

## **Kurunegala 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 31 March 2016 while Financial Statements relating to the preceding year had been submitted on 31 March 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 12 August 2015.

##### **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 Kurunegala 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 Decrease in Net Assets**

According to the financial statements presented, the position of Net Assets as at the end of the year under review was Rs.109,481,721, while Net Assets of the preceding year had been Rs. 124,517,730 indicating a decrease in the Net Assets in a sum of Rs. 15,036,009.

### 1.3.2 Accounting Deficiencies

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Following accounting deficiencies are observed.

- (a) Land and Buildings had been overstated in a sum of Rs. 986,403 in the accounts.
- (b) The value of 41 Lands and 05 Buildings acquired by the Sabha during the period from the year 1999 to the year 2015 had not been assessed and accounted.
- (c) The value of J.C.B. Machine, 02 Cab Vehicles and a Truck Vehicle received as Government donations to the Sabha during the year 2015 had not been assessed and accounted.
- (d) While a Hand Tractor valued at Rs. 87,500 had been sold by the Sabha on 09 March 2016, for that removal, Motor Vehicles and Carts account had been credited in sum of Rs. 77,962 having debited the Contribution from Revenue to Capital Outlay Account.
- (e) While the value of Scavenge Carts Stock amounting to Rs. 447,721 not available in the Sabha according to Board of Survey Reports, value of 03 Tractors amounting to Rs. 3,218,395 not recorded in the Fixed Assets Register and value of 03 Trailers amounting Rs, 392,312 were included in the Motor Vehicles and Carts Account amounting to Rs. 22,541,228, value of a Scavenge Cart amounting to Rs. 24,800 included in the Inventory Register had not been included in the Motor Vehicles and Carts Account.
- (f) Although the staff salary reimbursements Receivable for the month of December 2015 from the Local Government Department was Rs.3,598,848, the balance in the Salivary Reimbursement in Arrears Account at the end of the year under review amounting to Rs. 10 681,959 had been shown under Receivables in the Statement of Financial Position as at 31 December 2015. Due to that, Current Assets had been overstated in a sum of Rs. 7,083,111.

- (g) Out of Sundry Work Debtors account balance of Rs. 98,748,043 at the beginning of the year, a balance of Rs. 44,621,579 had been written off against the Accumulated Fund without any authority.

### **1.3.3 Non-reconciled Control Accounts**

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Non- reconciliations totaling Rs. 58,664,910 were observed between the balances relevant to 13 items of accounts at the end of the year under review and the balances in the relevant subsidiary registers.

### **1.3.4 Accounts Receivable**

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Following matters are observed.

- (a) Value of Accounts Receivable as at 31 December 2015 was Rs.60,162,707. While a balance of Rs. 34,493,982 not settled since a period more than 3 years was included therein, a balance of Rs. 3,866,350 had been recovered at the date of financial statements
- (b) While out of the value of accounts receivable balances as at 31 December 2015, approximately 67 percent or a sum of Rs. 40,460,547 had been Sundry Debtors, out of that a sum of Rs. 33,469,765 were balances being brought forward since a number of years and it had not been possible to identify the parties from whom those amounts are to be received. Further, out of the out balances of advances amounting to Rs. 1,113,628, a sum of Rs. 854,036 were balances failed to get settled by the Sabha and were being brought forward since a number of years.

### **1.3.5 Accounts Payable**

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Following matters are observed.

- (i) While the value of Accounts Payable as at 31 December 2015 was Rs. 78,580,586, within the information furnished relevant to balances of Rs. 30,849,517, there were balances not settled during a period exceeding 3 years amounting to Rs. 10,189,479. Out of these balances in arrears, a sum of Rs. 9,586,671 had been recovered as at the date of audit of the financial statement.
  
- (ii) While a sum of Rs. 26,317,503 included in the Accounts Payable balance had been Work Debtors, out of that a sum of Rs. 10,160,976 were balances which were being brought forward since a number of years, Creditors parties had not been identified.
  
- (iii) While the value of Sundry Deposits remaining since a long period included in the Accounts Payable balances amounted to Rs. 47,731,366, it was 60 percent when taken as a percentage. Further out of this, a sum of Rs. 17,620,903 had not been identified.

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

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Six items of accounts amounting to Rs. 75,512,416 could not be satisfactorily examined in audit due to non-submission of schedules showing make up of those items of accounts.

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

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Following instances of non-compliance with Laws, Rules and Regulations etc., are observed.

Reference to Laws, Rules Regulations etc.

Non-compliance

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(a) Financial regulations 396 (d) of the  
Republic of Sri Lanka

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Action in terms of the financial regulation had  
not been taken with regard to 04 cheques valued  
at Rs. 35,480 which had elapsed a period  
exceeding 06 months from the date of issue.

(b) By-law No. 1882/22 dated 01 October  
2014 relevant to Development of  
Housing Properties and Sale of Lands  
by Making Allotments

(i) Section 03 2(a) amended on  
20 January 2015

Although approval of the Commissioner of local  
Government too should be obtained when  
making allotment of a coconut land in extent of  
more than 02 hectares, approval had been  
granted by the Sabha for allotments of (A 9163  
and 9165) Kosgahamula Watta Land, Lechchami  
Watta Land situated in Idamgahapola and  
Andagala Kanda Land without approval of the  
Commissioner of Local Government.

(ii) Section 14 (2)

Tax at 1 percent had been obtained on the basis  
of the estimated sale, due to failure by the Sabha  
in taking a quarterly report from the seller with  
regard to the land sale.

**2. Financial Review**

**2.1 Financial Results**

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According to the Financial Statements presented, excess of revenue over recurrent  
expenditure for the year ended 31 December 2015 amounted to Rs. 38,327,915 as  
compared with the corresponding excess of revenue over recurrent expenditure for the  
preceding year amounted to Rs. 22,591,467 indicating an improvement of Rs. 15,736,445  
in the financial results. When Capital Grants of Rs. 8,884,734 and Capital Expenditure of  
Rs. 28,668,152 are adjusted to that financial result, the financial results relevant to the  
year under review had become a surplus of Rs. 18,544,497.

## 2.2 Analytical financial Review

(a) Variations relevant to actual revenue and expenditure between the year under review and the preceding year were as follows.

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	21,090	23,715	(2,625)	Personal Emoluments	53,700	46,268	7,432
(ii) Others	<u>121,350</u>	<u>102,254</u>	<u>19,096</u>	Others	<u>50,412</u>	<u>57,110</u>	<u>(6,698)</u>
Sub total	142,440	<u>125,969</u>	<u>16,471</u>	Sub total	104,112	103,378	734
(iii) Capital Grant	8,885	63,762	(54,877)	Capital Expenditure	28,668	89,518	(60,850)
Grand Total	<u>151,325</u>	<u>189,731</u>	<u>(38,406)</u>		<u>132,780</u>	<u>192,896</u>	<u>60,116</u>
Excess of Revenue over Expenditure	38,328	22,591	15,737	Surplus	18,544	(3,165)	21,709

Following matters are observed.

- (a) Out of the total Recurrent Revenue of Rs.142,440,126 relevant to the year under review, a sum of Rs. 121,350,063 or 85 per cent were revenue not falling under a nature generated in the Sabha and were receipts in the nature of grants such as Court fines, Stamp Fees and Salary Reimbursements. Similarly, the entire capital revenue of Rs. 8,884,734 was consist of funds received for development works in the area of authority through other institutions from sources such as Gama Neguma and Maga Neguma.
- (b) Out of the total Recurrent Expenditure of Rs104,112,210 relevant to the year under review, a sum of Rs. 40,218,192 or 52 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 40,218,192 or 75 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. 28,668,151, a sum of Rs. 5,563,563 or 19 percent only had been Sabha Funds, while the balance amount of Rs. 23,104,588 or 81 percent were development works performed on the basis of provisions of other institutions such a Gama Neguma and Maga Nguma.

## 2.3 Working Capital Management

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Following observations are made.

- (a) Although a sum of Rs. 130,000 deposited in the Kurunegala Government Agent's Office for construction of a Fair in Mallowapitiya area before establishment of the Pradeshiya Sabha was being brought forward under Fixed Deposits, , the possession and existence of that balance were not confirmed.
- (b) There was a balance of Rs. 28,645 as Overseer's Field Stores in the financial statements.
- (c) Although it had been informed that the loan of Rs. 100,000 granted on 2.5 percent interest to the Local Government Employees General Union during the year 1999 will be settled after one year, but nearly 15 year had elapsed as at the end of the year under review and action had not been taken to settle it.

## 2.4 Revenue Administration

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### 2.4.1 Performance in Revenue Collection

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Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review and the preceding year had been as follows.

Item of Revenue	2014			2015		
	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual	Accumulated Arrears as at 31 December
	Rs000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
(i) Rates and Taxes	10,990	10,668	11,012	9,336	7,481	10,004
(ii) Lease Rent	4,952	1,437	221	4,285	2,060	193
(iii) License Fees	2,989	513	--	1,725	2,247	49
(iv) Other Revenue	<u>127,894</u>	<u>129,822</u>	<u>(559)</u>	<u>99,811</u>	<u>118,801</u>	<u>--</u>
Total	<u>146,825</u>	<u>142,440</u>	<u>10,674</u>	<u>115,157</u>	<u>130,589</u>	<u>10,246</u>

## 2.4.2 Revenue Billed and Arrears of Revenue

Details are shown below.

Item of Revenue	Balance as at 01.01 2015	Billings during the year	Total	Revenue Collection			Balance in arrears		
				From arrears up to 01.01.2015	From Revenue billed	Total	From arrears as at 01.01. 2015	From Revenue billed	Total arrears as at 31.12.2015
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Rates and Taxes	10,004	10,666	20,670	2,324	7,334	9,658	7,680	3,332	11,012
Lease Rent	193	1,459	1,652	193	1,238	1,431	--	221	221
License Fees	49	510	559	49	510	559	--	--	--
Other Revenue	"	127,894	127,894	---	128,453	128,453	--	(559)	(559)
<b>Total</b>	<b>10,246</b>	<b>140,529</b>	<b>150,775</b>	<b>2,566</b>	<b>137,535</b>	<b>140,101</b>	<b>53,538</b>	<b>2,994</b>	<b>10,674</b>

## 2.4.3 Rates and Taxes

While arrears of Rates and Taxes at the beginning of the year under review was Rs. 10,003,807, out of that arrears amount recovered during the year 2015 had been only Rs.2,323,547 or 23 percent. Although the procedure for recovering arrears of Rates by seizure of properties after issuing relevant notices having prepared list of arrears according to quarters should be done in terms of Rules 32 – 42 in Pradeshiya Sabha (Financial and Administrative ) Rules Series of 1988, action had not been taken accordingly.

## 2.4.4 Lease Rent

Following matters are observed.

- While 9 properties belong to the Sabha had not been given on lease for more than 5 years, any income from coconut yield in these lands had not been received to the Sabha.



- (b) While lease money for 06 stalls in the Boyagane Market belong to the Sabha had not been given during a period of more than 05 years, specific information relating to the activities for which those stalls were utilized were not furnished to audit.

#### **2.4.5 License Fees**

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Following matters are observed.

- (a) A sum of Rs. 40,600 had been recovered as Advertisements Boards Charges to the Head Office for the year 2015.
- (b) Any revenue had not been recovered in terms of Extra Ordinary Gazette Notification No. 1597/8 dated 17 April 2009 of the Republic of Sri Lanka for 06 telecommunication towers in the erected in the area of authority of the Sabha, identified by the Revenue Officers.

#### **2.4.6 Court Fines and Stamp Fees**

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- (a) Although the Stamp Fees due to be received as at end of the year from the Chief Secretary to the Provincial Council was Rs. 32,774,152, Stamp Fees amounting to Rs. 34,356,915 were in arrears for the period from the year 2010 to the year 2012 according to the Stamp Fees Register.
- (b) While the amount of Stamp Fees Receivable for the years 2013, 2014 and 205 had not been identified and recorded in the Stamp Fees Register, action had not been taken to recover those amounts after identifying the fees.
- (c) Information relating to Court Fines receivable for 07 months from March to December 2015 had not been recorded in the Court Fines Register.

### **03 Operating Review**

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#### **3.1 Management Inefficiencies**

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- (a) Additions and removals during the year had not been included in the Fixed Assets Registers relating to Land and Buildings, Machinery and Equipment and Vehicles, Inventory Registers, and had not been maintained having updated.
- (b) Action had not been taken to identify and take corrective measures with regard to 04 dishonored cheques amounting to Rs.38,975 existing since the year 2006.

- (c) Action had not been taken to identify and take corrective measures with regard to 04 remittances in transits valued at Rs.9,155 existing since the year 2008.
- (d) Although it had been stated that reasons for the disparity between the bank balance as per cash book shown in the bank reconciliation statement for December 2015 and the balance in the bank was due to difficulty in ascertaining information relating to a sum of Rs. 7,125, action had not been taken to rectify it.
- (e) Action had not been taken to recover Staff Loan balances totaling Rs. 82,625 outstanding from 19 officers that had been brought forward since a number of years.
- (f) While electricity and water supply facilities had not been provided for the lands allotted in auctioning Lechchami Watta Land situated in Idamgaha Pola in extent of 8 acres and 39.5 perches for which approval was granted on 27 March 2015, a right angle pit of about 20 feet long and 15 feet wide had been cut from the part of land assigned to the Sabha and earth had been obtained for development of sub ways.
- (g) Plan for Sub-partition of the second part of Aandagala Mount situated in Gattuwana Village consist of 50 lots of land in extent of 07 acres or 2.8328 hectares had been approved on 12 May 2015, a date very close to the dissolution of the Sabha, contrary to the relevant by-law, while any development work had not been performed.

### **3.2 Human Resources Management**

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Estimated and actual cadre as at 31 December 2015 was as follows. While estimated cadre of the Sabha relevant to the year under review was 116, there were 124 permanent employees, 23 vacancies and 20 surplus employees. While the entire number of surplus employees were Development Officers, 03 posts out of 04 posts of Librarians had been vacant.

## **4. Accountability and Good Governness**

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### **4.1 Budgetary Control**

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While estimated revenue under 04 items of revenue under generated revenue of the Sabha was Rs. 31,724,146, revenue recovered had been Rs. 18,470,818.

**5. Systems and Controls**  
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Special attention is needed in the following areas of systems and controls.

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Budgetary Control.