

**Karandeniya Pradeshiya Sabha  
Galle District**

-----

**1 Financial Statements**

-----

**1.1 Presentation of Financial Statements**

-----

The financial statements for the year 2016 had been presented to audit on 31 March 2017 and the financial statements for the preceding year had been presented on 30 March 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 23 October 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 of the Karandeniya Pradeshiya Sabha give a true and fair view of the financial position of the 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 accounting deficiencies were observed in audit**

- (a) The contributions of Rs.12,184,995 payable to the Local Government Pensions Fund as at 31 December of the year under review had not been brought to account.
- (b) The sum of Rs.312,552 recoverable from 12 officers and employees on behalf of no pay leave for 179 days as at 31 December of the year under review had not been shown in the financial statements.
- (c) The value of 226 out of 488 galvanized tubes amounting to Rs.233,020 received from the Ministry of Local Government and Provincial Councils had not been brought to account.
- (d) Provision had not been made in the financial statements for the sum of Rs.4,800,000 payable for 05 work executed during the year under review.

**1.3.2 Unreconciled Control Accounts**

-----

The differences between the balances of 03 items of accounts aggregating Rs.20,104,567 as per financial statements and the related balances appearing in the subsidiary registers and reports totalled Rs.191,042.

### 1.3.3 Accounts Receivable and Payable

-----  
The following matters were observed.

- (a) Action had not been taken to recover the balances of 08 accounts receivable totalling Rs.21,354,998 as at end of the year under review.
- (b) Action had not been taken even during the year under review to recover the key money totalling Rs.702,113 due from 07 lessees of 46 trade stalls.
- (c) Action had not been taken even during the year under review to settle the value added tax of Rs.11,542,648 payable to the Department of Inland Revenue which continued to be brought forward in the financial statements from prior to 2006.
- (d) Action had not been taken even during the year under review to settle the loan of Rs.522,500 and the interest thereon amounting to Rs.174,724 payable to the National Housing Development Authority since 2012.
- (e) Action had not been taken to settle the balances of creditors of 01 to 03 years amounting to Rs.14,020,642 as at 31 December of the year under review.

### 1.3.4 Lack of Evidence for Audit

-----  
A register of fixed assets and schedules for 04 items of assets totally valued at Rs.220,074,520, board of survey reports for library books amounting to Rs.3,313,870, a register of loans regarding loan balances payable to the National Housing Development Authority amounting to Rs.522,500, a register of work debtors and age analysis amounting to Rs.12,053,684 and confirmation of balances for the fuel deposit of Rs.200,000 and the sum of Rs.85,248 pertaining to the Welipitiya Divithura Pradeshiya Shaba Account had not been furnished. As such, these could not be satisfactorily examined in audit.

### 1.3.5 Non – compliance with Laws, Rules, Regulations and Management Decisions

-----  
The following instances of non – compliance with laws, rules and regulations were observed in audit.

#### Reference to Laws, Rules, Regulations etc.,

#### Non – compliance

- 
- (a) Section 16 of the Employees’ Provident Fund Act No 15 of 1958 as amended by the Employees’ Provident Fund Act No 15 of 1971

-----  
Surcharges amounting to Rs.88,702 had been paid to the Employees’ Provident Fund during 2016 as a result of non payment of contributions, as specified.

- (b) Financial Regulations of the Republic of Sri Lanka 103 and 104
- Necessary action had not been taken with regard to the loss of Rs.1,664,500 caused to the Uthurumagala crematorium due to the blast and the loss caused to the J.C.B machine while being driven without insurance coverage. Also, these losses had not been entered in the register of losses.

## **2. Financial Review**

-----

### **2.1 Financial Results**

-----

According to the financial statements presented to audit, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs.17,252,259 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.12,722,654. A comparison with the preceding year shows an improvement in financial results of the year under review by Rs.4,529,605. The increase in 05 items of revenue amounting to Rs.4,736,162 and the decrease in 05 items of expenditure amounting to Rs.206,557 had mainly attributed to this.

### **2.2 Revenue Administration**

-----

#### **2.2.1 Rates and Taxes**

-----

The recoveries of rates and taxes out of the total amount of Rs.3,326,544 of the year under review and the previous years was a low percentage of 7.4. As a result, the arrears of rates and taxes as at end of the year under review amounted to Rs.3,079,874.

#### **2.2.2 Acreage Tax**

-----

Acreage tax of Rs.76,708 was recoverable on account of the previous year and the year under review. The recovery during the year was a low percentage of 3.8 amounting to Rs.2,943.

Action had not been taken in terms of Section 158(1) of the Pradeshiya Sabha Act No:15 of 1987 to recover the above arrears referred to at paragraphs 2.2.1 and 2.2.2 above.

#### **2.2.3 Lease Rent**

-----

The lease rent recoverable for the year under review and the previous years amounted to Rs.12,477,146 of which Rs.4,732,780 had been recovered during the year. As a result, the arrears had increased up to Rs.7,744,366 by end of the year. However, action had not been taken in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987 to recover the arrears during the year under review.

#### **2.2.4 Licence Fees**

None of the arrears of the licence fees of Rs.123,350 as at commencement of the year under review had been recovered. In this connection, action had not been taken to make recoveries in terms of Section 152(4) of the Pradeshiya Sabha for No:15 of 1987.

#### **2.2.5 Court Fines and Stamp Fees**

Court fines of Rs.1,956,917 and stamp fees of Rs.26,985,171 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2016.

### **3. Operating Review**

#### **3.1 Management Inefficiencies**

The following matters were observed.

- (a) The public latrine made available to the Uragasmanhandiya town by the Pura Neguma Project had not been given on lease till June 2017. As a result, it was observed in audit that the revenue that could have been earned by the Sabha had been deprived of.
- (b) The following observations are made with regard to staff management.
  - (i) There were 07 vacancies in the approved cadre while there were 13 excesses in the cadre. Action had not been taken to fill the vacancies in the posts and to regularize the excesses.
  - (ii) A sum of Rs.769,684 had been paid as salaries and allowances in 2016 to 06 employees who had been recruited on casual basis contrary to the Management Services Circular No:28 of 10 April 2006.
- (c) The average monthly balance of 3 bank current accounts of the Sabha amounted to Rs.3,578,761. The Sabha had been deprived of earning revenue from interest as it had not taken action to invest the surplus cash in terms of Sections 171 and 184 of the Pradeshiya Sabha Act No.15 of 1987.
- (d)
  - (i) Forty lessees of 4 trade complexes belonging to the authoritative area of the Sabha had defaulted payment of stall rent amounting to Rs.1,600,128 by 31 December 2016. Agreements had not been entered into for 05 stalls in terms of paragraph 05 of the circular No:දළපා/පළාතකො/2010/10 of the Commissioner of Local Government, Southern Province. Action had been taken to renew lease agreements of 35 stalls.

- (ii) One of the 04 stalls at the Dangahawila Saman Senevirathna Community Centre had not been given on lease. Action had not been taken to renew agreements of other stalls.
- (e) Action had not been taken to recover the loan balance of Rs.410,786 recoverable as at 31 December of the year under review from 45 officers who had retired/ vacated posts / expired.
- (f) Security deposits amounting to Rs.95,900 recovered from 41 employees from 2008 to 2016 had been deposited in the General Deposits Account contrary to the Finance Circular No.01/2014 of 24 February 2014 of the Chief Secretary, Southern Province.
- (g) Action had not been taken in terms of the Circular No.PE/01/01 of 17 August 2010 of the Ministry of Power and Energy and action had not been taken to maintain a register of street lights and to obtain approval for new street lights. The expenditure of Rs.1,275,445 incurred by the Sabha in 2016 to maintain street lights could not be reimbursed by the Electricity Board as action had not been taken to enter into agreements.
- (h) Action had not been taken to acquire ownership of the double cab bearing No.252-6570 given by the Ministry of Local Government and Provincial Councils.

### **3.2 Identified Losses**

-----

A loss of Rs.540,000 had been caused due to the accident of the JCB machine during the year under review. Insurance coverage had not been obtained for the period relating to the accident, that is, 01 September 2016 to 30 November 2016. As such, the Sabha could not get the loss reimbursed from the insurance institutions.

### **3.3 Idle / Under Utilized Assets**

-----

The following matters were observed.

- (i) The tractor, trailer and the water bowser without number belonging to the Sabha had not been used and action had not been taken in terms of the circular of the Ministry Finance No.02/2015 dated 10 July 2015 in this connection.
- (ii) The motor grader costing Rs.24,928,666 given by the Ministry of Public Administration, Provincial Councils and Local Government had been parked in the premises of the Sabha without being used.

### **3.4 Solid Waste Material Management**

-----

The following matters were observed during the course of examination of disposal of garbage in the authoritative area of the Sabha.

- (a) An expenditure of Rs.7,805,721 had been incurred during the year to dispose the garbage collected in the authoritative area of the Karadeniya Pradeshiya Sabha, Uragasmanhandiya and Kurundugahahethekma areas at Punchi Borakanda waththa belonging to the government. The garbage had been buried in the soil. The non degradable garbage collected had been classified and kept in a building of the Kutundugahethekama Sabha. But, action had not been taken to recycle them.
- (b) A garbage compactor valued at Rs.12,698,000 had been granted in 2016 by the Puranagama Project. However, it could not approach the land where garbage had been disposed of. As such, the Sabha could not get the maximum benefit from the vehicle.

## **4. Good Governance and Accountability**

-----

### **4.1 Action Plan**

-----

An action plan had not been prepared even by 20 June 2017 for the year under review in terms of paragraph 3 of the Public Finance Circular No. 01/2014 of 17 February 2014.

### **4.2 Budgetary Control**

-----

Significant variances were observed between the budgeted and the actual revenue and expenditure of the Sabha for the year under review showing that the budget had not been utilized as an effective instrument of management control.

### **4.3 Internal Audit**

-----

Internal audit could not be carried out as an internal audit officer had not been appointed in terms of Financial Regulations 133 and 134 of the Republic of Sri Lanka and the circular No.දපපා/යහ/01/න.ව.ලේ of 24 February 2014 of the Commissioner of Local Government (Southern Province)

### **4.4 Implementation of Audit and Management Committees**

-----

Action had not been taken even by end of the year under review to establish audit and management committees in terms of the Management Audit Circular No: DMA/2009(i) of 09 June 2009.

#### 4.5 Unresolved and unreplyed Audit Queries

-----

Action had not been taken during 2016 to make rectifications for 11 paragraphs (a) to (k) denoted under accounting deficiencies of paragraph 2.2.2 of the Auditor General's report of the previous year.

#### 5. Systems and Controls

-----

Deficiencies observed during the course of audit were brought to the notice of the Sabha by audit queries from time to time. Special attention is needed in respect of the following areas of systems and controls.

<b>System</b>	<b>Main Deficiency in the System</b>
-----	-----
(a) Fixed Assets	(i) A register fixed assets had not been maintained so as to show assets according to their types.  (ii) A separate register had not been maintained for computers.
(b) Control over Vehicles	(i) A proper register of vehicles had not been maintained.  (ii) Certain vehicles had not been used for any meaningful purpose.  (iii) The Sabha had not taken action to aquire ownership of vehicles that had been received by the Sabha  (iv) The daily running charts and monthly performance summaries of 05 vehicles of the year under revenue had not been furnished for audit.
(c) Collection of Revenue	(i) Proper procedures had not been formulated and adapted to recover arrears of revenue.  (ii) An age analysis of arrears of revenue had not been prepared.

- (iii) Action had not been taken to make assessments every 05 years so as to increase the revenue from rates and taxes.
- (d) Accounting and Maintains of Registers
  - (i) Action had not been taken to make necessary adjustments and to settle balances of accounts.
  - (ii) Differences existed between the balances in financial statements and the related schedules.
  - (iii) Action had not been taken to settle the accounts receivable and payable existing from previous years.
  - (iv) The Sabha had not maintained the following registers.
    - \* A register of losses
    - \* A register of creditors.
    - \* A register for loans obtained from the Local Loans and Development Fund
    - \* A register of vehicles.
  - (v) Lapsed general deposit balances had not been settled.
- (e) Staff Management
  - (i) Action had not been taken to fill the vacancies and to regularize the excess cadre.
  - (ii) Officers required to furnish security deposits had not furnished security deposits, as required.
  - (iii) Action had not been taken to deposit the employee's security deposits in a bank

(f) Budgetary Control

(iv) Adequate steps had not been taken to recover arrears of employees' loans.

(i) There were instances where the revenue targets of 04 items of revenue shown in the budget had not been achieved.

(ii) The entire provision of 04 items of expenditure had been saved.

(iii) Attention had not been paid to revise the budget by taking follow up action regarding revenue and expenditure.