

**Kundasale Pradeshiya Sabha
Kandy District**

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 28 March 2016 while Financial Statements relating to the preceding year had been submitted on 23 March 2015, and the Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 24 July 2016.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kundasale Pradeshiya Sabha as at 31 December 2015 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

Following observations were made.

- (a) The provision made for administrative expenses, out of the allocations received from outside institutions for development activities of Rs. 105,517 had been shown under Current Liabilities.
- (b) The deposits of Rs. 100,000 made in Kundasale cooperative Society as security deposit to purchase fuel had been omitted from accounts.
- (c) It was informed that the Custom duty of Rs. 5,798,287 should be paid to Sri Lanka customs before 30 June 2016 as custom duty for releasing goods received as a donation from Government of Japan for Japan technological carbonic fertilizer manufacturing project implemented with the collaboration of Kundasale Pradeshiya Sabha and Pathadumbara Pradeshiya Sabha. The bank guarantee taken from the Bank of Ceylon against the deposit made for Rs. 7,500,000 until making the payment of that duty amount, had been accounted under fixed deposit and the duty amount payable to custom of Rs. 5,798,287 had not been accounted
- (d) Fifty lands and buildings, 45 Cemeteries and 04 playgrounds had not been valued and accounted.

1.3.2 Non-reconciled Control Accounts

As per the schedule, the three wheel charges was Rs. 1,915,475 and as per the financial statements it was Rs. 624,924 hence the non-reconciliation was Rs. 1,290,551.

1.3.3 Suspense Accounts

A credit balance of Rs. 15,382 had been remained in the suspense account as at 31 December 2015, and actions had not been taken to settled by examining in this regard.

1.3.4 Accounts Receivable

While the value of 05 Accounts Receivable balances was aggregating Rs. 59,720,965, out of that value of balances that had been outstanding over 01 year was aggregating Rs. 36,063,027.

1.3.5 Accounts Payable

While the value of 02 Accounts Payable balances was aggregating Rs. 50,810,492, out of that, the value of account balances that had been outstanding over 01 year was aggregating Rs. 10,232,251.

1.3.6 Lack of Evidence for Audit

Transactions totaling Rs. 1,065,805,365 relating to 12 items of accounts could not be satisfactorily examined in audit due to non-presenting of required information to audit.

1.3.7 Bank Accounts

The following matters were observed with regarding the Bank reconciliations of current account No. 157100190000052 of Manikhinna Peoples' Bank for the month of December 2015.

- (i) A shortage of Sabha income had been accounted due to non-taking actions to account and identify the non-identified receipts of Rs. 872,031.
- (ii) Four dishonored cheques for Rs. 76,560 from the year 2010 had been shown by adding continuously to the cash book balance in bank reconciliation without taking actions to recover the amount.
- (iii) Fixed deposit interest of Rs.24,000 had been shown by adding to cash book balance in bank reconciliation without taking into Sabha income.
- (iv) Thirty six items of deposits but not realized for Rs. 274,730 before 05 years had been continuously shown in bank reconciliation without taking into revenue.
- (v) According to the bank reconciliation of the year 2012, 08 instances of deposits but not realized for Rs. 25,059 from the year 2008 and un identified receipt of Rs. 48,027 which had been removed from bank reconciliations, and bank reconciliation had been prepared by including them again into the bank reconciliation for the month of January 2016.
- (vi) Eighty seven instances of un-identified payments for Rs. 622,564 had been continuously shown in bank reconciliation without taking actions to identify them.

2. Financial 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 2015 amounted to Rs. 94,887,182 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted

to Rs. 81,885,063. Accordingly, an improvement in a sum of Rs. 13,002,119 was observed in the financial results as compared with the previous year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Information as furnished by the Secretary relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review are shown below

Item of Revenue	Arrears as at 01.01.2015	Billing income for year 2015	Revenue Collected out of Amount Arrears as at 01.01.2015	Revenue Collected out of Amount Billed for the year 2015	Adjustments from Journal Entries	Total Arrears to be Collected as at 31.12.2015
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates	6,158,237	7,492,024	2,728,799	4,459,997	(525,694)	5,935,771
Acreage Tax	81,671	7,685	23,345	3,641	(22,590)	39,780
Stalls Rent	352,773	4,688,895	352,773	4,227,180	2,568,169	3,029,884
Three Wheeler Charges	790,865	-	165,940	-	-	624,925
Garbage Fees	626,644	2,213,300	496,740	983,460	-	1,359,744
Court Fine	610,580	653,000	226,204	-	-	1,037,376
Stamp Tax	27,131,620	44,092,265	49,917,735	213,300	-	43,878,965
Total						55,906,445

The revenue of Rs. 55,906,445 of 07 revenue objects was in arrears as at 31 December of the year under review.

2.2.2 Rates

Following matters were observed.

- Although, Rates should be assessed once in 05 years, Rates for the year under review had been recovered base on the assessment of the year 2008 as well.
- While the rates balance in arrears at the beginning of the year under review amounted to Rs. 6,158,237, billing for the year had been Rs. 7,492,024. Recovery out of arrears had

been Rs. 2,728,799 or 44 per cent and recovery out of billing had been Rs. 4,459,997 or 60 per cent. Rates in arrears as at 31 December year under review had been Rs. 5,935,771. Actions had not been taken in terms of paragraph 158 of Pradeshiya Sabha Act No. 1987 with respect of the rate defaulters.

- (c) The arrears Rates remained for period ranging from 01 to 10 years without receiving from Government Departments and State Corporations were Rs. 932,814.

2.2.3 License Fees

Following matters were observed.

- (a) Though environmental license should be renewed once in 03 years, revenue of Rs. 204,000 had been lost to Sabha due to non renewing license of 51 businesses.
- (b) Though the environmental license had been taken, revenue of Rs. 113,000 had been lost to Sabha with relating to 113 businesses which had not taken trade license for the year under review.
- (c) Thirty Eight Industrial Entities had carried on businesses without obtaining permits according to the Extra Ordinary Gazette Notification No. 1533/16 dated 25 January 2008 of the Ministry of Environment published in terms of regulations imposed under the National Environment Act No. 47 of 1980 as amended by Act No. 56 of 1988 and Act No. 53 of 2000. Due to that, it had not been possible to earn License Fees Revenue amounting to Rs. 152,000.

2.2.4 Other Revenue

(a) Acreages Tax

The arrears acreage tax was Rs. 39,780 as at 31 December of the year under review, out of that, a sum of Rs. 35,736 or 90 per cent from the total arrears were remained outstanding over 01 year.

(b) Three Wheeler Charges

Actions had not been taken to recover a charge of Rs. 624,925 outstanding over 01 year from 929 registered three wheelers in Sabha at the end of the year under review,

(c) Stalls Rent

The stalls leased out as per the paragraph 07 of the Circular No. 1980/46 of Commissioner of Local Government dated on 31 December 1980, had been sub leased by the lessees and no actions had been taken by the Sabha in this regard.

2.2.5 Court Fine

A sum of Rs. 1,037,376 was receivable at the end of the year under review.

2.3 Surcharges

Surcharge certificate had been issued by me to recover the amount of Rs. 136,466 due to misuse of cash without depositing in the bank which should be collected and banked daily.

3. Operating Review

3.1 Management Inefficiencies

Following matters were observed.

- (a) Actions had not been taken to acquire documents to verify the ownership of 20 lands lots, 45 Cemeteries and 04 playground of the Sabha.
- (b) Actions had not been taken to verify annually all lands and buildings of the Sabha in terms of Rule 218 of the Pradeshiya Sabha (Financial and Administrative).
- (c) Action had not been taken to recover loan balances amounting to Rs. 218,770 not recovered during a long period, due from 08 employees who had left on transfers, left for other services and vacated of post.

3.2 Bank Account of Urban Development Authority

According to the paragraph 02 of the letter No. 05/01/119 dated 30 September 1987 of the Chairman of Urban Development Authority, though it was shown that cash at bank account of Urban Development Authority could be spent for the projects expecting to be implemented for City development with the prior approval of that Authority, no development project had been implemented by using the amount of Rs. 2,138,238 in that account at the end of the year under review.

3.3 Identified Losses

According to the board of survey reports in the year 2014, actions had not been taken to recover from the relevant officers the amount of Rs. 61,849 that mention to be recovered from responsible officers for 430 books not presented to the survey from 10 libraries of Sabha

3.4 Lease Out Stalls in Market Complex

Two hundred thirty two stalls in 07 building complex had been constructed by the Sabha from allocation of public money, Sabha fund and other outside institutions with the view of leasing out. Following observations made in this regard.

- (a) Though 10 years period lapsed for awarding tenders, it had been allowed to engage with business activities in stalls without recovering the whole initial tender amount and without engaging with proper written agreements. Therefore arrears tender amount of Rs. 20,770,410 had to be recovered from 49 stalls as at 31 December year under review.
- (b) Lease rent of Rs. 3,968,750 had to be recovered as at the end of the year under review from 47 lessees who had not paid the tender amount.
- (c) Fifty nine stalls were closed as at 06 May 2016, and sum stalls had been closed since period of construction and for more than 10 years. Further the tender had been awarded but the number of stalls which had not been opened for business activities was 57.
- (d) It was observed in the physical inspection carried out on 02 March 2016 that the toilet system adjoining to No. 26 stall which was in the end of left side of the first floor of Balagolla Moragaspitiyawattha building, had been converted in to a stall without taking the approval of the Sabha to change, and engaged with a turf accounting business. Separate toilet system had been constructed by the Sabha away from that building by

spending huge amount without taking any remedies by the Sabha with regarding the conversion of toilet system into stalls without the approval.

- (e) The stalls could not be opened for trading due to non-construction and non-planning the entrance to the upper floor of multipurpose building at Digana and its stalls to duly comply with business activities. Construction of many stalls had been suspended and the reinforcement outside the building which was opened to natural phenomena had been being eroded.
- (f) The stalls in Manikhinna bus stand , Digana multipurpose building and Balagolla Moragaspiyawattha upstairs building had been closed due to the failing in business activities as those construction had been made without a proper plan in comply with business activities.

3.5 Improper Transactions

Following matters were observed.

- (a) An excess salary of Rs. 502,705 had been paid for the period from January 2006 to March 2015 to preschool teacher engaged in the Sabha service, as the salary prepared contrary to the direction of Public Administrative Circular No. 6/2006 dated 25 April 2006 when instating in the relevant promotional salary step of Grade I. Though the Commissioner of Local government (Central Province) had investigated and reported in this regard in December 2014, it had been allowed to retire this preschool teacher in March 2015 without taking actions to recover the salary paid excessively. It had been reported to me by the secretary on 27 July 2016, out of that a sum of Rs. 173,089 had been recovered and the balance amount had not been recovered.
- (b) Out of the 512 galvanize pipes valued at Rs. 566,858 given to Sabha by Ministry of Local Government and Provincial Council in December 2014 for the use of maintenance unit, 379 pipes valued at Rs. 419,608 had been issued to Chairman, and those pipes had not been return to Sabha even as at 30 June 2016. It was reported to me by the secretary on 27 July 2016 that 164 galvanize pipe had been return to stores.

3.6 Contract Administration

3.6.1 Construction of the Bridge at Balathota Canal

According to a work estimate of Rs. 6,872,724 under Sabha fund, the construction work had been awarded for Rs. 6,595,962 to the private institute on 27 May 2015 and revised the estimate as the amount of Rs. 9,187,055, and part payment of Rs. 2,181,589 had been paid as at 30 May 2016. Following matters were reveled in physical inspection made on 15 March 2016.

- (a) It was planned to reconstruct the bridge from Pradeshiya Sabha fund which was broken down due to heavy rain. Though the estimates and plans in this type of construction should be prepared with the support of professionally qualified engineer, the estimate amount for Rs. 6,872,724 had been prepared with the support of a technical officer of the Sabha without testing the ground situation, soil samples etc.
- (b) Though no information such as officers prepared the estimate, checked, recommended, date of preparation had been mentioned, the Chairman had approved the estimate without a date.
- (c) Though the contractor had stated the construction work of the bridge, it was informed that the construction work could not be performed as per the awarded estimate due to the muddy condition in the ground, and subsequently the estimate had been revised to the

amount of Rs. 9,187,055 after testing soil samples. This was a 39 per cent increase than the first estimate and construction work had been awarded to the initial contractor.

- (d) Weather reports and target programs had not been maintained with regard to this construction.

3.6.2 Construction of New Office Building at Manikhinna City

According to a work estimate of Rs. 31,630,912 under Sabha fund, the construction work had been awarded for Rs. 24,918,599 to the private institute on 29 May 2015 and part payment of Rs. 3,512,186 had been paid as at 31 March 2016. Following matters were revealed in physical inspection made on 15 March 2016.

- (a) Though the estimate had been made to place "Lanwa" reinforcement for the construction of the building, construction of the protection wall, columns and concrete beams adjoining to the building had been constructed by using "Ashok" reinforcement. The approval of the Engineer had not been taken to change the trade name of reinforcement.
- (b) Technical officer had reported that the bricks used to construct the wall of building were not suitable and poor standard.
- (c) Though a sum of Rs. 316,482 had been paid to prepare estimates, design and planning activities of the construction of this building from a Engineer in Department of Central Province Engineer Service, actions had not been taken to deduct Government portion from that officer and credit to Government revenue.

4. Good Governance and Accountability

4.1 Budgetary Control

Out of the provision of Rs. 1,450,000 provided for budgeted for 09 expenditure votes had been remained without spending any amount.

4.2 Annual Procurements Plan

Procurement Plan had not been prepared for the year under review.

4.3 Assets Management

Idle and Under-utilized Assets

The value unknown of 02 vehicles and 02 vehicles amounting to Rs. 745,000 had been kept idle and under-utilizer for over 03 years.

5. Systems and Controls

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

- (a) Revenue Administration
- (b) Creditors /Debtors Control
- (c) Assets management
- (d) Stock Control
- (e) Contract Administration