

Kalawana Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 02 May 2016 and the financial statements for the preceding year had been presented on 08 May 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 02 June 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kalawana Pradeshiya Sabha as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The revenue from rates and taxes and acreage tax for the year under review amounted to Rs.1,535,776 and Rs.73,663 respectively. However, the said revenue had been brought to account as Rs.1,629,261 and Rs.80,316 respectively. As a result, the revenue of the year had been overstated by Rs.100,138.
- (b) The commission paid for rates and taxes during the year under review amounting Rs.27,653 had been debited to the accumulated fund instead of being debited to the year's expenditure.
- (c) The amount to be billed for the fish stall No.02 for the year under review amounted to Rs.867,500. But, the sum of Rs.144,583 paid in cash by the lessee had been entered under the Revenue Item No.5.23 Public Market Rent. Accordingly, revenue amounting to Rs.772,917 had been understated under the said revenue item.

- (d) The re-imbusement of salaries for the year under review amounting to Rs.19,294,393 had been brought to account as Rs.19,231,103 resulting in an understatement of re-imbusement of salaries for the year by Rs.63,290.
- (e) A sum of Rs.10,000 only had been brought to account as court fines for the year under review without identifying the revenue.
- (f) The assets valued at Rs.17,151,732 received as donations during the year under review had been brought to account under the Revenue Contributions to Capital Outlay Account instead of being brought to account under the Donations Contributions Account.
- (g) The assets valued at Rs.55,465 which had been recommended by the board of survey for the year under review to be auctioned or destroyed had been deleted from the accounts before implementing the recommendations.
- (h) A decision had been made to write off the creditors' balance of Rs.716,856 for the years 2011 and 2014 as there were no claims. Accordingly, the accumulated fund account had been credited and the creditors' account had been debited. But, the adjustments concerned had not been carried out by a journal entry.
- (i) A decision had been made to credit to revenue the deposits exceeding 02 years. Accordingly, instead of taking action to credit to revenue the contract deposit of Rs.728,603 and the agreement deposits of Rs.97,300 through the Accumulated Fund, debit and credit entries had been made in the same Deposit Account.
- (j) A sum of Rs.870,000 had been transferred through internal cash transfers in 03 bank accounts during the year under review. Instead of bringing this to account through an Internal Cash Transfer Account, it had been brought to account under the Advance Account.
 - (i) Further, the sum of Rs.300,000 obtained as advances from Development Account to General Account in 2014 had again been transferred to the Development Account in 2015. While doing so, this had not been brought to account under the Internal Cash Transfer Account. Instead, this had been debited to the Accumulated Fund considering that this should be debited to expenditure as settlement of advances of the previous year.
- (k) Expenditure aggregating Rs.917,622 of the previous year could not be paid. This had been debited to the Accumulated Fund during the year under review without making provision for creditors during the year. Accordingly, the financial results of the said year could not be relied upon.

1.3.2 Unreconciled Control Accounts

A difference of Rs.15,303,666 was observed between the balances of 09 items of accounts as per financial statements as at end of the year under review and the balances appearing in the subsidiary registers.

1.3.3 Lack of Evidence for Audit

Confirmation of balances or confirmation documents, whatsoever, had not been furnished for audit with regard to the loan balances of Rs.8,148,761 shown as further payable to the Local Loans and Development Fund.

1.3.4 Non-compliance with Laws, Rules, Regulations etc.,

Non-compliance with the following laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

(a) Financial Regulations of the Republic of Sri Lanka

(i) Financial Regulations 342

Counterfoils of the Sabha had been kept under the custody of the permanent watcher in a place where the stores materials had been placed.

(ii) Financial Regulation 371 (2)d

Advances should be settled immediately after fulfilment of the purpose. However, advances of Rs.327,189 of the previous year had not been settled.

(iii) Financial Regulations 570/571

Action had not been taken in terms of the said regulations with regard to lapsed deposits valued at Rs.6,593,309.

- (b) Circular No.2009/01 of 09 March 2009 of the Commissioner of Local Government Lease rent should be revised at least once in 05 years. Action had not been taken to revise the assessment rent of 2006 of 10 stalls of the New Trade Complex up to the date of audit of 18 February 2016.
- (c) Circular No.03/2012 of 29 May 2012 of the Commissioner of Local Government A sum of Rs.157,500 had been paid to 07 members during the year 2015 for bills furnished without specifying the duties and the numbers of the vehicles. Further, the fuel allowances of January to December 2014 amounting to Rs.60,000 of the Vice Chairman had been fully settled.

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 2015 amounted to Rs3,331,362 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.6,239,691.

2.2 Analytical Financial Review

The financial operating surplus of the year under review had decreased by Rs.2,908,329 as compared with that of the previous year and it was observed that it was 47 per cent less than the previous year. The decrease in recurrent revenue and the increase in recurrent expenditure of the year under review as compared with the previous year had mainly attributed to this.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information furnished for the year under review with regard to the estimated revenue, actual revenue and the arrears of revenue appear below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	2,428	2,435	3,346
Lease rent	6,615	3,900	3,977
Licence fees	1,165	187	-
Other revenue	21,710	27,802	11,854

2.3.2 Performance in Collection of Revenue

A comparison of the revenue collected on behalf of rates and taxes, lease rent and licence fees during the year under review with those of the estimated amount showed a decrease of 07 per cent, 39 per cent and 84 per cent respectively.

2.3.3 Rates and Taxes

The arrears of rates and taxes as at 31 December of the year under review amounted to Rs.2,520,166. Of these, a sum of Rs.1,910,082 belonged to 166 rates and tax payers whose arrears were over Rs.5,000 and it was 76 per cent of the total arrears .

2.3.4 Other Revenue

The following observations are made.

- (a) Business tax had not been recovered from 165 establishments and trade licences had not been obtained by 36 establishments which should obtain them during the year under review as compared with the previous year. As such, the Sabha had been deprived of receiving Rs.229,960 to its Fund.
- (b) The Sabha had not maintained a permanent register of fees for advertisement boards and telecommunication towers. Advertisement board charges of Rs.1,575 had been recovered from one establishment only during the year 2015. No fees, whatsoever, had been obtained for telecommunication towers during the year 2015.
- (c) The Sabha had been deprived of a revenue of Rs.52,600 receivable from 49 registered three wheelers parked in 04 three wheeler parks of the Sabha during the year under review as compared with the previous year.

2.3.5 Court Fines and Stamp Fees

The following observations are made.

- (a) Schedules of stamp fees for the period September 2014 to December 2015 had not been obtained and long delays were observed in recovering the revenue concerned.
- (b) Schedules of court fines had not been obtained for the period October 2014 to December 2015 and long delays were observed in recovering the revenue concerned.

2.3.6 Lease Rent of Stalls

Tenders had been published to give 16 items of the Sabha on lease for the year 2015. The Sabha had not constructed permanent centres for 11 of these properties published in the advertisement.

- (a) Accordingly, the ability to obtain the annual revenue of rent from those assets had been neglected by the Sabha. As such, an overall loss of Rs.4,870,085 had been caused to the Sabha with reference to the minimum amount that could be received from the tenders. The lessee of the fish stall No.2 of the fair premises who had obtained the lease for the year under review had cancelled the agreement from March 2015 stating that the place was not suitable as specified and this had resulted in a loss of Rs.722,917 during the year 2015.
- (b) The beef stall in the public market had been given on lease with an agreement for the year 2014. The lessee had neglected to pay the monthly rent from March to November 2014. As such, the rent along with the penalties amounting to Rs.538,424 was due to the Sabha. Action had not been taken up to 18 February 2016, the date of audit, to make any efforts to recover it or to take legal action.

2.3.7 Lease of Stalls at the Bus Stand

The following observations are made.

- (a) The old bus stand and the public market complex within the Kalawana town had been demolished by October 2014. But none of the work of the project costing Rs.771,662 had been commenced by 17 February 2016, the date of audit. The memorial plaque valued at Rs.115,400 constructed for the foundation ceremony too had been removed.
- (b) It had been decided to allow the old stall owners to temporarily conduct their business in lieu of the stalls demolished under the projects at the old bus stand by paying a monthly lease rent of Rs.500. But, the lessees had constructed permanent buildings without any approval or inspections being made by the Sabha. Accordingly, it was observed in audit

that the Sabha had lost the opportunity to earn extensive revenue from these stalls with extensive economic value in the midst of the town and the property of the Sabha had been allowed for irregular usage.

3. Operating Review

3.1 Management Inefficiencies

A balance of Rs.1,004,238 was observed as per register of creditors as a result of non payments to creditors as per register of creditors or non maintenance of registers. Action had not been taken even by the date of audit to settle the loans or to rectify the registers.

3.2 Operating Inefficiencies

The following observations are made.

A physical verification was carried out by the Audit Officers and the Technical Officer on 24 February 2016 during which it was observed that the roof of the rear portion of the building consisting of the Pothupitiya sub office, library and the ayurvedic clinic had been completely broken making room for the water to enter in plenty and the building had been completely devastated. Accordingly, the safety of equipment and books of the pharmaceuticals stores and the library had been subjected to severe risks.

3.3 Uneconomic Transactions

Electric bulbs valued at Rs.1,009,210 had been purchased in 2015 without identifying the necessity for street bulbs. Stock of those electric bulbs and equipment remained idle at the stores even at the time of the physical verification carried out on 17 February 2016, although over 01 year had elapsed.

3.4 Idle Assets

According to the circular No.PE/01/01 of 17 August 2010 of the Secretary to the Ministry of Power and Energy, 110 watts of high tension sodium wafer lamps only could be fixed to each light post within the business areas of "A" grade roads of rural areas. However, without considering this and without identifying the needs of the institution, 100 bulbs of 400 watts valued at Rs.195,000 and 250 sodium chokes valued at Rs.295,000 had been purchased.

3.5 Contract Administration

3.5.1 Renovations to the Old Sinharaja Road (Stage 11) by concreting the Road

An agreement had been signed for the work with a registered contractor for Rs.199,282 on 23 March 2015, according to which concrete of 4 inches thickness should be laid and renovated. However, instances were observed where the concreting performed on the road had a thickness of about 2 ½ inches. Accordingly, it was observed at a physical verification carried out on 24 February 2016 that the concreting done was less than the standard thickness which may lead to the collapse of the road very soon due to breakage of concrete plates.

3.5.2 Construction of a Bus Stand with a Trade Complex

The following observations are made.

- (a) A nine month's agreement valued at Rs.8,867,228 had been entered into on 27 May 2009 with a private contractor to construct the Kalawana bus stand with the trade complex on the basis of expenditure incurred from the funds of the Pradeshiya Sabha and the Local Loans and Development Fund and a sum of Rs.2,625,942 had been paid to the contractor to construct the foundation. Subsequently, the contractor had abandoned the work halfway. Meanwhile, legal action had not been taken against the contractor.
- (b) The foundation laid in the abandoned work site got filled up with water and in order to close it, an estimate for Rs.1,700,000 had been prepared and an agreement had been entered into for a sum of Rs.1,641,338 with a subsequent payment of Rs.44,624 being made to the contractor. As a result of stoppage of work halfway, another agreement had been entered into with another contractor for reclamation of the pit for the above amount and a sum of Rs.667,293 had been paid in this connection. But, the completion of work at the worksite as per agreement had failed. Again, an estimate had been prepared for Rs.1,536,000 to fill the foundation and an agreement had been entered into with a private contractor for Rs.1,491,247. The work had been completed and Rs. 1,491,247 had been paid to the contractor. Accordingly, a sum of Rs. 2,203,164 had been paid in excess for the foundation pit exceeding the first and second agreements.
- (c) Again an agreement for Rs.47,440,444 had been entered into for completing the work relating to the first foundation and the remaining work at an estimated cost of Rs.73,502,000. A sum of Rs.5,581,140 had been paid for the construction. But, the construction of the foundation could not be completed and the work had been abandoned halfway.
- (d) The Sabha had neglected to take legal action for breach of agreement even at this juncture. Accordingly, by then, a total expenditure of Rs.10,410,245 had been incurred on the whole project.
- (e) Further, the Sabha had to face an external liability in suspense amounting to Rs.4,698,593 and a liability amounting to Rs.6,173,000 to the Local Loans and

Development Fund with regard to the above construction. This had been pointed out in audit during the years 2011 and 2012. But, proper action had not been taken. As a result, the amount spent on the above project, up to now, amounting to Rs.10,410,245 and the liabilities caused amounting to Rs.6,173,000 had become fruitless.

- (f) This project was proposed to be constructed with 18 stalls at the ground floor and 31 stalls at the first floor. By now, the Sabaragamuwa Road Passenger Transport Authority had proposed to acquire the project whereas the Urban Development Authority had proposed to construct a new trade complex building under the Kalawana Commercial Garden Development Project- Stage 11.

3.6 Solid Waste Material Management

The following observations are made.

- (a) An initial financial provision of Rs.903,181 had been made on 30 October 2009 by the Central Environmental Authority to construct a permanent garbage recycling project. In this connection, a sum of Rs.70,000 had been paid to survey the 09 acre land of the Land Reform Commission to be used for this project. But, progress of this project had not been observed even by end of the year under review. It was observed that the daily collection of garbage of the Sabha and the waste materials disposed of, at the crematorium continues to be buried in the soil in a land at Kukuleganga Kottaneehena without taking any safety precautions. Accordingly, the Central Environmental Authority had informed that the agreement relating to the construction of the project had been cancelled due to the existing inordinate delay of the project and a refund of the money provided was expected. In spite of this, the money continues to be retained and there appears to be a risk of legal action being taken against the Pradeshiya Sabha.
- (b) According to the instructions given by the Commissioner of Local Government, 134 garbage containers had been distributed among selected households in order to publicize separation and collection of garbage among the community. Of these, 66 garbage containers were to be distributed among Samurdhi beneficiaries/widows/women and the home for disabled persons. However, 23 garbage containers had been distributed contravening the said instructions. Although it was required to distribute 34 containers to families of higher income groups it was observed in audit that 24 garbage containers alone had been sold and action had been taken to distribute them to the beneficiaries concerned and 74 garbage containers had been stored in the premises of the crematorium while there was a shortage of 13 garbage containers as per register of stock.
- (c) The matters relating to the selection of tenderers for disposal of garbage in the Kalawana town or the decision made by the Sabha to make a payment of Rs.105,500 per month for the work concerned or on what basis the fees had been determined etc, had not been disclosed in audit. Although the Sabha should pay the required attention with

adequate supervision in this matter, no confirmation, whatsoever, had been furnished to audit to show such adequate daily supervision had been made in this connection.

4. Good Governance and Accountability

4.1 Budgetary Control

Provision exceeding Rs.5,000 had not been utilized for 22 objects and the entire amount not utilized for any purpose, whatsoever, amounted to Rs.28,138,225.

4.2 Annual Procurement Plan

An annual procurement plan for the year under review had not been prepared and action taken accordingly.

4.3 Internal Audit

Action had not been taken to establish an internal audit unit and to operate it by providing necessary facilities.

4.4 Audit and Management Committees

Action had not been taken to establish Audit and Management Committees and implement them.

5. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (e) Contract Administration
- (f) Solid Waste Material Management