

Kurunegala Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 28 March 2013 and the financial statements for the preceding year had been presented on 30 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 August 2013.

1.2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Kurunegala Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my report the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kurunegala Pradeshiya Sabha as at 31 December 2012 and the financial results of its operations for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) According to the schedules to the accounts, the balance of Acre Tax in arrears was Rs.300,649 whereas it had been taken to the financial statements as Rs.71,334 thus understating the balance of Acre Tax in arrears as at end of the year by Rs.229,315.
- (b.) According to the schedules to the accounts, the balance of trade licence fees in arrears was Rs.944,176 whereas it had been taken to the financial statements as

Ra.489,987 thus understating the balance of trade licence fees in arrears as at end of the year by Rs.454,189.

- (c.) According to the financial statements, salary reimbursements receivable amounted to Rs.3,917,514 whereas it was Rs.1,807,167 as per registers and therefore salary reimbursements receivable had been overstated in the accounts by Rs.2,110,347. Further a sum of Rs.5,512,625 had been written-off through the accumulated fund to rectify the salary reimbursements account by Journal Entries.
- (d.) According to the registers, salary reimbursements received amounted to Rs.20,451,092 and it had been shown in the financial statements as Rs.22,434,388 thus overstating salary reimbursements by Rs1,983,296.
- (e.) Contributions amounting to Rs.5,395,855 payable to the Pension Contributions Fund had not been accounted under creditors and the sum of Rs.140,405 relating to the year had not been accounted in the Income and Expenditure Account.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.53,142,176 could not be satisfactorily vouched in audit due to non-submission of the required information to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess revenue over recurrent expenditure of the Sabha for the year ended 31 December 2012 amounted to Rs.17,896,725 as compared with the excess of revenue over recurrent expenditure amounting to Rs.28,010,654 for the preceding year.

2.2 Financial Control

The following deficiencies in financial control were observed.

- (a.) The works debtors as at end of the year under review amounted to Rs.128,699,926 and of this a balance of Rs.51,380,407 only had been supported by schedules and the balance of debtors amounting to Rs.77,319,519 had remained without being settled continuously for over a long period and age analysis is available only in

respect of debtors amounting to Rs.1,612,041 relating to the period from 2007 to 2011. Further, works advances of Rs.1,763,478 remains for over a long period and it had not been confirmed by records/documents.

- (b.) The balance of deposits as at end of the year amounted to Rs.5,036,785. This included insurance claims amounting to Rs.31,421 received at 03 instances during the year 2009, donations amounting to Rs.77,123 received for the Nations Building Fund and a sum of Rs.708,000 received from the Department of Local Government for 03 various projects during 2009 and 2010 and these balances remained unsettled or without being used for the relevant purposes. There were balances amounting to Rs.183,075 and Rs.30,000 respectively taken to the deposits account during 2010 and 2011 as cheques issued but not presented for payment. Further. A balance of Rs.70,180 which is continuously existed for over a long period as deposits with other institutions also had been included in the accounts.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	2,342	1,952	1,974
(ii.) Lease Rent	2,431	2,309	435
(iii.) Licence Fees	3,132	2,961	490
(iv.) Other Revenue	69,554	72,975	3,917

2.3.2 Rates and Taxes

- (a.) Arrears of rates as at end of the year under review with regard to area of the Head Office of the Sabha amounted to Rs.578,234. Of this; lists of arrears had been prepared only in respect of Rs.312,585 relating to 119 units of 06 streets; in terms of Section 158 and 159 of the Pradeshiya Sabha Act No.15 of 1987 and the Rules 33-42 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988. Final Notices had been issued for Rs.258,129 under 64 places of the above lists, and arrears amounting to Rs.111,329 relating to 54 units had been recovered. An arrears of Rs.108,805 relating to 06 units of rates which had been outstanding for over a long period had been included in the balances outstanding. The Sabha had not been paid attention to levy and recover rates for the areas of Negombo Road, Puttalam Road and Dambulla Road which are developed areas of the Sabha.
- (b.) Rates had not been assessed after year 2001 in relation to the authoritative area of the Wellawa Sub-office. The arrears of rates as at end of the year under review amounted to Rs.1,068,999. Of this, arrears within a range of 04-147 quarters relating to the Hiripitiya Division amounted to Rs.93,530 and the arrears of rates relating to 05 state properties amounted to Rs.116,027. Action had not been taken to recover these arrears in terms of Section 158 and 159 of the Pradeshiya Sabha Act No.15 of 1987 and Rules 33-42 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988. Further, 06 rates Registers had not been balanced as at end of the year under review and a sum of Rs.8,925 billed in respect of 05places which were stated as not belong to the area of authority of the Sub-office had not been settled even as at end of the year under review.

2.3.3 Business Tax and Trade Licence Fees

- (a.) There was an arrears of Rs.342,126 under Trade Licence and Business Tax due to failure in taking action duly in terms of provisions in Rules 65 and 66 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988 and the provisions of Section 150(4) of the Pradeshiya Sabha Act No.15 of 1987.

- (b.) Although money had been obtained for Trade Licence at 1015 instances, licence had been issued only in respect of 481 places.
- (c.) Trading rights for sale of meat and fish had been leased for 22 places; but according to the Trade Licence Registers, Trade Licence had not been obtained for the above places. According to the relevant receipts it was identified that money had been paid for Trade Licence in respect of 04 of the above places. However, it had not been entered in the Trade Licence Registers.

2.3.4 Processing Charges for Telephone Transmission Towers

There are 30 telephone transmission towers erected within the area of authority of the Sabha and a sun of Rs.600,000 had been recovered as processing charges during 2010, 2011 and 2012. Annual trade licence fees or business tax had not been recovered in respect of those towers.

2.3.5 Vehicle Parking Charges

The Three Wheelers in the area of authority of the Sabha had not been registered or the parking places had not been properly fixed an action also had not been taken to pass a by-law relating to vehicle parking and to act accordingly.

2.3.6 Court Fines and Stamp fees

Court fines and stamp fees receivable for the year under review had not been identified and brought to account.

2.3.7 Environmental Licence Fees

An income of Rs.151,250 had been earned during the year 2011 by issuing environmental licences in respect of 112 businesses, and Rs.78,500 had been earned during the year 2012 by issuing environmental licences in respect of 71 businesses. Accordingly the number of places for which licence were issued had been decreased by 41 as compared with the year 2011, but, the Sabha had not carried out any inquiry in this regard.

2.4 Surcharges

A sum of Rs.95,000 was recoverable as at 31 December 2012 in respect of surcharges levied by me during the previous years against the persons responsible in terms of the Provisions of the Pradeshiya Sabha Act No.15 of 1987.

2.5 Irregular Transactions

An incidental allowance of U.S\$ 30 per day had been approved by letter No.GGRC/21/30dated 25 July 2012 of the Commissioner of Local Government-Wayamba for the Vietnam tour of the Mayors, Chairmen and officers of the Local Authorities from 09 to 16 August 2012. However, the Chairman and the Secretary had obtained Rs.261,362 more as incidental expenses.

2.6 Assets Management

- (a.) Although the Sabha owned land and buildings valued at Rs.33,115,434 as at end of the year under review, the land and buildings had not been verified periodically.
- (b.) A building had been constructed about 12 years back on the land on which the Head Office of the Sabha is located and a Samurdhi Bank is operated in that building. But, the documents relating to vesting of this land or the approval given to the Samurdhi Authority to construct the building had not been made available to audit. Any rent had also not been recovered for this.

2.7 Legal Matters Initiated Against or By the Sabha

The following observations are made.

- (a.) A sum of Rs.537,740 had been spent during the year under review as lawyers' charges and surveyors' charges to regularize the lands as the ownership of the properties of the Sabha had not been legally confirmed. Although there were 08 Court cases in respect of lands as at 31 December 2012, only 03 files of them had been made available to audit and those files also does not contain the current information relating to the cases.

- (b.) A court case had been filed in 2007 whilst the Sabha was constructing a crematorium for the Weralugolla Cemetery and the construction had been terminated due to a suspension order given by the Court. The respective court case had not been finalized even by the end of the year under review and a sum of Rs.173,500 had been spent as lawyers' charges during the year under review itself.
- (c.) A person in the area had vested a land to the extent of 30 perches at Kuda Galgamuwa junction to the Sabha about 10 years back for construction of a "Free Dispensary"; The Sabha had not done anything relating to the objective and instead the Sabha had commenced construction of an office complex and an Ayurveda Clinic on that land. Meanwhile, the relations of donor of the above land had filed a case in 2012 requesting to give them back the said land.

2.8 Operating Inefficiencies

The following observations are made.

- (a.) Contributions payable to the Local Government Pension Fund had not been duly paid and the balance payable to the said Fund as at end of the year under review amounted to Rs.5,395,855. Although the said Fund recovers a monthly instalment of Rs.15,419 from the Sabha, the Sabha is not aware of the said recoveries are related to which employees.
- (b.) Although 1377 building applications had been approved during the period from 2009 to 2011; conformity certificates had been obtained only for 122 places even up to the end of the year under review. But, the Sabha had not paid attention to examine about the places for which certificates had not been obtained and to give time extensions or to recover charges for delay.
- (c.) The Sabha had paid a sum of Rs.5,607,000 during the year under review to hire equipment. But, a written agreement had not been entered into with the relevant institutions for obtaining the said services. Further, a machine had been obtained at Rs.2,600 per Meter Hour without fuel from the Equipment and Machinery Authority in addition to the institution selected under the lowest quotations

received at the calling for quotations and a sum of Rs.1,481,568 had been paid for it during the year under review.

- (d.) VAT paid to the external parties had not been deducted by the Sabha while remitting VAT to the Commissioner General of Inland Revenue in respect of the year under review. The value of VAT not so deducted relating to the period January to August of the year under review amounted to Rs.1,055,161.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Financial Control
- (c.) Revenue Administration
- (d.) Assets Management