

Walallawita Pradeshiya Sabha

Kalutara District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 20 March 2017 and the financial statements for the preceding year had been presented on 15 August 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 15 September 2017.

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 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

1.3.1 Accounting Deficiencies

The following observations are made.

- (a) The books received as donations during the year under review amounted to Rs. 361,031. While capitalizing this, the Library Books Account had been debited and the Revenue Contributions to Capital Outlay Account had been credited resulting in an overstatement of the Revenue Contributions to Capital Outlay Account by Rs. 361,031.

- (b) The expenditure incurred on repairs to the finger print machine during the year under review amounting to Rs. 35,075 had been capitalized. As a result, the Machine and Machinery Account had been overstated by Rs. 35,075 while the Revenue Contributions to Capital Outlay Account had also been overstated by Rs. 35,075.
- (c) The fixed deposits had been understated in the accounts by Rs. 99,888 as at end of the year under review.
- (d) The loan instalments due to the Local Loans and Development Fund amounting to Rs. 218,569 and another unidentified sum of Rs. 1,053 had been shown as capital expenditure. As a result, the capital expenditure of the year had been overstated in the financial statements by Rs. 219,622.
- (e) A sum of Rs. 50,000 had to be debited to the Capital Expenditure Creditors Account and a sum of Rs. 50,000 had to be credited to the Accumulated Fund for rectification of paragraph 2.2.1(a) of the audit report 2015. Instead, the Capital Expenditure Creditors Account had been debited and the Stamp Fees Receivable Account had been credited. As a result, the stamp fees receivable for the year under review had been understated by Rs. 50,000 and the Accumulated Fund had been understated by Rs. 50,000.
- (f) The expenditure on general stores, as per issues made during the year under review, amounted to Rs. 365,984. This had been shown as Rs. 324,708 in the financial statements thus understating the expenditure on general stores by Rs. 41,276.
- (g) Provision had not been made for creditors for payables of Rs. 75,686 of the year under review resulting in understatements of creditors and the expenditure of the year in the financial statements by Rs. 75,686.

- (h) The interest due to the Local Loans and Development Fund as at end of the year under review amounting to Rs. 63,405 had been shown as Rs. 67,503 in the financial statements thus resulting in an overstatement of expenditure in the financial results by Rs. 4,098.
- (i) The cost of 09 items of furniture and equipment sold by auction during the year under review had not been deleted from the Furniture and Equipment Account and the Revenue Contributions to Capital Outlay Account.
- (j) The expenditure on electrical equipment amounting to Rs. 219,552 had been shown as Rs. 299,090 in the financial statements resulting in an overstatement of the year's expenditure by Rs. 79,538.

1.3.2 Lack of Evidence for Audit

Transactions aggregating Rs. 5,236,979 could not be satisfactorily vouched in audit due to non rendition of necessary information to audit.

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 2016 amounted to Rs. 8,907,987 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 7,058,430. Accordingly, an improvement in financial results amounting to Rs. 1,849,557 was observed during the year under review as compared with that of the previous year.

The increase in revenue by Rs. 7,592,891 and the decrease in expenditure by Rs. 5,743,334 had mainly attributed to the improvement in financial results by Rs. 1,849,557.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

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

Item of Revenue	Estimated Revenue	Actual	Accumulated Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
Rates and taxes	2,978	1,909	2,208
Lease rent	4,234	4,185	70
Licence fees	72	70	02

2.2.2 Rates and Taxes

- (a) Out of the rates and taxes of Rs. 2,011,479 billed for the year under review, a sum of Rs. 1,316,018 representing 65 per cent only had been recovered.
- (b) Only a sum of Rs. 938,654 or 49 percent of the outstanding balance amounting to Rs.1,905,628 as at commencement of the year under review, had been recovered and the total deficit amounted to Rs.1,632,553. As such the progress in the recovery of the overall rates and taxes in the year under review had been 58 percent.
- (c) The arrears of revenue of rates and taxes as at 31 December 2016 amounted to Rs. 1,632,553. Included in these were Rs. 448,050 due from 966 units for 01 to 03 years and Rs. 705,007 due from 1131 units for 03 to 05 years. The Sabha had not taken proper action to recover these.

2.2.3 Acreage Tax

Out of the balance of arrears of the acreage tax of Rs. 74,796 at commencement of the year under review, a sum of Rs. 17,225 representing 23 per cent only had been recovered by 31 December 2016. The amount billed for the current year was Rs. 14,822 of which 37 per cent, that is, Rs. 5,502 only had been recovered.

2.2.4 Other Revenue

(a) Trade Tax

- (i) The balance of arrears of trade tax as at commencement of the year under review amounted to Rs. 267,450. Of this, Rs. 165,270 representing 62 per cent only had been recovered. The amount billed for the current year was Rs. 775,440 of which 59 per cent, that is, Rs. 461,010 only had been recovered.
- (ii) Action had not been taken to recover the arrears of trade tax from 323 tax payers amounting to Rs. 416,610 pertaining to the year under review and the previous years.

(b) Industrial Tax

- (i) Out of the trade tax revenue of Rs. 154,460 recoverable during 2015, a sum of Rs. 112,750 representing 73 per cents only had been recovered during the year.
- (ii) The amount billed as trade tax for the current year was Rs. 175,950. Of this, Rs. 126,000 or 71 per cent had been recovered. The revenue from industrial tax for the year under review also could not be collected during the year.

(iii) Out of the trade tax revenue relating to the year under review and the previous year, a sum of Rs. 91,660 was due from 75 tax payers as at end of the year under review. Legal action had also been not taken to recover the arrears.

(c) **Revenue from Beef Stalls**

None of the revenue of Rs. 56,636 of the beef stalls at commencement of the year under review had been collected.

(d) **Tax from Stalls at the Public Market**

Six stalls at the public market had been given on lease to an identical person since 2010. There were instances where the agreements had not been entered into for those 06 stalls and the monthly lease rent had not been recovered during certain years.

2.2.5 Court Fines and Stamp Fees

The amount receivable from the Chief Secretary of the Provincial Council and other authorities appear below.

	Rs.
(i) Court Fines	8,209,907
(ii) Stamp Fees	2,779,375

3. Operating Review

3.1 Operating/ Management Inefficiencies

(a) **Bank Reconciliation**

(i) A sum of Rs. 4,845,273 had been shown as unrealized cheques and cash in the bank reconciliation statement prepared for the People's Account No.

261-01-9-0000001 as at 31 December 2016. Included in those balances were balances of 2010, 2011, 2012, 2013, 2014, 2015 and 2016 amounting to Rs. 6,255, Rs. 1,421, Rs. 230,000, Rs. 2,856, Rs. 10,000, Rs. 39,400 and Rs. 4,555,346 respectively. Action had not been taken to inquire about the balances from the bank, to take follow up action and to rectify the accounts.

- (ii) The cash balance as at 31 December 2016 had been shown as Rs. 4,549,340, the details of which had not been furnished for audit.
- (iii) Action had not been taken up to 20 June 2017 to settle the balances of 11 accounts amounting to Rs. 836,245 pertaining to the Peoples' Bank Account No. 261-001-9-0000044 existing since 2012.

(b) Lack of Proper Maintenance of Register of Fixed Assets

- (i) The Sabha owned 38 vehicles as at end of the year under review as per schedule furnished with the financial statements. Of these, 11 vehicles had not been entered in the register of fixed assets.
- (ii) The number of vehicles entered in the register of fixed assets which had not been entered in the schedules furnished with the financial statements were 06.

(c) Lack of Proper Maintenance of Register of Stores

The opening balances, purchases during the year and issues had not been properly entered in the register of stock of general stores and as such the balance of general stores of Rs. 412,900 shown in the financial statements could not be examined.

(d) **Non –recovery of Employees’ Loans**

The balances of employees’ loans recoverable as at 31 December 2016 amounted to Rs. 50,701. This comprised the balances of loans due from employees under interdiction amounting to Rs. 24,850, existing from 2008, the balances of Rs. 17,101 due from those who had gone on transfers, existing since 2012 and the balances of Rs. 8,750 due from officers who had retired/ vacated posts, since 2014. Proper action had not been taken to recover those loan balances.

(e) **Revenue from Notice Boards**

Action had not been taken by the Walallawita Pradeshiya Sabha to issue Gazette Notifications for recovery of revenue for the year 2016 and as such the revenue due from licences due from 33 notice boards exhibited within the authoritative area of the Sabha had been deprived of.

(f) **Register of Land/ Title Deeds**

Instances were observed where the land belonging to the title deeds had not been entered in the registers of land and lack of evidence to confirm the ownership of those lands.

(g) **Control over Vehicles**

(i) Only 2 drivers had been engaged in duties relating to 04 tractors which were in running condition. Two vehicles which could perform had not been made use of, for over 1 ½ years.

(ii) The compactor vehicle obtained from the Ministry of Land Governance on 20 February 2015 remained idle since the date of receipt.

- (iii) Four vehicles which could be used after small repairs remained idle for over 2 years. Action had not been taken to repair 03 vehicles which remained idle for over 2 years.
- (iv) A trailer without a number and a condemned cab remained idle for many years. Action had not been taken to disposed of it.
- (v) A trailer without a number remaining unused for about 5 years had been repaired. It had not been used after repairs.

3.2 Contract Administration

(a) Project relating to the Construction of a Day and Night Volley Ball Playground at Batakale, Malabe

A sum of Rs. 882,000 had been paid to the contractor relating to the project of the construction of Day and Night volleyball Playground at Batakale, Malabe under the Gama Neguma Programme in the year 2014. The following observations are made in this regard.

- (i) Instead of using clay as per work Item No. 03 of the estimates, 12.25 cubes of ordinary soil had been used at the rate of Rs. 6,500 per cube and a sum of Rs. 79,625 had been paid.
- (ii) Instead of using soft sand and clay as per work Item No. 05 of the estimate, the soil obtained from the spot had been used and a sum of Rs. 73,575 at the rate of Rs. 10.90 per cube.
- (iii) According to work Item No. 08 of the estimates, a volley ball net should have been supplied and fixed and a sum of Rs. 4,500 had been paid accordingly. But, a volley ball net had not been supplied.

- (iv) Although an estimate had been prepared, electricity had not been supplied to the playground. The helean lamp installed at a cost of Rs. 138,000 had become inoperative.
- (v) The playground had not been constructed according to proper standards and there were difficulties in reaching the playground and as such the expenditure of Rs. 882,000 incurred had become fruitless.

(b) Construction of the Iththepana Crematorium

The work had been entrusted to a private party on 30 October 2014 at an estimated cost of Rs. 8,116,883 (Exclusive of VAT) under stage 1 of the construction of crematorium under the 2014 Palath Neguma Development Programme. The work should have been completed within 2 months of the date of agreement as per agreement. However, the construction work had not been completed even by 18 November 2016. As such, demurrage amounting to Rs. 34,300 had been recovered. A licence from the Environment Authority had not been obtained before the construction. Subsequently, the Environment Authority had informed that it should be constructed elsewhere as the construction was not suitable. But, the construction continued, contravening the recommendations.

3.3 Solid Waste Material Management

The Sabha had maintained a compost division on behalf of the decayable garbage management. The following deficiencies were observed in this connection.

- (i) Bye – laws had not been framed for the Solid Waste Material Management.
- (ii) Garbage tax had not been imposed to meet the expenditure on garbage management.
- (iii) Environmental licence had not been obtained for the place of disposal of garbage.

- (iv) There was no procedure to separate and collect the garbage. The revenue obtained from sale of resources such as iron/ plastic/ paper etc., separated at the compost division had not been received at the Sabha.

4. Systems and Controls

Special attention of the Sabha is needed in respect of the following areas of control.

- (a) Accounting
- (b) Revenue Administration
- (c) Contract Administration
- (d) Budgetary Control
- (e) Control over Vehicles