the Sabha had not been paid to control that position and to maintain the expenditure at a minimum level.
- (iii) Recurrent expenditure had continuously increased considerable every year in excess of the self-operating revenue of the Sabha.
- (iv) Without receiving revenue grants, the recurrent expenditure could not be covered from the revenue of the Sabha in any way.
- (v) According to the matters stated in Paragraphs (i) to (iv) above severe attention of the Sabha should be paid to increase the revenue of the Sabha and to formulate a proper system and implement it to overcome that situation. Even otherwise it is the view of audit that there would be a problematic situation on going concern as a result of weak financial control system.

- (c) Although the actual capital revenue of the year under review amounted to Rs.7,056,268, the actual capital expenditure amounted to Rs.2,784,968. Thus, there was a capital expenditure of Rs.4,271,300 in excess of capital revenue. According to the budget of the year under review capital revenue and capital expenditure had been estimated at Rs.6,900,000 and Rs.11,237,800 respectively, but the manner how to raise funds to meet capital expenditure over capital revenue had not been explained.

## 2.3 **Revenue Administration**

### 2.3.1 **Rates**

Out of the rates amounting to Rs.2,242,070 remained as at the beginning of the year under review, and the billed amount of Rs.776,275, only 16 per cent had been collected during the year. The arrears as at the end of the year amounted to Rs.2,544,970.

### 2.3.2 **Acreage Tax**

The arrears as at the beginning of the year under review amounted to Rs.68,467 and a sum of Rs.72,870 had to be recovered along with the year's billing. Only a sum of Rs.2,876 or 04 per cent had been recovered during the year.

### 2.3.3. **Lease Rent**

The arrears as at the beginning of the year under review amounted to Rs.3,598,321 and a sum of Rs.9,354,033 had to be recovered along with the year's billing. Only a sum of Rs.3,107,427 or 33 per cent had been recovered during the year.

### 2.3.4 **Leasing of Trade Stalls in the Market Complex**

The following matters were observed in respect of leasing of 27 trade stalls in the Super Market Complex situated at Uragasmanhandiya within the Sabha area and leasing of 12 modified grilled trade stalls.

- (a) As the lease rent had not been recovered in terms of condition 01 of the agreement the arrears of lease rent as at the end of the year under review amounted to Rs.278,000.
- (b) Without complying with condition 4 of the agreement, 12 stalls had been sub-let.
- (c) Fourteen stalls in the Super Market Complex and the modified grilled trade stalls had been closed down by November 2015.

### 2.3.5 **Trade License Fees**

Although the cash received in respect of trade licenses during the year under review had been brought to accounts as the billed amount, there was an outstanding amount of Rs.123,350 brought forward since prior years.

The attention of the Sabha had not been paid for the recovery of arrears of revenue stated in Paragraphs 2.3.1 to 2.3.4 above by preparing and implementing a proper procedure in terms of provisions in Sections 158 (1)(a), 159 (1) and 152(4) of the Pradeshiya Sabha Act No.15 of 1987.

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

Sums of Rs.19,323,775 and Rs.1,068,083 were due as stamp fees and court fines respectively as at 31 December 2015 from the Chief Secretary of the Provincial Council and the Other Authorities.

### 3. **Operating Review**

#### 3.1 **Human Resources Management**

The following matters were observed in this connection.

- (i) There were vacancies in 5 posts included in the approved cadre plan and the excess cadre was 17. Action had not been taken to fill vacancies and to regularize excess, cadre.
- (ii) As the Sabha had assigned duties improperly, duties to be performed by the officers in the Management Assistants Service, had been assigned to road labourers.

#### 3.2 **Operating Inefficiencies**

As the salaries and allowances are reimbursed by the Commissioner of Local Government only of the permanent staff expenditure of Rs.7,938,203 had to be incurred for the payment of salaries and allowances of the employees recruited by the Sabha during the year under review.

#### 3.3 **Contract Administration**

Fifty five barrels of asphalt, 180 kg in quantity had been purchased by incurring an expenditure of Rs.989,999 for the repair of roads in the area of authority under the strengthening of Pradeshiya Sabha program. In the examination carried out therein observed the following matters.

- (i) Although the asphalt barrels had received to the Sabha on 29 September 2014 and taken over by the Chief Management Assistant it had not been taken over by the stores or posted to stock books.
- (ii) At the spot inspection carried out on 25 November 2015 with the Technological Officer, evidence to ensure whether 10 asphalt barrels valued at Rs.180,000 had been used or existed in the premises of the Sabha was not made available for audit.

#### 3.4 **Study Tours Expenses**

A proposals had been passed in the general meeting of the Sabha held on 28 July 2014 to incur expenditure of Rs.250,000 from the fund of the Sabha for a field study tour organized by the staff and a sum of Rs.250,000 had been paid in the name of the welfare society in two instances on 25 August 2014 amounting to Rs.50,000 and 03 September 2014 amounting to Rs.200,000. The following observations are made in this connection.

- (a) These payments had been made contrary to Section 132(g) of the Pradeshiya Sabha Act No.15 of 1987.
- (b) Even though it was a field study tour, instructions or approval of the Commissioner of Local Government or the Provincial Commissioner of Local Government had not been obtained.
- (c) Although the cash had been credited to the Welfare Society to go for a field study tour that Society had not been registered.

### 3.5 **Solid Waste Management**

An expenditure of Rs.1,710,165 had been incurred during the period from 05 February 2008 to 29 December 2014 for the construction of premises and buildings and to purchase compost huller in order to manufacture compost by collecting garbage within the area of authority and near Uragasmanhandiya weekly fair. Functions of the compost project had been stopped by now.

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

### 4.1 **Budgetary Control**

- (a) As compared the estimated capital expenditure and capital revenue stated in the budget for the year under review a backward trend had indicated in the utilization of allocations provided for each object of the Sabha in achieving such objectives.
- (b) Due to such reasons as savings of the entire provision of Rs.1,777,800 in 8 expenditure objects included in the budget for the year under review, savings totaling Rs.11,139,884 in 8 expenditure objects, expenditure of Rs.3,429,403 in another expenditure object excess of the approved limit, targeted revenue of Rs.1,196,711 in 4 revenue items which had not been reached earning of revenue of Rs.8,690,412 in another 4 revenue items in excess of targeted revenue the budget had not been made use of as an effective instrument of management control.

### 4.2 **Internal Audit**

Even though a sufficient internal audit had not been carried out in terms of circular No.දපපා/යන/01/න.ව.ලේ dated 24 February 2014, salaries and allowances of Rs.422,848 had been paid to the officer who had been recruited to the internal audit division of the Sabha in the year under review.

### 4.3 **Audit and Management Committee**

Action had not been taken to establish audit and management committee in terms of provision in management audit Circular No.DMA/2009(i) dated 09 June 2009.

#### 4.4 **Assets Management**

##### **Idle Assets**

The JCB machine given to the Sabha on 02 July 2015 by the Ministry of Provincial Councils had been parked in the premises of the Sabha without being used for any purposes.

#### 4.5 **Unresolved and Unreplied Audit Queries**

- (a) Replies to 19 audit queries as at 31 December of the year had not been presented and the value of transactions of 16 audit queries of them can be computed at Rs.31,419,747.
- (b) Even though it was agreed to rectify deficiencies stated in Paragraph 2.2.2(a) to 2.2.2 (m) of the Auditor General's report for the previous year, it had not been so done as agreed even in the year under review.

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

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Motor Vehicles Control
- (e) Personnel Administration