

Katuwana Pradeshiya Sabha
Hambanthota District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 01 April 2014 while Financial Statements relating to the preceding year had been submitted on 02 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 5 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Katuwana Pradeshiya Sabha as at 31 December 2013 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Although the accounts should be prepared by the Local Authorities with effect from 01 January 2011, according to the Sri Lanka Public Sector Accounting Standards, in terms of the Circular No. PED/54 dated 19 January 2010 of the Director General of Public Enterprises, those standards had not been followed.

1.3.2 Accounting Deficiencies

Following observations are made.

- (a.) Although it had been stated that Contribution from Revenue to Capital Outlay Account was credited having debited the Machines and Machinery and Equipment Account at the rate of Rs. 162,350 through the journal entry No.51, both of above maintained accounts maintained in the Main Ledger had been debited at the rate of Rs.162,350.
- (b.) In adjusting to the accounts for the year under review the Value Added Tax amounting to Rs.122,313 paid during the year 2010 by the bank to the Commissioner General of Inland Revenue through a standing order given to the adjustments should have been made through the main cash book having credited the cash account. Instead of that, it had been credited to the Value Added Tax Account erroneously.
- (c.) Although the billed revenue for streets lamps maintained by the Sabha relevant to the year under review was Rs.98,600, a sum of Rs.149,637 had been credited to the Revenue and Expenditure Account.
- (d.) Revenue totalling Rs.463,182 relevant to the year under review had not been accounted as revenue of the year under review.
- (e.) Revenue totalling Rs.336,734 received relevant to the year 2012 had been accounted as revenue of the year under review.
- (f.) Expenditure amounting to Rs. 218,835 relevant to the year under review had been omitted from the expenditure for the year under review.
- (g.) Following matters were observed with regard to accounting for Fixed Assets.

- (i.) The sum of Rs. 3,022,169 being the value of 06 items of assets received under Speedy Development Programme (1999) and value of Tannehena Land, water bowser HE – 9586 and water bowser HE – 9614 of 4500 litres, value of those not mentioned had not been included in the financial statements.
- (ii.) Although the value of Middeniya Rajapaksa Super market Complex was Rs.6,255,222 it had been capitalized as Rs40,899,765.
- (iii.) There was a difference of Rs.204,950 between values shown in the Register of Fixed Assets and the Schedule.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.5,146,224 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.5,167,843.

2.2 Revenue Administration

2.2.1 Performance in collection of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	41	35	02
(ii.) Lease Rent	18,007	12,572	1,138
(iii.) Licence Fees	1,089	1,410	-
(iv.) Other Revenue	38,043	38,309	13,122

2.2.2 Rates

Action in terms of Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Rates after assessment of properties located in the area considered as developed area of the of authority of the Sabha.

2.2.3 Leasing out Stalls of the Middeniya Shopping Complex

(a.) Failure in Carrying out a Re-assessment

Ground floor, first floor, stalls and assembly hall of the Middeniya Shopping Complex had been assessed and that report had been received to the Sabha on 29 October 2008. Although it had been stated that the report is valid only for two years, action had not been taken to re-assess up to 08 November 2013, date of audit.

(b.) Leasing out Second Floor (Assembly Hall) of the Shopping Complex

Following observations are made.

- (i.) Monthly rent of the assembly hall had been assessed as Rs. 25,000. According to paragraph 04 of the Circular No. SLG/CLG/2010/1 dated 01 November 2011 of

the Commissioner of Local Government, a sum of Rs.2,500,000 should be obtained as lump sum amount, a sum of Rs.1,500,000 only had been obtained as lump sum amount on 26 March 2012 from a lessee.

- (ii.) Although an agreement should be entered into with the lessee in terms of Section 173 of the Pradeshiya Sabha Act No.15 of 1987, agreement had not been entered into with the lessee even as at 08 November 2013, date of audit.
- (iii.) Although it is required to pay rent at the rate of Rs. 25,000 monthly after payment of the Rs. 1,500,000 as lump sum amount on 26 March 2012, any rent had not been paid even up to 08 November 2013. While arrears of rent for 19 months had been Rs.475,000 accordingly, it was observed that it was not possible to take action in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987, due to lack of an agreement.
- (iv.) At the physical inspection carried out on 07 November 2013, it was observed that various constructions had been made having added various sections in the assembly hall by the lessee. Those construction materials had been dumped at various places and the building had become unclean to a large extent. A plan had not been submitted for these changes to the building and approval in terms of Section 49 of the Pradeshiya Sabha Act No.15 of 1987 had not been obtained. Any course of action had not been taken by the Sabha in that connection.

(c.) Leasing out Stalls 22, 23, 24, and 25 in Second Floor of the Shopping Complex

Following observations are made.

- (i.) A sum of Rs. 800,000 at the rate of Rs. 200,000 per stall had been obtained per a lessee as a lump sum amount for 04 stalls mentioned above on 26 March 2012. Although a lump sum amount was obtained, it is required to enter into agreements in terms of Section 173 of the Pradeshiya Sabha Act No 15 of 1987. However agreements had not been entered into with the lessee even as at 08 November 2013, date of audit.
- (ii.) Although the lump sum money was paid, monthly lease rent at the rate of Rs. 2,000 per stall totalling Rs.8,000 payable by the lessee had not been paid. Accordingly, stall rent in arrears for 19 months as at 08 November 2013, date of audit was Rs.152,000. It was also observed that it had not been possible to take action in terms of Section 159(1) of the Pradeshiya Sabha Act No 15 of 1987 for the recovery of these rents in arrears.

(d.) Rent in Arrears of the First Floor

Although a total sum of Rs. 242,370 was in arrears from 07 stalls as at 30 September 2013, action had not been taken in terms of Section 159(1) of the Pradeshiya Sabha Act No 15 of 1987 for the recovery of this amounts in arrears.

(e.) Lease Rent of the Stall provided to the Peoples' Bank in the Ground Floor of the Shopping Complex

Following observations are made.

- (i.) While the monthly assessed amount was Rs. 30,000, accordingly the lump sum to be obtained was Rs.3,000,000. However, stall had been given on lease without recovering the lump sum amount.
- (ii.) Although the assessor had informed that this assessment is valid only for two years, rent had been obtained for 10 years disregarding that. Accordingly, opportunity for increasing the rent after a re-assessment had been lost. Although it had been informed that lease rent assessed should be renewed once in 05 years according to the Paragraph 06 of the Circular No. SLC/CLG/2010/01 dated 01 November 2011 of the Commissioner of local Government, it had not been possible to take action accordingly, as the rent had been obtained having signed agreements for 10 years.

(f.) Lease of Stalls 20 and 21 in the First Floor of the Shopping Complex

Following observations are made.

- (i.) Although the stall No. 20 had been given to lessee for a monthly lease rent of Rs. 2,000 having entered into an agreement on 07 July 2010, any lease rent had not been recovered even up to the date of audit.
- (ii.) Although the stall No. 21 had been used by the Peoples' Bank since July 2010, a sum of Rs. 278,000 was in arrears as at 30 September 2013 due to failure in taking action to recover lump sum money and lease money.

2.2.4 Leasing out Stalls in the Upper Floor of the Bus Stand

Following observations are made.

- (i.) Although the lease rent had been revised through a new assessment during the year 2012, agreement had not been updated according to the new assessment.
- (ii.) While a sum of Rs. 568,608 was in arrears as at 30 September 2013 from 09 stalls, action in term of Section 159(1) of the Pradeshiya Sabha act No.1987 had not been taken for the recovery of rent in arrears.

2.2.5 Leasing out old Stalls

Following observations are made.

Although the assessed lease rent had been revised through a new assessment during the year 2012, the agreement had not been updated according to the new assessed rent even up to 08 November 2013, date of audit.

The monthly assessed rent of the stall No. 02 had been Rs.3,500, and the rent in arrears as at 30 September 2013 was Rs.31,550. While the monthly assessed rent of the stall No. 05 had been Rs.2,750, and the rent in arrears as at 30 September 2013 was Rs.33,000. Action in terms of Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover these amounts in arrears for 09 months and 12 months respectively.

2.2.6 Un-recovered Lump Sum Money

While lump sum money should be recovered at once, in terms of paragraph 04 of the Circular No.SLG/CLG/2010/01 of the Commissioner of Local Government, when such lump sum amount cannot be recovered from lessees, action should to be taken to recover that money in 06 instalments subject to maximum period of 06 months. A sum of Rs.137,537 was outstanding to be recovered as lump sum money in arrears as at 08 November 2013, date of audit, due to failure in taking action to recover that money.

2.2.7 Land Sales Tax

While an outside individual had obtained approval to block out and sell land in two instances, action had not been taken in terms of Section 154(1) of the Pradeshiya Sabha Act No 15 of 1987 for the recovery of one percent fee out of the sales proceeds.

2.2.8 Income from Vehicles

While the motor grader machine, the shocks roller, the backo machine and the van belong to the Sabha had been had been given out on hire basis, a sum of Rs.719,089 was outstanding to be recovered as hire charges as at 31December 2013, date of audit.

2.2.9 Water Charges

Water Charges amounting to Rs.5,158,103 was outstanding to be recovered as at 31December 2013, relevant to the Water Project maintained by the Sabha.

2.2.10 Court Fines and Stamp Fees

Court Fines and Stamp Fees totalling Rs. 6,700,516 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2013.

3. Operating Review

3.1 Management Inefficiencies

During the year 2013, eleven appointments had been given by the Chairman and a total sum of Rs.1,478,018 had been paid as salaries, allowances and provident fund contributions out of the Sabha Fund as at 08 November 2013, date of audit.

Prior approval in writing had not been obtained from the Commissioner of Local Government for those appointments, in terms of Section 19(1)(1) f the Pradeshiya Sabha Act No. 15 Of 1987.

3.2 Operational Inefficiencies

(a.) While a sum of Rs. 555,870 had been spent for repairs of two vehicles, reports of the motor Vehicles Examiner had not been obtained to the effect that repairs had been carried out properly.

- (b.) Action had not been taken even up to 31 December 2013, to recover balances of distress Loans, special and festival advances totalling Rs. 73,279 which had been outstanding over a long period.

3.3 Assets Management

- (a.) While two cab vehicles, two tractors and a van had been provided to the Sabha from outside institutions, action had not been taken to transfer the ownership of those assets to the Sabah.

- (b.) Although it had been informed through the letter No. PCMD/RR/2013 dated 05 June 2013 of the Secretary to the President, to take action for disposal of old vehicles, machinery and equipment getting destroyed without being used, such course of action had not been taken with regard to a cab vehicle and a hand tractor which had been kept idle over a long period.

4. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management
- (d.) Staff Loans Administration
- (e.) Vehicles Administration