

Kegalle Pradeshiya Sabha
Kegalle District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 29 March 2017 and the financial statements for the preceding year had been presented on 31 March 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 30 June 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kegalle Pradeshiya Sabha as at 31 December 2016 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 matters were observed.

- (a) Three works amounting to Rs.841,935 for which not signed agreements under 2 sources of funds had been capitalized and as such working debtors and working creditors had been overstated in the financial statements by Rs.841,935 each as at 31 December 2016.
- (b) Even though, the income from courts fines relating to the year under review had been Rs.9,196,456, it was brought to account as Rs.8,870,000 and as such the surplus of the year under review and the revenue debtors as at 31 December 2016 had been understated by Rs.326,456 each.
- (c) As the finished work value relating to the stage of the Guard of Honours of the Kegalle Youth Corp under the provisions of the Ministry of National Policies and Economic Affairs amounting to Rs.633,872 had not been brought to account, the revenue debtors and creditors as at 31 December 2016 had been understated by Rs.633,871 each.
- (d) Three revenue items totalling Rs.3,214,511 had not been brought to account under the proper programmes.

1.3.2 Unreconciled Control Accounts

According to the financial statements, relating to 02 items of accounts totalled Rs.1,298,951 whereas the balances of accounts totalled Rs.1,294,359 as per subsidiary registers/reports resulting in a difference of Rs.4,592.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a) The balances of accounts receivable as at 31 December 2016 amounted to Rs.99,188,074 of which Rs.17,954,858 were balances of over one year.

- (b) The value of accounts payable as at 31 December 2015 amounted to Rs.70,794,829 of which Rs.439,550 were balances of over one year.

1.4 **Non-compliance with Laws, Rules, Regulations etc.**

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Non-compliance</u>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
F.R.1646	Daily Running Charts relating to 09 motor vehicles belonging to the Sabha had not been furnished.
(b) Extra Ordinary Gazette No.1597/8 dated 17 April 2009.	Development Licences had not been obtained for 11 Telecommunication Transmission Towers constructed in the authoritative area of the Sabha.
(c) Circular No.9/2009 of the Secretary of the Ministry of Public Administration and Home Affairs dated 16 April 2009.	Even though, it was stated that a finger print machine should be utilized to support the arrival at and departure from of the officers and should be kept records there on, action had not been taken accordingly while the finger print machine fixed by incurring a cost of Rs.55,000 had remained inactive from April 2016.

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.24,367,221 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.22,502,259, thus indicating an improvement in financial results amounting to Rs.1,864,962.

2.2 **Analytical Financial Review**

Increase in 07 items of revenue and the decrease in 02 items of expenditure had mainly attributed to the improvement of Rs.1,864,962 in financial results.

2.3 **Revenue Administration**

2.3.1 **Peroformance in Collection of Revenue**

The information relating to revenue billed, actual revenue and the arrears of revenue, as furnished for the year under review appears below.

Arrears as at 31.12.2016

Source of Revenue	Arrears as at 01 January 2016	Recoveries out of the arrears as at 31 December 2016	Amount billed for 2016	Recoveries out of the amount billed for the year	Arrears as at 01 January 2016	Arrears out of amount billed for the year	Total Arrears
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
(i) Rates and Taxes	390	121	3,204	2,174	269	1,030	1,299
(ii) Lease Rent	223	96	1,945	1,945	127	-	127
(iii) License Fees	-	-	1,613	1,613	-	-	-
(iv) Other Revenue	37,392	27,764	59,569	34,861	9,628	24,708	34,336
Total	38,005	27,981	66,331	40,593	10,024	25,738	35,762

2.3.2 Licence Fees

A revenue amounting to Rs.20,000 had been deprived by the Sabha due to not obtaining Environment Assessment Licenses by 05 Business Institutions which should have been obtained Environment Assessment Licences according to the Extra Ordinary Gazette Notification No.1533/16 dated 25 January 2008 published under the National Environment Act No.47 of 1980 as amended by the Acts No.56 of 1988 and No.53 of 2000.

2.3.3 Other Revenue

The following matters were observed.

- Action had not been taken to recover a sum of Rs.40,800 recoverable by the Sabha on renting out the JCB Machine belonging to the Sabha in 02 instances.
- Even though, an annual licence at the rate of Rs.3,000 per tower should be obtained for the Telecommunication Transmission Towers, an income of Rs.12,000 had been deprived by the Sabha due to not obtaining licences for 04 Transmission Towers situated in the authoritative area of the Sabha.
- More than 15 banners in the size of 4 square feet had been displayed around the Sabha without obtaining a licence for the permission of the Sabha, while action had not been taken by the Sabha to recover the fees from those.
- An income of Rs.31,800 had been deprived by the Sabha without recovering fees from 03 permanent advertising hoardings in the size of 212 square feet fixed in the Karandupana Junction.

2.3.4 Court Fines and Stamp Fees

The Court fines and Stamp Fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2016 had been Rs.5,915,591 and Rs.26,150,786 respectively.

3. **Operating Review**

3.1 **Performance**

Fifteen works amounting to Rs.3,106,243 for which provisions had been allocated under Decentralised Budget in the year 2016 and Rural Infrastructure Development Programme had not been continued due to the failure of commencing the work during that year.

3.2 **Management Inefficiencies**

A shortage of 95 Galvanized flag posts which provided to be utilized in the services carried out by the Local Government Institutions under the provisions of the Department of Divineguma Development was observed.

3.3 **Operating Inefficiencies**

The log books relating to the motor vehicles had not been updated.

3.4 **Idle and Underutilised Assets**

Even though 02 motor vehicles of the Sabha had remained idle for a period of 05 years and 25 years, action had not been taken either to repair and utilize or to dispose them.

3.5 **Contract Administration**

The following matters were observed.

- (a) The accepted Technological Standard used by the Sabha in producing of Ready-mix had not been made available for audit.
- (b) According to the Registers of the issues of materials for producing of Ready-mix, total of 128 cubes should be produced as 93 cubes and 35 cubes in the years 2015 and 2016 respectively. Nevertheless, according to the Registers 101 cubes only had been produced and there was a shortage of 27 cubes of ready mix.
- (c) It was observed that the deficiencies such as soil mixed in producing of readymix, non-preparation of estimates before deploying ready mix and the ready mix produced was not entered into the stock Registers etc.

3.6 **Solid Waste Management**

The following matters were observed.

- (a) A solid waste management project is not implemented by the Sabha at present, while the collection of the garbage within the authoritative area of the Sabha had been disposed of into a pit in the Land of Morontota Public Fair.
- (b) A cost of Rs.23,970,000 had to be incurred by the Sabha to construct an access road and a bridge to the Morontota, Haalmassa Lunugalawatta land which purchased to implement Solid Waste Management Project without conducting a feasibility study. As non-availability of such amount of money in the Sabha and non-availability of provisions from any other institution, the money incurred up to now to purchase the land and for other expenses amounting to Rs.4,286,322 had remained fruitless.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

Hundred per cent of provisions totalling to Rs.414,500 made for 08 Objects and 46 per cent to 97 per cent provisions equivalent to Rs.1,075,016 made for 09 Objects through the Budget for the year under review had not been utilized.

4.2 **Internal Audit**

An adequate Internal Audit had not been carried out in respect of finance and stores in terms of Rule 5 (7) of the Pradeshiya Sabha Set of Rules 1988 (Finance and Administration).

5. **Systems and Controls**

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

System -----	Observation -----
(a) Assets Control	(i) Non-utilization of Machinery and Motor Vehicles properly. (ii) Non-maintenance of Stock Registers accurately.
(b) Internal Audit and Checks	(i) Not carried out a proper internal audit. (ii) Non- recording the arrival and the departure of the officers properly.
(c) Debtors Control	(i) Not considered the most accurate value at the end of the year for provision of debtors. (ii) Correct value of court fines, stamp fees and grants for works had not brought to account.
(d) Revenue Administration	(i) Non-recovery of revenue from advertising hoardings. (ii) Non-recovery of revenue from transmission towers which highly effective to the environment.
(e) Creditors Control	(i) Provisions not made for creditors properly. (ii) Remaining long term unsettled creditors.