

**Katana Pradeshiya Sabha**  
**Gampaha District**

**1. Financial Statements**

**1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 30 March 2016 and the financial statements for the preceding year had been presented on 30 March 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 09 August 2016.

**1.2. Qualified Opinion**

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Katana Pradeshiya Sabha as at 31 December 2015 and the financial result of its operations for the year then ended.

**1.3. Comments on Financial Statements**

**1.3.1. Accounting Policies**

The accounting policy of cash basis should be adopted during the preparation of financial statements, to account stamp fees and court fines which are non-self generating revenue. But court fines amounting to Rs.20,760,391 and stamp fees amounting to Rs.89,994,273 receivable had been brought to account on accrual basis.

**1.3.2. Accounting Deficiencies**

The following deficiencies are observed.

- (a) The value of 03 items of balance sheet namely; debts and current liabilities; receivable in the year under review, indicated in the notes to the accounts, did not agree with the value shown in the balance sheet, and the difference was Rs.184,445.
- (b) The fixed assets valued at Rs.27,310,000, received as donations during the year under review had been credited to the revenue contribution to the capital outlay account, instead of aid contribution to the capital outlay account.
- (c) Though the closing stock should be brought to account after conducting a stock verification as at the end of the year under review, the closing balance of Ayurvedic medicine had been brought to account as Rs.702,463, based on the report obtained from the Ayurveda doctor.
- (d) The balance of payments advance account as at 31 December of the year under review amounted to Rs.555,229 and this included unsettled advance payments of Rs.142,324 relevant to 11 projects. Though the above advances had been paid in the years 1997, 2001, and 2002 and, Sabha had also identified these amounts as unrecoverable, the amounts had continued to be shown in the accounts as advances.
- (e) The bank balance according to the bank statement as at 31 December 2015, in respect of a bank account belongs to Raddolugama Sub Office, was Rs.909,285, whilst the bank balance according to the bank reconciliation statement was Rs.989,037, as at the same date. The difference amounting to Rs.79,752 had not been adjusted.

- (f) The debit balance of Rs.18,730 continued to be shown in the suspense account had been deducted from the revenue received in advance. Hence the revenue received in advance had been understated.
- (g) Though the stock in hand according to the financial statements of the year under review had been Rs.4,210,970, the balance according to the schedules and books had been Rs.5,594,565 indicating a difference was Rs.1,383,595.

### **1.3.3. Accounts Receivable and Payable**

- (a) Action had not been taken to recover the employees' loan balance amounting to Rs.115,226, due from 04 employees who had retired, deceased, and vacated post during the years 2000, 2006, 2007 and 2011.
- (b) The balance of expenditure creditors as at 31 December of the year under review included Rs.2,554,130 of respect of the year 2013 and Rs.36,533,465 in respect of the year 2014, and these amounts had continued to be shown, without taking action to settle.

### **1.3.4. Lack of Evidence for Audit**

Transactions totalling to Rs.10,693,947 with relevant to 02 items of accounts, could not be vouched satisfactorily during the audit, due to non-submission of registers and detailed schedules.

### **1.3.5. Un-reconciled Control Accounts**

There were differences amounting to Rs. 1,992,541 as at 31 December 2015, between the account and the schedules in respect of 09 items of accounts.

### **1.3.6. Unauthorised Transactions**

- (a) A sum of Rs.22,789,700, had been adjusted to the accumulated fund, as a credit entry, through the Journal Entry No.29, without the approval.
- (b) Dishonoured cheques amounting to Rs.17,390 and a sum of Rs.16,127 indicated as a cash fraud had been written-off through the Journal Entry No.9 and No. 10 and both had been written-off without proper approval.
- (c) The balance in the Value Added Tax account as at 31 December 2015, amounting to Rs.6,901,798 had been written-off from the accumulated fund, through Journal Entry No.8, without identifying the amounts separately.

## **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 2015 amounted to Rs.71,737,440, as compared with the excess of revenue over recurrent expenditure amounting Rs.72,968,988 for the preceding year.

## 2.2. Revenue Administration

### 2.2.1. Performance on Revenue Collection

The information submitted with respect to Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review are indicated below.

Description	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.000,	Rs.000,	Rs.000,
Rates and Taxes	45,907	53,340	35,529
Lease Rent	819	1,121	41
Licence Fees	695	947	-
Other Income	23,068	10,430	35
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<b>Total</b>	<b>70,489</b>	<b>65,838</b>	<b>35,605</b>
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### 2.2.2. Rates and Taxes

Rates and taxes registers had not been maintained in respect of; 13,324 units in Raddoluwa sub office; 26,462 units in Demanhandiya sub office; 14,058 units in Katana sub office; and 11,715 units in Andiambalama sub office, which are under the purview of Katana Pradeshiya Sabha, and it had not been possible to obtain the age analysis relevant to balances in arrears in rates and taxes as well.

### 2.2.3. Charges on Land Sales

The following matters are observed.

- (a) 07 land-sales companies had sold blocked-out land, and according to the Section 154 of Pradeshiya Sabha Act No. 15 of 1987, the taxes should be collected based on the actual selling price. But the Sabha had failed to collect the taxes based on the actual selling price.
- (b) Though, Samudri, Family Health Service and Grama Seva Office had been located in the auctioned land, named Demanhandiya Tekkwatta, the details of revenue earned by the Sabha from those were not established at the audit.

## 3. Operating Review

### 3.1. Performance Evaluation

33 activities included in the annual action plan of 2015, had not been implemented during the year under review.

### 3.2. Management Inefficiencies

The following matters are observed.

- (a) Though the average monthly cash balance of the Sabha during the year under review had been Rs.12,952,908, the Sabha had not paid attention to invest these funds.

- (b) A hazardous 'Mara' tree in the Raddolouwa housing scheme had been felled and removed on 20 March 2015, spending a sum of Rs.28,000. Though the tree had been taken to the State Timber Corporation, the Sabha had not received any money up to 30 June 2016.

### **3.3. Operating Inefficiencies**

#### **3.3.1. Purchase of Plastic Buckets**

A payment of Rs.1,999,720 had been made to Sri Lanka State Trading Corporation in February 2015, for the purchase of 5924 plastic buckets, at the rate of Rs.300.79 per unit. The following matters are observed in relation to this.

- (i) Though it has been accepted at the monthly Sabha meeting held on 27 March 2015, that it was appropriate to obtain the approval for this purchase, such approval had not been received.
- (ii) Even 08 months after the above purchase, that is in October 2015, plastic buckets had been purchased from the Katana Multi-Purpose Corporative Society at the rate of Rs.250 per unit without the Value Added Tax. Inquiries had not been made from the Katana Multi-Purpose Corporative Society, when making the purchases in February 2015. If purchases were made from that society after making inquiries, the Sabha would have saved a sum of Rs.301,498.

### **3.4. Contract Administration**

- (a) The construction of multi-purpose building in the land owned by the Pradeshiya Sabha in Mahahunupitiya Nugawala road – Phase IV.

The Secretary of the Pradeshiya Sabha had entered into a contract valued at Rs.993,666, with a contracting firm on 17 November 2015, to construct the above building and complete the contract within a period of 03 months.

The following matters were revealed.

- (i) Though the contractor had indicated that 80% of the work had been completed, it was not the extent of construction work of the Phase – IV, as it was a construction of the entire building. But the relevant authorities had not paid attention to this aspect.
- (ii) When releasing the advance payment of 20% on 29 March 2016, the internal auditor of Katana Pradeshiya Sabha had instructed that, an agreement should be reached with the contractor, with respect to the possibility of completing the work within 17 days. But an advance payment of Rs.198,733 had been made on the same day, that is 29 March 2016, contravening the instructions.
- (iii) However, the work had not been completed even as at the date of the audit, which held on 16 May 2016.
- (iv) Therefore, by paying Rs.198,733 and entrusting the work in the phase IV of the Mahahunupitiya multi-purpose building, before completing the work in the phase III, the construction work in both, phase III and phase IV had been delayed.

(b) **Delayed Projects**

The following matters are observed.

- (i) 70 projects valued at Rs.69,718,727, had been expected to be completed in the year under review, under the 100 days development programme. Out of this, 12 projects valued at Rs.11,000,000 had not been implemented.
- (ii) Out of the works contracted during the year under review, 03 works valued at Rs.2,696,766 had not been implemented, whilst 03 works valued at Rs.4,410,000 had been cancelled.
  
- (iii) Though the Secretary of the Sabha had entered into an agreement with a contractor in the year 2013, to construct a car-park at a value of Rs.483,905 in the land of Katana Pradeshiya Sabha, the construction work had not been carried out even at the end of the year under review.

**3.5. Environmental Issues**

The following information were revealed.

- (a) According to paragraph 4.1 of Schedule 2 of the Regulations under Section 26 of the National Environmental Act No. 47 of 1980, each application for renewal should be submitted to the relevant Local Authority, at least 03 months prior to the date of expiry of the licence period. But this had not been followed and monitoring too had not been taken place. Further, it was observed during the audit, that there were 06 businesses which had not submitted the application after the expiry of the period of validity and which had not obtained the environment protection licence. Therefore by doing this, the officers of the Sabha had not taken action to recover the revenue receivable by the Sabha
- (b) Further, a system of monthly reviewing and reporting of the progress of above work, by the Technical Progress Review Committee had not been implemented as stipulated under the Section 4.2 of the above Regulations.

**3.6. Annual Procurement Plan**

A procurement plan had not been prepared by the Sabha, as stipulated in the National Budget Circular No. 128 dated 24 March 2006.

**4. Accountability and Good Governance**

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

- a) Accounting
- b) Internal Audit
- c) Budgetary Control
- d) Revenue Administration
- e) Assets Management