

Kuliyapitiya Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 18 March 2016 while Financial Statements relating to the preceding year had been submitted on 09 April 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 07 September 2016.

1.2 Qualified Opinion

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

Following matters are observed.

- (a) It was not possible to identify the balances of the individual accounts as the Sundry Creditors amounting to Rs. 16,201,208 had been maintained as a single ledger account.
- (b) Although the Sabha had committed 10 court cases as at the end of the year under review, that information had not been disclosed in the financial statements, while an adequate accounting policy too had not been prepared to consider disclosure of that information.

1.3.2 Accounting Deficiencies

Following accounting deficiencies are observed.

- (a) Financial Statements for the year under review had been prepared without action being taken to rectify the accounting deficiencies pointed out through the Auditor General's report for the preceding year.

- (b) The value of Rs. 40,287,354 being the cost of the Pradeshiya Sabha Building constructed through Pura Neguma Project had not been accounted.
- (c) Action had not been taken to ascertain and account the cost of Weekly Fairs of the Sabha constructed as at end of the year 2015, in the places of Kithalwa and Horombawa in the area of authority of the Sabha.
- (d) The value of Part of land in extent of 02 Rude and 01.06 Perches of the land “Muruthanne Innawatta” and Part of land in extent of 02 Rude and 30 Perches of the land ‘Inguru Watta, Nildiya Pokuna’ allocated or common amenities in auction of properties had not been valued and accounted.
- (e) The value of 05 monthly installments amounting to Rs. 77,372 payable to the Local Government Pension Fund relevant to the year under review had not been accounted. The expenditure and Expense Creditors balance had been understated to the extent of that amount.
- (f) Although the Stamp Fees revenue amounting to Rs. 72,842,400 accounted for the year under review which not revenue is generated by the Sabha should be accounted under Other Revenue, it had been accounted under Charges for Services which is a source of revenue generated.
- (g) Although an approximate sum of Rs. 69,268,484 was receivable as Stamp Fees revenue for the years 2014 and 2015 as at the end of the year under review, a sum of Rs. 42,500,000 only had been accounted.
- (h) A sum of Rs. 8,070,759 had been shown in respect of Court Fines Receivable amounting to Rs. 16,881,501 as at 31 December 2015. Due to that; Court Fines Revenue and Revenue Receivable had been understated at the rate of Rs. 8,810,742.

1.3.3 Non-reconciled Control Accounts

Non-reconciliations in a sum of Rs. 21,684,231 were observed between the balances relevant to 05 items of accounts at the end of the year under review and the balances in the corresponding subsidiary registers.

1.3.4 Accounts Receivable

- (i) While the value of Accounts Receivable as at 31 December 2015 was Rs. 58,283,758, age analysis relevant to balances valued at Rs. 633,448 out of that had not been submitted.
- (ii) There were balances receivable amounting to Rs. 1,170,230 remained unrecovered during a period exceeding 3 years.

1.3.5 Accounts Payable

- (i) While the value of Accounts Payable as at 31 December 2015 was Rs. 28,082,384, age analysis relevant to a sum of Rs. 19,795,935 out of that was not submitted to audit.
- (ii) In the Accounts Payable, there were 03 balances payable amounting to Rs.254,516 for which information were not submitted for a long period.

1.3.6 Lack of Evidence for Audit

A Schedules showing make up of balances relating to Creditors Payable amounting to Rs.19,795,935 was not furnished. Due to that, those balances could not be satisfactorily examined on sample basis.

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 2015 had been Rs 73,942,450 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 8,115,357 during the preceding year indicating an improvement of Rs. 65,827,093 in the financial result. After adjustment of the Capital Grant amounting Rs. 22,021,196 and Capital Expenditure amounting to Rs. 88,919,364 to this, operational result, relevant financial result for the year under review had become a surplus of Rs. 7,044,282.

2.2 Analytical Financial Review

Following matters are observed.

- (a) Actual revenue and expenditure relevant to the year under review and the preceding year and relevant variations are shown below.

Source of Revenue	Revenue			Expenditure Item	Expenditure		
	2015	2014	Variance		2015	2014	Variance
	Rs.000	Rs.000	Rs.000		Rs.000	Rs.000	Rs.000
(i) Generated Revenue	96,223	31,568	64,655	Personal Emoluments	62,359	44,646	17,713
(ii) Others	<u>65,340</u>	<u>48,240</u>	<u>17,100</u>	Others	<u>25,261</u>	<u>27,747</u>	<u>(1,786)</u>
Sub total	161,563	79,808	81,755	Sub total	87,620	71,693	15,927
(iii) Capital Grant	22,021	106,743	(84,722)	Capital Expenditure	88,919	99,198	(10,279)
Grand Total	<u>183,584</u>	<u>186,551</u>	<u>2,967</u>	Grand Total	<u>176,539</u>	<u>170,891</u>	<u>5,648</u>
Operational Surplus	73,943	8,115	65,828	Surplus	7,045	15,660	(8,615)

- (b) Out of the total Recurrent Revenue of Rs.161,563,033 relevant to the year under review, a sum of Rs. 138,182,338 or 85 per cent was revenue not falling under a nature generated in the Sabha and were receipts such as Court fines, Stamp Fees and Salary Reimbursements. Similarly, the entire capital revenue of Rs. 22,021,196, was consist of funds provided for development works in the area of authority of the Sabha from sources such as Provincial Criteria Based and Strengthening of Pradeshiya Sabha.
- (c) Out of the total Recurrent Expenditure of Rs. 87,620,584 relevant to the year under review, a sum of Rs. 62,359,321 or 71 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 53,645,665 or 86 per cent had been received from the Commissioner of Local Government as salary reimbursements while that value had been accounted under other Revenue. Similarly, out of the capital expenditure of Rs. 88,919,364, a sum of Rs. 9,514,826 or 10 percent for acquisition of Fixed assets, and the balance sum of Rs. 79,404,538 or 90 percent for physical development activities, had been utilized.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review and the preceding year were as shown below.

Item of Revenue	2015			2014		
	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual	Accumulated Arrears as at 31 December
(i) Rates and Taxes	000 720	000 644	000 633	000 920	000 927	000 702
(ii) Lease Rent						
(iii) License Fees	6,785	6,751	27	5,608	5,608	646
(iv) Other Revenue	1,082	1,142	--	910	915	58
Total	90,575	161,562	51,511	186,495	79,807	73,550

2.3.2 Revenue Billed and Arrears of Revenue

Particulars are shown below.

Item of Revenue	Collections of Revenue						Balance of Arrears			
	Arrears as at 01.01.2015	Billings during the year	Total	Collection From arrears	Collection From billing	total	Out of Arrear at 01.01.2015	Out of Billing	Total Arrears as at 31/12/2015 according to Computation	Total Arrears as at 31.12.2015 according to financial statements
Rates and Taxes	Rs.000 639	Rs.000 706	Rs.000 1,345	Rs.000 307	Rs.000 632	Rs.000 939	Rs. 000 332	Rs.000 74	Rs.000 406	Rs.000 633
Lease Rent	126	4,217	4,343	105	4,226	4,331	21	(9)	12	27
License Fees	72	1,080	1,152	72	1,080	1,152	--	--	--	--
Other revenue	22,438	153,026	175,464	--	--	123,336	--	--	52,128	50,651
Total	23,275	159,029	182,304	484	5,938	129,758	353	65	52,546	51,511

- (a) Balances as at 01 January 2013 and 31 December 2015 according to calculations on the basis of registers and the balances shown in the financial statements were different from each other due to lapses in the maintenance of the registers of the Sabha, while collection of Other Revenue had not been prepared separately as receipts out of billing and out of arrears.

- (b) Although a sum of Rs. 705,650 had been billed relevant to the year under review as Rates and Taxes, only a sum of Rs. 632,390 or 90 percent had been recovered. While there was an arrears sum of Rs. 633,446 as at the end of year under review according to the financial statements, it was 90 percent of the annual billings. A sum of Rs. 136,941 had been recovered out of these arrears up to Jul

2.3.3 Rates

Following matters are observed.

- (a) While a new assessment of annual values of rates properties had been made during the year 2012, follow up action had not been taken relating to new construction plans approved thereafter, issue certificates of conformity, revise Rates and make recoveries.
- (b) Rates Register had not been balanced at the end of the quarter and a list of arrears had not been prepared after deciding the arrears. Due to that; it was not possible to identify the period relevant to arrears although there was a balance of rates in arrears amounting to Rs. 348,718 as 31 December 2015.

2.3.4 Acreage Tax

While the Acreage Tax balance in arrears as at 31 December 2015 was Rs. 284,728, it was not possible to identify the period relevant to those arrears, due to non-preparation of arrears registers.

2.3.5 Lease Rent

- (a) Ten Stalls, No. 03 to 12 in Katupotha had been taken over by the Sabha on 26 June 2014. While these stalls had not been included in the tender notice for leasing out assets for the year 2015, due to that; lease rent receivable from these 10 stalls had been lost to the Sabha.
- (b) Although quotations had been called for thrice in order to lease 34 Assets through tenders for the year 2015, of which minimum bids totaling Rs. 1,199,383, bids had not been submitted.

2.3.6 Court Fines and Stamp Fees

Court Fines amounting to Rs. 3,810,742 and Stamp Fees amounting to Rs. 42,504,730 were Receivable from the Chief Secretary to the Provincial Council as at the end of the year under review.

03. Operating Review

3.1 Management Inefficiencies

Following matters are observed.

- (a) Although the schedules of Stamp Fees had been prepared and submitted to the Provincial Revenue Commissioner through Land Registries, the Chief Secretary had been informed by the Provincial Revenue Commissioner that those moneys cannot be released as Stamp Fees totaling Rs. 2,884,800 as Rs. 1,545,000 for the year 2010, Rs. 625,300 for the year 2011 and Rs. 714,500 for the year 2013 had not been credited to the Provincial Department of Revenue, due to lack of funds. Action had not been taken to resolve that position.
- (b) An agreement had been entered into on 02 May 2013, to provide Concrete Block Stones Manufacturing Machine valued at Rs. 130,862, 05 tanks for seasoning block stones, and wooden casings for drying stones to the contractor on condition to purchase the block stones to be manufactured at the rate of Rs. 24 per block stone by the Sabha. However, production of block stones had been stopped with effect from 21 November 2013.
- (c) Although there was possibility to obtain provision amounting to Rs. 400,000 through Provincial Criteria Based Project for development of clay pots and pans industry in Meti Wewa village during the year 2014, it had been implemented having spent only a sum of Rs. 350,532. While it had been stopped half way due to lack of proper supervision or follow up action, the Secretary of the Sabha informed me on 27 January 2016 that a program will be implemented to bring it to an operational level after taking follow up action. However, any course of action had not been even up to 30 May 2016.

- (d) Parts of land allocated to the Sabha for common amenities in auctioning Pallegedara, Kolongolla Land (05 Acres), Haiyala Agara Watta Land (03 Acres, 03 Roods and 20 Perches) and Kurugalgoda Watta Land in Horombawa (03 Acres and 25 Perches) had not been obtained to the Sabha through deeds.
- (e) At the inspection of 03 lands sales in progress during the year 2015, it was observed that the amount ascertained as estimated value for payment of 1 percent tax and the minimum price of a block of land published for sale by the seller is taken in to consideration, a further sum of Rs. 157,273 was due to be obtained. Action in terms of By-law 14(2) had not been taken to obtain quarterly reports relating to sales, for recovery tax on the basis of sales.
- (f) There were staff loan balances in arrears totaling Rs. 149,857 as a sum of Rs. 140,418 due from an officer who had vacated service being brought forward since a period prior to the year 2011, a sum of Rs. 5,289 due from 09 retired officers and a sum of Rs. 4,150 due from 03 deceased officers.

3.2 Solid Waste Management

Although garbage getting accumulated in the area of authority of the Sabha including the Head Office, 03 Sub-offices and 03 Weekly Fairs are sorted as decomposing and non-decaying garbage, a recycling of garbage is not performed by the Sabha. While polythine contained in the garbage collected are separated and kept for sale, only the decaying garbage are dropped into a private land in Alahitiywa.

04. Accountability and Good Governance

4.1 Annual Procurement Plan

An Annual Procurement Plan had not been prepared.

4.2 Assets Management

4.2.1 Idle and Underutilized Assets

Dump Truck Vehicle received from the Local Government Department during the year 2014 remained idle for 09 months of the year 2015, without being registered and obtaining revenue license and insurance certificates.

05. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Contracts Control