

**Kundasale Pradeshiya Sabha**  
**Kandy District**  
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**01 Financial Statements**  
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**1.1 Presentation of Financial Statements**  
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Financial Statements for the year under review had been submitted to the Audit on 27 March 2017 while Financial Statements relating to the preceding year had been submitted on 28 March 2016.

**1.2 Qualified Opinion**  
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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 Kundasale Pradeshiya Sabha as at 31 December 2016 and its Financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**  
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**1.3.1 Accounting Deficiencies**  
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Following deficiencies were observed.

- (a) 1.044 hectares of land that related to the Pallekale Janasvigama house project and other 16 lands had not been accounted by assessing their value.
- (b) while the value of Rs.4,437,165 that had expended for develop the lands and buildings of the Sabha in the year under review had not been capitalized, the value of construction of the fair beside the Pallekale Raja Roopa had been under capitalized by an amount of Rs.7,912,792.
- (c) While the actions had not been taken to accounting the value of Rs.780,000 of 05 trailers and the value of one trailer that had received as a donation by assessing the worth of a tractor had been understated by Rs.1,000,000 on the Financial Statements.
- (d) Actions had not been taking to accounting the buildings, machine and equipments worth of Rs.95,957,713 that had received as donation for the project of waste management and attained by expending by the Sabha.
- (e) While the actions had not been taken to accounting the machinery and equipments worth of Rs.133,075 that had received as donation to the Pallekale Ayurvedic Hospital, the value of medicine stock had been over stated by Rs.474,468 on the Financial Statements.
- (f) actions had not been taken to accounting the value of Rs.4,837,105 of water industry store stock and compost fertilizer stock that hadn't available in the final stock as the 31 December of the year under review.
- (g) Reimbursement of receivable salaries had been overstated by Rs.1,398,717 on financial statements.
- (h) Unsettled advance amount of Rs.1,166,408 in the year under review had been accounted as pre-plaids.

- (i) while the expenditure creditors as at 31 December of the year under review had been understated by Rs.2,406,955 the 02 payable balances of industrial creditors worth of Rs.700,000 had been leaved from the financial statements.
- (j) Annual interest related to the 04 fixed deposit that maintained in the Bank of Ceylon had been overstated by Rs.1,349,707.

### **1.3.2 Contingent Liabilities**

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It had not been revealed by the accounts about the causes that had been charged in court by 15 parties against to the Sabha relating to tender giving of the Moraghapitiya shopping complex, constructing of the buildings, prohibiting the unauthorized contractions and roads.

### **1.3.3 Non- Reconciled Control Accounts**

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Discrepancies totalling Rs.416,267 were observed relating to the 3 items of accounts hence the total of balances of Rs.9,575,292 according to the financial statements had differed when comparing the subsidiary documents.

### **1.3.4 Suspense Account**

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Although the debit suspense account balance of Rs.15,096 that had stated on the financial statements of the preceding year had been changed to a credit balance of Rs.15,239 as 31 December of the year under review, actions had not been taken to make the adjustments on the accounts by recognizing the suspense account balance.

### **1.3.5 Accounts Receivable and Payable**

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#### **(a) Accounts Receivable**

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While the total of 3 balances of accounts receivable as at 31 December of the year under review amounted to Rs.52,150,392, a balance that had elapsed more than 1 year amounting to Rs.19,085,819 had been included therein.

#### **(b) Accounts Payable**

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While the total balance of 2 accounts payable as at 31 December of the year under review amounted to Rs.45,741,869, a balance that had elapsed more than 1 year, amounting to Rs.13,137,564 had been included therein.

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

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Transaction totalling Rs.5,935,900 could not be satisfactorily vouched in audit due to non-submission of required information to the audit.

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

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Following instances of non-compliance with laws, rules and regulations were observed during the audit.

**Reference to the laws, rules  
and regulations**

**Non compliance**

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**(a) Acts**

Pradeshiya Sabha act  
no. 15 of 1987

(i) Section 19(i)

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Although a methodology should be followed for issue the license after While the 12 employees had recruited without an approval, salary amount of Rs.1,110,500 had been paid from the Sabha fund for the months from May to October in the year 2016 without issuing appointment letters to these employees.

(ii) Section 19 (xi)

The 2 land plots of 2 perches and 1 perch that owned to the Sabha situated beside the Pallekale Raja Roopa had been given to 2 individuals for business activities without regular approval or written agreement.

(iii) Section 149

While the rental had not been charged until 1 percent from a hotel maintained in the area of authority of the Sabha, rental had charged from 4 hotels without attain the formal accounts.

(iv) Section 154

Although the money amount of 1 percent on the temporary estimates had been charged when approve the sub dividing of 4 lands that had auction, action had not been taken to recover the revenue by examining actual sales value after the sale of lands.

(v) Section 219(i)

5 stalls of the Sabha and 2 rooms about square feet 86.4 and 47.45 in upstairs of the old building of the Pradeshiya Sabha had been attained by the 06 former councillors.

(b) Financial Regulations of the  
Democratic Socialist  
Republic of Sri Lanka

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(i) FR 189

Actions had not been taken regarding 04 returned cheques worth of Rs.76,599 related to the year 2010.

(ii) FR 756(1)

Good survey reports related to the year 2016 had not been presented until 7 December 2016.

- (c) Circular of the Local Government commissioner

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Circular no.1980/46 dated on 31 December 1980 and the Local Government circular no 2016/03 dated on 17 March 2016.

Paragraph 10

- (i) Although the lease holders had earned 90 percent profit more than the rental that paid to the Sabha by revising the rental of the sub leased stalls from time to time, actions had not been taken in this regard.
- (ii) Although the sub leasing of the stalls had totally prohibited and had gave the instructions in this regard, an amount of Rs.7,600,000 had been earned by 06 stalls owners by selling the stalls to other individuals through attorney licences.

- (d) Procurement guideline manual 3.4.3

The purchases worth of Rs.1,116,300 had been occurred in 9 times without following regular tender procedure and without calling for prices from registered suppliers.

## **2 Financial Review**

### **2.1 Financial Results**

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According to the financial statement presented, excess of revenue over recurrent expenditures of the Sabha for the year ended 31 December 2016 amounted to Rs.56,976,713, as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.94,887,182. When compared with the preceding year, a decline of Rs.37,910,469 was observed in the financial results for the year under review.

### **2.2 Analytical financial Review**

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A decline amount of Rs.28,082,062 of 02 items of revenue and the increase amount of Rs.5,947,812 of 03 items of expenditures had been basically influenced for the decline amount of Rs.37,910,469 of financial results.

### **2.3 Working Capital Management**

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The ratio between total current assets and total current liabilities was 1.7:1, 1.27:1 and 1.0:7 in the year under review and the 02 preceding years respectively.

## **2.4 Revenue Administration**

### **2.4.1 Performance in Revenue Collection**

Following matters are observed.

- (a) The keys had not been returned because the payment had not collected from some rent holders from the year 2010 when rent outting the 15 stalls of 03 shopping complex of the Sabha. While, if the stalls are not attaining, the actions had not taken for fully utilized the properties of the Sabha by re tendering, also the revenue had missed.
- (b) Although assessment had carried out by the department of valuation when rent outting the properties of the Sabha, losses had been occurred to the Sabha fund hence charge the rental for stall on decision of the Sabha without charging the assessed rental.
- (c) Although the rate assessment should be made once in 05 years, the considerable revenue had been missed to the Sabha hence charging the rates in the basis of assessment of the year 2007 until the year 2016.

### **2.4.2 Rates**

Following matters are observed.

- (a) While the balance of arrears rates was amounted to Rs.5,935,770 as at 01 January year under review, only the sum of Rs.2,989,421 had been recovered thereof. This was a 50 percent from the total arrears amount.
- (b) Regular action had not been taken to recover a rate amount of Rs.1,078,912 that remained receivable from the government entities of the area of authority of the Sabha.

### **2.4.3 Lease Rent**

While the balance of arrears rental was amounted to Rs.3,029,884 as at the beginning of year under review, only the sum of Rs.1,706,647 had been recovered thereof. This was a percentage of 56 percent from the total arrears amount. Also it had recovered only 48 percent from the billed amount of the year.

### **2.4.4 Other Income**

#### **(a) Three Wheeler Parking Charges**

While the actions had not been taken for the bill the three wheeler parking charges in the year under review an amount of Rs.1,775,449 had remained receivable from the arrears balance that remained on 1<sup>st</sup> of January 2016.

#### **(b) Taxes for Transmissible Towers**

Although the taxes should be charged from the transmissible towers according to the statement 152(1) of the Pradeshiya Sabha act no.15 of 1987 of revenue amount of Rs.48,000 had not been recovered in the years 2015 and 2016.

**(c) Garbage Taxes**  
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Only an amount of Rs.547,900 of Garbage taxes had been recovered during the year from the arrears balance of Rs.1,359,743 which remained at the beginning of the year under review. It was a 40 percent from the total arrears. Also it had recovered only 48 percent from the billed amount of the year.

**(d) Acreage Taxes**  
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Only an amount of Rs.4,109 of had been recovered during the year from the arrears balance of Rs.39,780 which remained at the beginning of the year under review. It was a 10 percent from the total arrears.

**2.4.5 Court Fines and Stamp Fee**  
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A sum of Rs.730,000 of court fines and a sum of Rs.55,676,063 of stamp fees were due to be recovered as at 31 December of the year under review, from the Chief Secretary of the Provincial Council and other Authorities.

**3 Operating Review**  
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**3.1 Performance Evaluation**  
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Following matters were observed.

- (a) Actions had not been taken to complete the construction activities until 31 of March 2017 of the 04 stalls in the upstairs of Digana shopping complete that had constructed in the year 2010.
- (b) The projects of Galpihilla cemetery, construction of the holiday resort and the purchase of land for omission of waste that proposed to carried out in the year under review according the budget, had not been carried out.
- (c) Although increase of the common utility services of the peoples who living the area of authority of the Sabha is main function of the Sabha the special attention of the Sabha had not been given for cleaning the channel system, remove garbage and maintain the city clean.

**3.2 Management Inefficiencies**  
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Following matters were observed.

- (a) Although a photocopy machine that had purchased in the year 2007 had been given to the institution that purchased the machine for repairs in the year 2008 actions had not been taken to bring back after repairs.
- (b) Building and land survey had not been carried out in the Sabha.
- (c) Actions had not been taken to clear by testing the unrealized deposit amount of Rs.299,787 that deposit at 42 times between years 1999 and 2010.
- (d) Actions had not been taken to clear the amount of Rs.622,564 that hasn't the description about the crediting for the current account in 108 times.
- (e) Actions had not been taken to recognize the amount of Rs.929,753 that had debit to the current account at 54 times and hadn't any description.

### **3.3 Operational Inefficiencies**

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Following matters were observed.

- (a) A revenue amount of Rs.7,787,500 had been missed to the Sabha within the period from 2015 to November 2016 hence it had charged less rental amount than the assessed rental from the Moragahapitiya Waththa and Digana shopping complexes.
- (b) An arrears amount of Rs.1,612,965 had remained from the stalls of Moragahapitiya and Digana shopping complex until the day of 30 November 2016.
- (c) Actions had not been taken to recover rates on the basis of temporary assessment from the 45 commercial buildings that had passed 3 years after the approvals of building plans for the new business places in the area of authority of the Sabha.
- (d) It had observed the opportunities that had changed the structures and collected new parts to the properties that had rent out by the lessee without permission of the Sabha.
- (e) It had remained 13 vacancies and 42 surpluses in 12 designations in the Sabha office.
- (f) A rental amount of Rs.4,950,000 had been charged by rent outing the Pallekale weekly fair for the lease holders who selected on the basis of irregular manner on the approval of the congress on 26 December 2013 without following tender procedure. However the fair was not in a situation of operative after the month of June 2016.
- (g) Only an amount of Rs.200,000 had charged behalf the amount of Rs.1,510,000 that receivable at the same time by rent outing 27 and 28 stalls in Moragahapitiya shopping complex and that amount had been repaid on the decision of the Sabha that had taken March 2016.

### **3.4 Idle/Underutilized Assets**

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The land about 20 perches situated beside the Pallekale Raja Roopa that had received for the common affairs of the Sabha had been remained without utilizing and without safety.

### **3.5 Transactions of Contentious Nature**

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Although it wasn't the necessity to pay money for the land that should assigned to the Sabha for common affairs, an amount of Rs.1,230,910 which shows the quantity of 25 percent from the total amount of Rs.4,923,640 which had stated as pay by the authority of house developing for the land by approving for pay by the decision at congress.

### **3.6 Uneconomic Transactions**

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Following matters are observed.

- (a) Although an amount of Rs.2,150,000 had paid in the year 2013 for the external and internal repairs of the defender that had given by the central provincial chief ministry in the year 2012, the amount that had paid had been vain hence the vehicle was park in front of the office without running after the repairs.
- (b) A revenue amount of Rs.2,500,000 had lost to the Sabha hence it had gave the permission by the Kundasale Pradeshiya Sabha for private meat shop that had constructed in the area of authority of the Kundasale Prdaeshiya Sabha beside the Madawala meat shop at a rental of Rs.2,500,000 by the same person who had meat shop in Pathadumbara Madawala.

### **3.7 Identified Losses**

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Actions had not been taken until 08 December 2016 regarding 426 items of goods that had not presented for the good survey on Pradeshia Sabha main office in 2014 and the survey of stores.

### **3.8 Contracts Administration**

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Following matters were observed.

#### **(a) Construction of the fair beside the Pallekale Raja Roopa**

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- (i) A fair had been constructed by expending an amount of Rs.9,080,564 by utilizing the donations such as provincial certain development allowance, the money that collected from tender holders, and the Pradeshia Sabha funds. While feasibility study had not carried out when carry out this project, approvals had made in 7 steps with 03 societies without following tender procedure for carry out this industry. Although an estimate of Rs.7,742,113 had made by a technical officer without taking approval from an engineer, an amount of Rs.1,338,451 had paid beyond the estimate.
- (ii) Although an amount of Rs.947,136 had paid for 24 capes for complete the roof using tubes of 1" and ½" inches under the work subject 16, when testing physically the estimates, paying reports and measures, while it had 7 capes remained and it had paid an amount of Rs.276,246 beyond for 17 capes hence the value of that was Rs.670,888. although an amount of Rs.536,729 had paid for 828.35 box bar meters about 1 1/2×1 1/3 inches and 3mm under the work subject no.17, an amount of Rs.168,867 had paid beyond for 261 meters hence in had observed only 567.35 box bar meters had been used.

#### **(b) Developing the Road Panchapitiya in the Ihalawela division**

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An amount of Rs.416,346 had been paid for develop the above road under the donation of provincial certain development in the year 2016. According to the report of Rebound Hammer Test that occurred in this regard, while the concrete mixture was without the specific quality hence the strengthens of the concrete mixture was remained a level of inferior 20, the thickness of the concrete mixture of 03 places of the road was remained at multi degrees. Accordingly, although the concrete should apply for 3090 cubic meters with the degree of 1:2:4 (19mm) according the work subject 2 of the estimate, the concrete had not been applied with that degree as observation occurred on 31 March 2017.

#### **(c) Constructing the Channel System to Rukmal-Oya for Flow the Rain Water of Kundasale Ransirigama**

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Construction materials worth of Rs.997,448 had been given on 16 November 2016 for construct the channel system to Pallekale Army Headquarters under programme of less developed /alone village under the donation of provincial certain development in the year



2016. While 75 percent work of this project had completed at the observation on 31 March 2017, construction material of 145 cement bags (50kg), 1 1/4 mettle cube and 6 cubes of stone (6×9) that had given for this project had been retained at the Army premises.

**(d) Apply Concrete to the Roads**  
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Although the strengths of concrete mixture was a level of lower than 20 according to the Rebound Hammer test report of the roads that had developed on the donations by the Kundasale Pradeshiya Sabha after complete this work, an amount of Rs.2,245,534 had been paid for 5 roads which the concrete mixture was weak.

**3.9 Solid Waste Management**  
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Although an automatic aerobic technical organic fertilizer production industry worth of Rs.100,000,000 had given for the Kundasale and Pathadumbara Pradeshiya Sabha by the Jayika institution in the year 2015 under a financial donation of the government of Japan, it was a barrier for the success of this project hence it was not provided a machine for rid the fertilizer that matching with the quantity of fertilizer which produced. Although it had produced 15150 kg of fertilizer in the year under review, while it had not carried out a suitable methodology for sale the fertilizer, the imperishable materials which not used in the compost production had been excluded to the environment in informal manner without recycling.

**4 Accountability and Good Governance**  
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**4.1 Budgetary Controls**  
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Even after amendments of the budget during the year under review, material differences were observed between the budgeted and actual revenue and expenditure as per particulars given below. Accordingly it was observed that, the budget had not been made use of as an effective tool of management . Following matters are observed in this regard.

- (a) Any amount had not been expended from the amount of Rs.110,625,000 that had allocated for 3 items of expenditures.
- (b) Any amount had not been earned from the estimated revenue amount of Rs.425,000 for 06 items of revenue.

**4.2 Annual Procurement Plan**  
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It had not been prepared a Procurement plan for the year under review.

#### **4.3 Audit and Management Committees**

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Although an audit and management committee had been established in the Sabha it had hold only 3 meetings only in the year under review.

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

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

- (a) Fixed assets
- (b) Accounting
- (c) Finance and Banking
- (d) Vehicle Administration
- (e) Revenue Administration
- (f) Creditors and Debtors
- (g) Contract Administration