

Kobeigane Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 29 March 2016 while Financial Statements relating to the preceding year had been submitted on 18 May 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 12 August 2016.

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 Kobeigane 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 accounting deficiencies are observed.

- (a) Stamp Fees revenue amounting to Rs. 7,193,372 which is not a revenue generated by the Sabha, had been accounted under Charges for Services which is a source of revenue generated.
- (b) Value of 05 Machines amounting to Rs. 27,046,083 had been accounted under Motor Vehicles and Carts.
- (c) Weekly Fair Revenue amounting to Rs. 2,119,895 which should be accounted under Rent Revenue had been accounted under Other Income.

- (d) Although the value of Library Books according to Board of Survey Reports as at 31 December 2015 was Rs. 2,593,329, according to accounts value of books had been Rs. 2,509,863. Understating the Fixed Assets a sum of Rs.83,466 in the accounts.
- (e) Salary Reimbursement Receivable at the end of the year under review amounting to Rs. 3,869,100 had been shown as Rs. 2,566,019. Due to that, revenue for the year and the Debtors had been understated to an extent of Rs. 1,303,081.
- (f) Although the deductions made from the employees' salaries on account of contributions for Local Government Widows and Orphans Pension Fund should be credited to the Salaries Reimbursements Account, the sum of Rs. 106,383 deducted relevant to the year under review had been credited to the Salaries and Allowances Account. Due to that, relevant expenditure and salary reimbursements revenue had been understated to the extent of that amount.

1.3.2 Non-reconciled Control Accounts

Non-reconciliations in a sum of Rs. 1,173,869 were observed between the balances relevant to 04 items of accounts at the end of the year under review and the balances in the corresponding subsidiary registers.

1.3.3 Accounts Receivable

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- (a) While the value of Accounts Receivable as at 31 December 2015 was Rs. 15,663,253, age analysis relevant to a sum of Rs. 6,250,382 out of that was not submitted to audit. There were balances receivable amounting to Rs. 174,566 remained unrecovered during a period exceeding 3 years.
 - (b) While the value of Accounts Receivable as at 31 December 2015 was Rs. 15,663,253, a sum of Rs. 4,975,450 or 31 percent out of that had been Stamp Fees Receivable and a sum of Rs. 3,202, 285 or 20 percent out of that had been Work Debtors.

1.3.4 Accounts payable

- (i) While the value of Accounts Payable as at 31 December 2015 was Rs. 14,048,130, age analysis relevant to a sum of Rs. 2,323,639 out of that was not submitted to audit. There were balances amounting to Rs. 1,883,697 remained un-settled during a period exceeding 3 years.
- (ii) While the value of Accounts Payable as at 31 December 2015 was Rs. 14,048,130 a sum of Rs. 9,538,529 or 68 percent out of that had been Wok Debtors and a sum of Rs. 475,257 was a balance payable to the local Government Pension Fund.

1.3.5 Lack of Evidence for Audit

A Register/Schedules showing make up of 04 items of accounts amounting to Rs. 17,180,252 were not furnished to audit. Due to that, those items of accounts could not be satisfactorily examined in audit.

1.3.6 Non-compliance with Laws, Rules, Regulations etc.

Although a sum of Rs. 70,185 for light weight cricket match series and distribution of cricket accessories; and a sum of Rs. 10,000 as resource persons allowance on behalf of World Children's Day had been spent during the year under review, the sanction of the Minister in charge of the Subject in terms of Section 132 of the Pradeshiya Sabha Act No. 15 of 1987 had not been obtained.

02 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 had been 8,177,503 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 925,430 indicating an improvement of Rs. 7,252,073 in the financial result. After adjustment of the Capital Grant amounting Rs. 109,556,264 and Capital Expenditure amounting to Rs. 114,268,450 to this, financial result, and financial result for the year under review had become a surplus of Rs. 3,465,317.

2.2 Analytical Financial Review

Following matters are observed.

- (a) Actual revenue and expenditure relevant to the year under review and the preceding year and relevant variations are shown below.

Source of Revenue	Revenue			Expenditure Item	Expenditure		
	2015	2014	Variance		2015	2014	Variance
	Rs.000	Rs.000	Rs.000		Rs.000	Rs.000	Rs.000
(i) Generated Revenue	10,568	4,978	5,590	Personal Emoluments	26,887	20,211	6,676
(ii) Others	<u>36,798</u>	<u>30,335</u>	<u>6,463</u>	Others	<u>12,302</u>	<u>14,126</u>	<u>(1,874)</u>
Sub total	47,366	35,313	12,053	Sub total	39,189	34,387	4,802
(iii) Capital Grant	109,,556	25,140	84,416	Capital Expenditure	114,268	25,386	88,882
Grand Total	<u>156,922</u>	<u>60,453</u>	<u>96,469</u>	Grand Total	<u>153,457</u>	<u>59,773</u>	<u>93,684</u>
Operational Surplus	8,177	925	7,252	Surplus/ Deficit	3,465	679	2,786

- (b) Out of the total Recurrent Revenue of Rs.47,366,529 relevant to the year under review, a sum of Rs. 36,798,969 or approximately 77 per cent was revenue not falling under a nature generated in the Sabha and were receipts such as Court fines, Stamp Fees and Salary Reimbursements. Similarly, out of the capital revenue of Rs. 109,556,264, a sum of Rs. 104,423,760 or 95 percent was consist of value of vehicles and Deyata Kirula Provisions received as donations.
- (c) Out of the total Recurrent Expenditure of Rs. 39,189,026 relevant to the year under review, a sum of Rs. 26,887,257 or 68 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 24,384,970 or 90 per cent had been received from the Commissioner of Local Government as salary reimbursements while that value had been accounted under other Revenue. Similarly, out of the capital expenditure of Rs. 114,268,450, a sum of Rs. 104,423,760 or 91 percent was consist of value of vehicles and Deyata Kirula Provisions received as donations.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review and the preceding year were as shown below.

Item of Revenue	2015			2014		
	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual	Accumulated Arrears as at 31 December
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(i) Rates and Taxes	1,259	1,055	377	1,504	1,062	355
(ii) Lease Rent	1,184	1,203	73	1,584	787	251
(iii) License Fees	644	487	--	640	624	209
(iv) Other Revenue	32,854	44,622	11,417	25,873	32,840	9,080
Total	35,941	47,367	11,817	29,601	35,313	9,895

2.3.2 Revenue Billed and Arrears of Revenue

Particulars are shown below.

Item of Revenue	Arrears as at 01.01.2015	Billings during the year	Total	Collection of Revenue		total	Balance of Arrears 31/12/2015		Total Arrears as at 31.12.2015
				Collection From arrears	Collection From billing		Out of Arrears as at 01.01.2015	Out of Billing	
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs. 000	Rs.000	Rs.000
Rates and Taxes	355	1,055	1,410	103	930	1,033	252	125	377
Lease Rent	251	1,203	1,454	235*	1,196	1,431	16	07	23
License Fees	209	487	696	209*	487	6,96	--	--	--
Other revenue	9,080	44,622	53,702	9,080	33,205	42,285	--	11,417	11,417
Total	9,895	47,367	57,262	9,627	35,818	45,445	268	11,549	11,817

* A sum of Rs. 209,623 out of Arrears Rent as at 01 January 2015 and License Fees amounting to Rs. 209,095 had been written off against the Accumulated Fund through journal entries.

2.3.3 Lease Rent

Following matters are observed.

- (a) Although the Sabha had decided to lease the two stalls in size of about 8 x 8 feet through tenders for three years, constructed through Deyata Kirula during the year 2014 in the Kobeigane Bus Stand, one stall had been given to an outside party for a monthly rent of Rs. 2,500, with effect from January 2015, deviating from the tender procedure.
- (b) Although it had been mentioned according to the agreements entered into with regard to the payment of stall rent that a 10 percent fine should be paid for delay in payment of rent for each stall, according to the Stalls Rent Register fines had not been recovered for delayed payments.

2.3.4 License Fees

Although charges should be recovered for 08 towers established at the rate of Rs. 20,000 up to a height from 5 – 20 meters and Rs. 100 should be charged for each additional meter in terms of Gazette Notification No. 1597/8-2009 dated 17 April 2015 of the Republic of Sri Lanka, charges had been recovered only from one establishment. Similarly, Business Tax to be recovered annually for the towers had not been recovered, Trade License Fees had been recovered from only one establishment.

2.3.5 Court Fines and Stamp Fees

While Court Fines Receivable from the Chief Secretary to the Provincial Council was Rs. 873,766, the amount of Stamp Fees Receivable was Rs. about Rs. 4,975,450.

03. Operating Review

3.1 Management Inefficiencies

Action had not been taken to recover Staff Loan balances in arrears amounting to Rs.167,245 due from 02 officers deceased and left on transfers.

3.2 Operational Inefficiencies

While a quantity of $\frac{3}{4}$ granite, chips, river sand and gravel had been dumped near the Sabha Play Ground making it impossible to take measurements, a register had not been maintained to record those raw materials.

3.3 Improper Transactions

- (a) Although a monthly allowance of Rs. 8,000 to an officer in Staff Grade or a sum of Rs. 6,000 to a non- staff grade person could be paid for the post of private Secretary to the Chairmen of a Pradeshiya Sabha in terms of decision No. 5/min/2013/48 dated 22 May 2012 of the Board of Ministers of the North Western Provincial Council, monthly payment had been made at the rate of Rs. 8,000 to a person who is not a Staff Grade Officer relevant to the period from September 2013 to April 2012. Due to that; a sum of Rs. 40,000 had been overpaid.
- (b) Although a monthly payment subject to a maximum of Ra. 4,000 could be paid for the post of Public Relation Officer of a the Chairman as per decision of the Board of Ministers referred to above, monthly payment had been made at the rate of Rs. 5,000 relevant to the period from January 2014 to April 2015 Due to that; a sum of Rs. 16,000 had been overpaid.

3.4 Contracts Administration

Following matters were observed.

- (a) While the number of roads developed in 33 Grama Niladhari divisions during the preceding year through One Job for One Village Program by making causeways or culverts after motor grading roads had been 372, within those a culvert or a cause way had been constructed in 25 roads. Accordingly, out of the total value of work completed, amounted to Rs.14,452,818, a sum of Rs. 1,959,486 or only 13 percent had been utilized for effective long term constructions such as cause ways or culverts, while a sum of Rs. 9,199,041 for motor girding roads, and a sum of Rs. 3,294,291 gravel spreading as 87 percent of the total amount had been spent.

- (b) At the physical inspection carried out on 15 December 2015 with regard to motor graded roads, it was observed that the roads had fallen to the previous condition and that the roads had got narrowed due to motor grading. Accordingly, the sum of Rs. 9,199,041 spent for that had been an uneconomic expenditure.
- (c) While Staff participation for construction of the Sabha Garage was confirmed in writing for the work planned to be constructed on the basis of direct labor, a sum of Rs. 109,900 had been paid in three instances for skilled and un-skilled laborers. When names of the payees were compared, it was observed that some signatures placed against same name were different. The residential address or the National Identity Card Number had not been recorded to confirm identity of the payees. While there was no Sabha approval or a committee decision for making payments to outside parties, for this construction planned to be constructed on direct labor basis, relevant estimates too had not been revised.
- (d) While estimates amounting to Rs. 650,000 had been approved for development of Kaluarachchigama Road in Maula Grama Niladhari Division, out of that, the road had been completed to the extent of work valued at Rs.269,864 by spreading gravel. However, at the physical inspection carried out on 15 December 2015, it was observed that the causeway had not been constructed.

04. Accountability and Good Governance

4.1 Budgetary Control

While the estimated amount of 02 items of revenue under Generated Revenue of the Sabha was 1,903,000, actual revenue collected had been Rs. 1,542,000.

4.2 Internal Audit and Management Committee

While Audit and Management Committee had met in 04 instances relevant to the year under review, an adequate internal audit had not been performed under that.

4.3 Idle and Underutilized Assets

A cab vehicle valued at Rs. 650,000 and a Backhoe Machine valued at Rs. 1,093,400 were in unserviceable condition at the end of the end of the year under review.

05. Systems and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Contracts Control.