

Kuruwita 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 20 April 2017 and the financial statements for the preceding year had been presented on 26 April 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 11 September 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 Kuruwita 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

1.3.1 Accounting Deficiencies

The following matters were observed.

- (a) A sum of Rs.152,329,883 received as capital revenue and a sum of Rs.146,073,619 paid as capital expenditure had been adjusted through deposits accounts in the year under review and as such the surplus had been understated by Rs.6,256,264.

- (b) The rates and taxes received in advance relating to the Head Office and sub-offices amounting to Rs.299,701 and Rs.1,424 respectively had been brought to account as revenue for the year under review and as such revenue had been overstated by Rs.301,125.
- (c) According to the register of permanent trade stall rent in the Head Office, the receipts received in advance amounting to Rs.8,000 as at 31 December 2016 had not been brought to account as revenue received in advance.

1.3.2 Unreconciled Control Accounts

The following matters were observed.

- (a) A difference of Rs.36,548,385 was observed between the balances as per financial statements as at the end of the year under review and the balances appearing in the subsidiary registers relating to 08 items of accounts.
- (b) As per the Report of the Drug stocks of the Free Ayurvedic Dispensary of the Kiriella sub-office, the stock as at 31 December 2016 had been Rs.125,520. But, as per the drug stock account it was Rs.83,975 and a difference of Rs.41,545 was observed.
- (c) A difference of Rs.8,284,380 was observed between the values as per financial statements and the values appearing in the notes relating to 02 items of accounts.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a) Staff loans remained recoverable for over a period of 10 years from 20 officers totalled Rs.41,487.
- (b) A creditor balance totalling Rs.7,513,422 had existed relating to the period from the year 2011 to 2015 as per the creditors register.

- (c) The revenue over received amounting to Rs.9,300 at the beginning of the year under review relating to a resting place managed by the Sabha in the preceding years had not been settled appropriately.

1.3.4 Lack of Written Evidence for Audit

The detailed schedules had not been furnished to audit for the 07 balances of accounts totalling Rs.158,311,538.

1.3.5 Non-compliance with Laws, Rules and Regulations etc.,

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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| (a) Pradeshiya Sabha Act No.15 of 1987
Section 154(1) | |
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	Even though, 01 per cent of the amount received from the selling of lands should be credited to the revenue of the Sabha, the amount relating to 03 land auctions had been recovered less than the due amount and as such a sum of Rs.764,444 had been deprived to the Fund of the Sabha.
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| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. | |
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| (i) Financial Regulation
371 (2) (c) | |
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	Action had not been taken to settle the advances totalling Rs.2,923,575 granted in 13 instances during the period from the year 2010 to 2015 even by December 2016.
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| (ii) Financial Regulation 571 | Action had not been taken on deposits totalling Rs.13,936,769 deposited during the period from the year 2001 to 2013. |
| (iii) Financial Regulation 1645 | Daily Running Charts relating to 07 motor vehicles of the Sabha for the year under review had not been furnished to audit continuously. |
- (c) Directive 22 of the Planning and Buildings Directives of the Urban Development Authority 1986 published through the Extra-ordinary Gazette No.392/9 dated 10 March 1986 as amended by the Extra- ordinary Gazette No.935/6 of the Democratic Socialist Republic of Sri Lanka dated 06 August 1996. Land extent for common purposes had been under allocated less of 252 perches in respect of 04 land auctions carried out in the authoritative area of the Sabha.

1.3.6 Transactions without adequate Authority

 Even though, a sum of Rs.1,187,500 had been paid as allowances for 09 officers of the Sabha and Gamaneguma Office under Gamaneguma Inter- villages Pilot Project implemented by the Sabha, the approval obtained thereon had not been furnished 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.23,301,090 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.88,158,178 indicating an improvement in financial results by Rs.111,459,268 as compared with the preceding year.

2.2 Analytical Financial Review

Increase of 04 items of revenue by Rs.16,865,834 and decrease of 04 items of revenue by Rs.97,856,967 had mainly affected to the increase of financial results by Rs.111,459,268.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information with regard to the estimated revenue, actual revenue and the arrears of revenue furnished for the year under review appears 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	2,420	1,830	4,556
Lease rent	6,413	3,182	1,909
Licence fees	1,451	2,179	-
Other revenue	51,830	66,261	28,157

2.3.2 Performance in Collection of Revenue

A comparison of the estimated revenue of the year under review with the revenue collected showed an increase with regard to revenue items such as license fees, service charges and other revenue by 50 per cent, 37 per cent and 105 per cent respectively and the revenue collected from the revenue items such as rates and taxes, warrant charges and fines and contribution made by the Government had decreased by 34 per cent, 55 per cent and 24 per cent respectively as compared with the estimated revenue.

2.3.3 Rates and Taxes

An arrears of rates and taxes amounting to Rs.4,075,551 from 1,187 units of assessments had remained by 30 July 2016 and that included a sum of Rs.3,233,745 receivable from 750 units brought forward for over a period of 05 years

2.3.4 Lease Rent

The following matters were observed.

- (a) An acreage tax amounting to Rs.241,684 had to be recoverable by 30 July 2016 and the Sabha had failed to recover that balance even by 31 December 2016.
- (b) As the payment of rent had been neglected even at the beginning for 05 trade stalls of the new trade complex which given on lease rent in the year 2009, those trade stalls had been sealed and vested in the Sabha on 30 July 2014. The approval to write off the arrears of lease rent of trade stalls had been sought from the Minister of the subject by stating that it was not possible to take legal action in respect of recovery of arrears of trade stall rent and fines totalling Rs.4,436,000 receivable to the Sabha as the agreements had not been entered in to with the lease holders.

2.3.5 Licence Fees

An annual survey had not been carried out to identify the business places situated within the authoritative area of the Sabha for which to be recovered industries tax, business tax and trade licence tax.

2.3.6 Other Revenue

The following matters were observed.

- (a) Even though, the fees should have been recovered from Three Wheel Stands situated within the authoritative area, the attention had not been paid by the Sabha relating to that source of revenue.
- (b) The Sabha had failed to recover the arrears of water tax totalling Rs.153,290 recoverable for the period from the year 2010 to 31 December 2016 from water consumers of 02 water projects maintained by the Kiriella sub-office and it was decided to write off the arrears amount on the Decision No.1454 of the Operations Committee dated 26 October 2016. It could not be satisfied in audit in respect of the revenue written off which receivable to the Sabha due to failure of recovering fees in timely manner.

2.3.7 Court Fines and Stamp Fees

The following matters were observed.

- (a) The Sabha had failed to identify and recover the stamp fees receivable from 03 offices of Land Registry in respect of the period from the year 2015 to September 2016.
- (b) The Sabha had failed to recover arrears of stamp fees totalling Rs.1,528,417 receivable for the Sabha from 01 office of the Land Registry from the year 2014.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) Even though, there were 42 cemeteries belonging to the Sabha, as per the Register of Cemeteries, the Sabha had failed for vesting of 41 cemeteries out of that.
- (b) Even though, a sum of Rs.100,000 had been incurred to purchase a software for accounting and assessment of rates, the Sabha had failed to obtain expected results through that software.
- (c) Action had not been taken either to repair or to dispose of 03 motor vehicles properly which were not in running condition by 07 September 2016.

3.2 Management Inefficiencies

The following matters were observed.

- (a) Fixed assets totalling Rs.1,934,479 had been purchased for the Sabha from the Gama Neguma Funds under Strengthening of Pradeshiya Sabha Project and the lowest price only had been based thereon without considering the Guidelines of the Procurement Guidelines. Further, the assets amounting to Rs.573,032 had not been inventorised.
- (b) Sums totalling Rs.1,582,216 had been incurred from the Sabha Funds in 2 instances in the year 2014 to construct the well in respect of, The Finance New City Water Project, Kuruvita. It was observed at the physical examination carried out on 15 September 2016, that the water of the well was not in a suitable condition to drink due to the reasons such as corroded nature of the well, and the corrosion was shown around the well and around the concrete walls, iron rods used to the concrete slab around the well had exposed out and corroded and the water flows from the both sides of the canal towards the well.

- (c) As per the committee meeting report of the Kuruvita Small Towns Water Supply Scheme dated 17 December 2015, it was decided to invite quotations to purchase a water motor through the water project office. Nevertheless, a water motor valued at Rs.1,356,000 had been purchased by a cash cheque based on lowest price out of the prices given by the member of the executive committee without identifying the required specifications thereon and without being inviting quotations. As the motor was unmatched for the requirements and non-adequary of the electric circuit the motor was remained as non-operative condition by 31 December 2016. As such the amount spent had become a fruitless expenditure.
- (d) Under the Water Supply Scheme stated in the above paragraph “(c)”, water accessories amounting to Rs.127,045 had been purchased on 03 March 2015 and 92 out of 97 water pipes included above had remained idle in a stores belonging to the water project situated in a premises of a temple even by 08 September 2016.
- (e) Even though, a sum of Rs.827,561 had been paid by the Sabha to National Water Supply and Drainage Board with the objective of improvement of capacity of the Small Towns Water Supply Project implemented by the Sabha, the facilities requested by the Board had not been provided and as such no benefit whatsoever had been received by the Small Towns Water Supply Project from that work even by the year under review. As such the amount of Rs.827,561 spent thereon had become a fruitless expenditure.

3.3 Contract Administration

- (a) The following matters were observed in respect of the construction of access road to Kuruvita public playground, opposite of the Co-operative building.
- (i) A sum of Rs.9,854 had been overpaid exceeding the actual measurements of 02 items of work of the above work valued at Rs.969,086.

- (ii) A sum of Rs.139,579 had been paid for construction of the drain near the playground and after the constructions made, the drain had been dismantled and removed for widening of the playground. While, the Provincial Ministry of Roads had incurred a sum of Rs.565,404 for the construction of drain again. Accordingly, it was observed that, action had been taken without due co-ordination of the state institutions of the Province and as such the sum incurred from the Sabha funds amounting to Rs.139,579 had become fruitless.
- (iii) As the drain had been constructed again, the road which constructed to access the playground had situated above the playground. Therefore, it was not possible to reach the playground even walking from the road.
- (b) Even though, a sum of Rs.82,444 had been incurred under the work of laying stones, grass and planting flowers for the access road opposite to the Kuruvita Head Office, the grass was destroyed by 23 December 2016 due to not maintaining it properly and the sum spent had become a fruitless expenditure.
- (c) It was revealed at the physical examination, that a sum of Rs.46,043 had been overpaid more than the actual measurements of one item of work in respect of the work of fixing net, laying grass and planting flowers opposite the Kuruvita Pradeshiya Sabha Building constructed in the year 2014.

4. Good Governance and Accountability

4.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 03 April 2017 and the financial statements for the preceding year had been presented to audit on 26 April 2016.

4.2 Annual Procurement Plan

An annual procurement plan had not been prepared for the year under review.

4.3 Annual Action Plan

Annual Action Plan for the year under review had been approved only on 10 August 2016.

5. Systems and Controls

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

System

Observation

(a) Accounting

(i) Non-reconciliations of values of the financial statements and values of the notes.

(ii) Non-reconciliation of ledger accounts and subsidiary registers.

(iii) Omissions in the accounts.

(iv) Lack of evidence of confirmations.

(v) Not balancing of creditors registers.

(b) Revenue Administration

(i) Non-identifying of due revenue.

(ii) Non-recovery of revenue.

(c) Assets Control

Idling of assets and due action not taken on unusable assets.