

Gangalhala 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 30 March 2016 while Financial Statements relating to the preceding year had been submitted on 26 March 2015. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 03 August 2016.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Gangalhala Korale 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 Deficiencies

Following matters were observed.

- (a) Medicine stocks in Ayurvedha Center as at 31 December year under review amounting to Rs. 215,160 had not been accounted.
- (b) Allocation of construction creditors of Rs. 1,500,000 in the year 2013 for which the 03 construction work not commenced under hill country arisen allocation had further been brought forward in accounts.
- (c) According to the Board of Survey reports, actions had not been taken to auction or destroy 14 items recommended as resalable assets aggregating Rs. 126,949 and 16 objects of disposable assets, had been written off from accounts as at 31 December 2015 and items which can be auctioned, had been auctioned on 05 May 2016.
- (d) Two Playgrounds and 02 vehicle Parks belong to Sabha and operating by the Sabha had not been valued and accounted.
- (e) Even though 17 Cemeteries amounting to Rs. 25,000 each had been shown under fixed assets in annual financial statements, hence it was 21 Cemeteries according to the schedule presented.
- (f) Even though, 03 Machineries received as donations amounting to Rs. 51,762,098 which had not been taken actions to transfer the ownership, should be disclosed in notes to the accounts, it had been accounted as fixed assets of the year under review.

1.3.2 Non-reconciled Control Accounts

A difference of Rs. 188,894 was observed in 07 account objects with relating to balances between trail balance and ledger accounts.

1.3.3 Accounts Receivable

While the value of 11 Accounts Receivable balances were Rs. 32,600,111, out of that value of balances that had been outstanding over 01 year was Rs. 17,301,017.

1.3.4 Accounts Payable

While the total value of 02 Accounts Payable balances were Rs. 21,419,776, out of that, the value of account balances that had been outstanding over 01 year was Rs. 19,180,135.

1.3.5 Lack of Evidence for Audit

Thirty four Land and Building amounting to Rs. 85,675,041 could not be verified satisfactorily in audit due to non-presenting of title deeds, transfer orders and plans to confirm the ownership to audit.

1.3.6 Non-compliance with Laws, Rules and Regulations etc.

Following instances of non-compliance were observed

Reference to laws, rules and regulations etc.	Non-compliance
<hr/>	<hr/>
(a) Pradeshiya Sabha Act of 1987 Sub paragraphs 19(xi, xii)	A land belong to the Sabha had been leased out to People's Bank for 30 years a period on monthly rent of Rs. 20,000 without the approval of Minister to the relevant subject
(b) Pradeshiya Sabha (Finance and Administrative) Rules Series of 1988 218	Sabha had not taken action to inspect Land and Buildings annually.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs. 18,127,661 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 12,728,674. Accordingly, an improvement in a sum of Rs. 5,398,987 was observed in the financial results as compared with the previous year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Information furnished by the Secretary relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review and the previous year are shown below.

Item of Revenue	Arrears as at 01.01.2015	Revenue Billed during the Year	Revenue Collected Out of Arrears during the year 2015	Revenue Collected Out of Amount Billed during the Year 2015	Total	Arrears as at 31.12.2015
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	1,756,578	908,565	568,473	468,793	967,412	1,627,877
Rent Income	778,124	4,229,218	392,202	3,755,092	4,147,294	860,048
License Fees	--	707,100	--	707,100	707,100	--
Other Revenue	2,226,543	11,679,007	319,633	1,176,829	1,496,462	12,409,158
Total						14,897,083

The total revenue balance of Rs. 14,897,083 was in arrears as at 31 December of the year under review.

2.2.2 Rates

Following matters were observed.

- While there was an outstanding rates balance of Rs. 1,692,370 as at 01 January 2015, billings as at 31 December 2015 had been Rs. 830,753. Out of them, recoveries during the year under review were only Rs. 566,505 and 383,436 respectively. This was as a percentage of 33 per cent and 46 per cent.
- While the number rates payers default the payment of rates for the period ranging from 01 year to 22 years included in rates in arrears as at 31 December 2015 was 315, and more than the amount of Rs. 1,077,990 should be received from them. Actions had not

been taken as per the paragraph 158 of Pradeshiya Sabha Act No. 15 of 1987 in this regard.

- (c) Arrears rates balance receivable from 38 Government Institutions for period ranging from 08 months to 02 years was Rs. 241,770 as at 31 December 2015.
- (d) Although the properties should be assessed once in 05 years, Rates had been billed for the year 2015 based on the old assessment without doing a new assessment after the year 2007
- (e) Though the red notices had been sent to 68 rates defaulting people in July and August year under review, 22 out of them had not been paid the amount. No further actions had been taken by the Sabha with regarding those people.

2.2.3 Lease Rent

Following matters were observed.

- (a) Seven stalls in Ethgala Market Complex belong to Sabha had been leased out to an outside party in the year 2008 without engaging into an agreement, and actions had not been taken to recover the initial receivable amount of Rs. 1,775,141 from these stall even as at 31 December year under review. Further 16 stalls of this Market Complex had been closed.
- (b) The rent receivable as at 31 December 2015 was Rs. 860,048 and this arrears stall rent was related to the period ranging from 01 months to 09 years. The secretary had informed me from the letter dated 20 July 2016 that, out of this arrears, further outstanding of Rs. 566,941 had been remained.
- (c) Above arrears balance had included an amount of Rs. 138,626 receivable from 12 stalls destroyed or removed at the development of Kurunduwattha city before the year 2007.
- (d) Thirteen stalls constructed for low income category of the Sabha had been given on lease without signing of agreements.
- (e) Though the Valuation Department had decided a monthly rent of Rs. 15,000 on 04 March 2016, actions had not been taken accordingly.
- (f) Sri Lanka Vocational Training Authority operating in 1496 square feet of the building adjoining to the Pradeshiya Sabha old building had been given on lease for 02 years with the monthly rent of Rs. 1,000 on the decision made in General Meeting held on 26 August 2010. Following matters were observed in this regard.
 - (i.) Though 05 years had been lapsed as at 15 June 2016 since the leasing of the building, it had not been engaged to an agreement.
 - (ii.) No leased rent had been recovered from the relevant institute, and rent of Rs. 63,000 had been receivable as at 31 December 2015. No action had been taken by the Sabha in this regard.

2.2.4 Acreage Tax

While there was an outstanding Acreage tax of Rs. 64,208 as at 01 January 2015, billings as at 31 December 2015 had been Rs. 24,327. Out of them, recoveries as at the end of the year under review were only Rs. 1,968 and 15,502 respectively. This was as a percentage of 03 per cent and 64 per cent. Accordingly, collection of Acreage tax was in poor level, Action had not been taken in this regard in terms of Sections 158 of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.5 Land Lease

The arrears as at 31 December 2015 from the lessee of land lot No.01 in Kurunduwattha was Rs. 114,665 and actions had not been taken to take legal actions to recover the arrears amount as per the agreement. Further, information regarding the details of the leased out land and its size had not been included in the agreement.

2.2.6 Water Charges

Following matters were observed.

- (a) Water billing had been suspended as water projects were inactive, and actions had not been taken to recover the amount of Rs. 73,159 receivable from those areas since many years.
- (b) Out of 97 water connections in Malwathgama and Lanternhill, only 12 had been fixed the water meters. A fixed amount had been charged from the balance connections, and arrears water charges from these all customers as at 31 December 2015 was remained at Rs. 179,248.

2.2.7 Court Fines and Stamp Fees

Court Fines amounting to Rs. 213,168 and Stamp Fees amounting to Rs. 10,000,000 were receivable as at 31 December 2015. The Secretary had reported me by the letter dated 20 July 2016 that, out of these amounts court fine of Rs. 27,166 and stamp fees of Rs. 3,286,630 would have further to be outstanding.

3. Operating Review

3.1 Management Inefficiencies

- (a) Though the allocation of Rs. 250,000 had been provided under object code 607(5) to provide relief for poor people as per annual budget proposal of 2015, those allocation amount had been shown under Creditors without implementing that activity during the relevant year. Subsequently, though 125 school bags amounting to Rs. 87,500 had been taken on 21 March 2016 by using those allocations, those bags had been kept in the stores without distributing even as at 15 June 2016.
- (b) Ten vacancies and 06 excess posts were available in many posts of the Sabha as at 31 December 2015.

3.2 Operational Inefficiencies

Following observations were made.

- (a) Out of 284 building applications received during the year under review and previous 02 years for the approvals of plans as per the paragraph 21 of Urban Development Authority Act No. 41 of 1978, though 176 applications had been approved, Certificate of Conformity had been issued only for 24 applications.

- (b) Though 26 unauthorized constructions were discovered during the year under review and the previous year, legal or relevant action in this regard had not been taken.
- (c) It was observed in the physical inspection made on 14 June 2016 that, discarded, damaged items collected and allowed to fall away in the stores at Pradeshiya Sabha old office building. Further the categorizing had not been done in clear visibility of store materials.

3.3 Contract Administration

3.3.1 Constructing of Protection wall surrounding the Pradeshiya Sabha Building and Fixing of Green Gate Net to the Balance Part - Rs.1,598,721

Following matters were revealed in the physical inspection carried out in this contract on 15 June 2015.

- (a) A part of the wall had been sloped with a crack in 3.8 meter distance from the end of the wall; the post constructed on the surface of the wall had been removed. Further the starting point of the wall had also been cracked.
- (b) Though as per the work item No. 02, the wall footer should be constructed with 1:3:6(1 ½) " concrete in 0.22 meter thickness, according to the physical inspection, the thickness of the footer concrete was 0.1 meter and that concrete had been used poor mixture that could easily been broken.
- (c) A sum of Rs. 160,945 had been over paid for 03 work items due to the payment made by using the higher rates than the estimated rates as per the estimate prepared by the Technical Offices. According to the estimate rates prepared by the Technical Officer.
- (d) Though digging the foundation of the protection wall had been done by using 04 labors of the Sabha, according to the work item No. 01 of the bill relating to the contract, a sum of Rs. 22,417 for 25 cubic meters had been paid to contracting society.

3.3.2 Improvement of Infrastructure Facilities

Alugolla Cemetary Road, Wallahagoda Udagama Road and Karagala Vaullana Road had been constructed by signing agreements with Private Construction Company in the year 2010 under the Local Authority infrastructure improvement Project, and those roads were in weak from short period due to the low standard of constructions. Out of the value of these projects, 35 per cent of Rs. 2,425,894 had been held in Deposit Account, and though it was decided in general meeting on 27 April 2015 to construct the defects of the above roads, actions had not been taken to implement those activities even by 15 June 2016.

3.3.3 Development of Staircase from Udugama Bodhiya Junction to Kohowala Temple - Rs.156,039

Following matters were observed in the physical inspection carried out in this regard on 15 June 2015.

Though the road surface and the staircase should be constructed in 1:2:4 (¾) " concrete mixture with 4" thickness, it was observed that the thickness was 1 ½" in a place where the braking was done. Further, the concrete laid in the road surface and the staircase was in poor condition which could easily been broken.

3.3.4 Development of Side Wall of Alugolla Road – Rs. 98,780

The estimation had been done by 1:5 cement mixture as per the work item No. 06 and by 1:3 plastering mixture as per the work item No. 08, and though it was paid a sum of Rs. 31,825 plastering had been done with a poor quality cement and sand mixture that could easily be broken by hand.

3.4 Solid Waste Management

Solid waste collected daily within the area of authority of the Sabha and the garbage collected from Kurunduwattha city were separated and the crumble garbage had been used in Bio gas unit in Kurunduwattha. It was observed in the physical inspection carried out on 15 June 2016, that all the rest garbage were dumped into Ulapone and Dolosbage dumping area without managing the waste.

4. Accountability and Good Governance

4.1 Budgetary Control

Following matters were observed.

- (a) The budget estimates had not been used as effective management tool, hence considerable variances were observed between budgeted and actual Income and Expenditure Votes from 20 per cent to 95 per cent in 18 Income Votes and 20 per cent to 97 per cent in 42 Expenditure Votes, even after transferring the allocations between income and expenditure Votes during the year under review.
- (b) The entire allocation of Rs. 660,000 had been saved in 12 Expenditure Votes, and any income from estimated income of Rs. 606,800 had been collected in 05 Income Votes.

4.2 Annual Procurements Plan

An Annual Procurement Plan had not been prepared for the year under review.

4.3 Assets Management

Idle / Under-utilized Assets

Following matters were observed.

- (a) Ten items of Vehicle, Machine and Equipment amounting to Rs. 25,582,326 were remained idle and under-utilized for more than 01 year.
- (b) Unused space of 4750 square feet of the Pradeshiya Sabha old building with two stories was remained idle without using the necessary activity for a period of one year.

5. Systems and Controls

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

- (a) Revenue Administration
- (b) Debtor and Creditor Control
- (c) Assets Management
- (d) Inventory Control
- (e) Contract Administration