

Kuruwita Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 26 April 2016 and the financial statements for the preceding year had been presented on 27 March 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 14 July 2016.

Adverse Opinion

In my opinion, except for the effects of the matters shown in paragraphs 1.3.1 and 1.3.2 of this report, the financial statements do not give a true and fair view of the financial position of the Kuruwita Pradeshiya Sabha as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The value of land purchased for Rs.3,500,000 at Puseellawaththa for the Solid Waste Material Management Project had been adjusted in the increase in Assets and Revenue Contributions to Capital Outlay Account instead of being debited to 209 Capital Expenditure Head and credited to cash.
- (b) Commission amounting to Rs.43,377 made up of Rs.42,987 for the rates and taxes and Rs.390 for the acreage tax respectively had been paid for the year under review. These had not been adjusted in the expenditure for the year and brought to account.
- (c) The total external liabilities of Rs.99,729 made up of Rs.36,201 and Rs.63,528 respectively on behalf of the Local Loans and Development Fund and the Asian Development Bank had been understated as per financial statements.
- (d) A difference of Rs.425,979 made up of Rs.20,000 and Rs.405,979 respectively was observed between the ledger and the accounts in respect of the objects No.108 and 203.

- (e) Motor cars, plant and machinery, library books and furniture and fittings obtained as donations during the year under review and the previous years had not been entered in the Revenue Contributions to Capital Outlay Account. Instead, these had been entered via the Revenue Contributions to Capital Outlay Account.
- (f) The Capital aid of Rs.94,780,915 obtained for development activities within the authoritative area of the Sabha from the Provincial Councils and the Central Government had been brought to account as capital aid. But, the expenditure had been brought to account as Revenue Expenditure under the Object, Repairs to/and maintenance of Capital Assets. As a result, an extensive operating deficit had been shown in the financial and operating statement.
- (g) The sum of Rs.2,471,752 pertaining to the Inter Rural Project implemented within the authoritative area of the Sabha and the interest on fixed deposits amounting to Rs.1,726,001 obtained from investments made on behalf of the project for the past few years aggregating Rs.4,197,753 had been brought to account as capital revenue of the year under review.

1.2.2 Unreconciled Control Accounts

The balances of 03 items of accounts as at end of the year under review as per financial statements and the balances appearing in the subsidiary registers differed by Rs.22,299,125.

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

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

(a) Financial Regulations of the Republic of Sri Lanka

(i) Financial Regulations No.371

Action had not been taken even by end of the year under review to settle the advance of Rs.100,000 granted to the then Chairman of the Sabha in February 2010 for an educational tour in Thailand.

- | | | |
|-------|--------------------------------------|--|
| (ii) | Financial Regulation No.371 (2) | Ad-hoc imprests payable on one occasion should not exceed Rs.20,000. However, the Pradeshiya Sabha had paid advancers amounting to Rs.379,789 on 2 occasions, contravening the said regulation. |
| (iii) | Financial Regulation No.371(2)(d) | The advance granted in terms of the said regulation should be immediately settled after fulfilment of the purpose. However, advances amounting to Rs.1,144,135 paid In 2009, 2010, and 2014 had not been settled |
| (iv) | Financial Regulations No.570 and 571 | Action had not been taken to settle deposits of Rs.1,315,319 in terms of the said regulations. |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2015 amounted to Rs.88,158,178 as compared with the excess of recurrent expenditure over revenue of the preceding year amounting to Rs.17,172,231.

2.2 Analytical Financial Review

The financial operating deficit of the year under review had increased by Rs.70,985,947 as compared with that of the previous year and it was observed that it was an increase of 413 per cent than the previous year. The increase in salaries and allowances by 26 per cent and the increase in the expenditure pertaining to capital repairs by 390 per cent during the year under review, as compared with the previous year, had mainly attributed to this.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information furnished with regard to the estimated revenue, actual revenue and the arrears of revenue for the year under review appear below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
-----	-----	-----	-----
	Rs.'000	Rs.'000	Rs.'000
Rates and taxes	2,006	2,769	4,423
Lease rent	5,549	5,772	5,677
Licence fees	1,086	1,659	-
Other revenue	49,545	50,143	17,129

2.3.2 Performance in Collection of Revenue

A comparison of the estimated revenue of the year under review with the revenue collected showed a decrease of 24 per cent in the revenue collected than the estimated amount from revenue items such as service fees.

2.3.3 Rates and Taxes

The arrears of balances of rates and taxes and the acreage tax amounted to Rs.17,184,751 and Rs.2,114,488 respectively by 30 June 2015. The Sabha had not taken action to recover the balances of arrears even by 12 October 2015. It was observed that 33 per cent of the rates and taxes were arrears of over 04 years and 35 pr cent of the acreage tax were arrears of over 03 years.

2.3.4 Lease Rent

A register had not been maintained by surveying the work and businesses operating in the area. As such, it was unable to examine whether the required tax had been recovered from the work and businesses of the area. It was observed in audit that the revenue obtained by the Sabha only had been entered in the registers.

2.3.5 Other Revenue

The following matters are observed.

- (a) Arrears of rent of stalls and penalties amounting to Rs. 4,436,000 were due from stalls bearing numbers 17, 23, 24, 27 and 28 for over 05 years. Those stalls had been sealed on 30 July 2014 and the Sabha had acquired them. But, no action, whatsoever, had been taken regarding the arrears of stalls and the owners of the stalls even by end of the year under review..

- (b) Action had not been taken even by 12 October 2015, the date of audit, to recover the advertisement board fees of Rs.116,850 due for the year 2014.
- (c) Proper methods had not been adopted to identify the types of notices exhibited within the authoritative area of the Sabha and to recover fees according to the gazette notifications. Revenue amounting to Rs.87,789 had been received from 07 institutions and a sum of Rs.63,054 had been received out of the sum of Rs.113,832 receivable from a private institution dealing with advertisements by 12 October 2015, the date of audit. Further, the Sabha had not taken action to recover advertisement charges of Rs.71,604 receivable from 04 institutions.

2.3.6 Court Fines and Stamp Fees

The following observations are made.

- (a) Action had not been taken to identify and obtain the court fines receivable from December 2014 to the end of the year under review.
- (b) Action had not been taken to identify and recover the stamp fees receivable from the Land Registry, Ratnapura for the period of January to December of the year under review. Further, action had not been taken to recover the stamp fees of Rs.510,600 from the Land Registry, Horana for the period of October 2014 to January 2015. Also, action had not been taken to identify and recover the stamp fees due from the Land Registry, Avisawella for the period of July to December of the year under review.

3. Operating Review

3.1 Management Inefficiencies

Court cases had been instituted with regard to the arrears of rent of 02 stalls amounting to Rs.2,602,897 which had been removed from the public market on 15 October 2012 due to the development of Kuruwita town and with regard to the arrears of stall rent of Rs.2,112,597 due from 04 stalls which had been sealed on 10 May 2013. The expenditure incurred on these cases by October 2015 amounted to Rs.78,915.

3.2 Irregular Transactions

The following observations are made.

- (a) An expenditure of Rs.539,789 had been incurred on 04 instances with regard to the educational and entertainment tour participated by the staff and the members of the Sabha including the Chairman during the years 2009, 2010 2014 and 2015. No information, whatsoever, had been furnished to audit regarding the approval obtained for the tour and the provision made for such activities carried out by using the funds of the Sabha and the benefit caused to the institution. Further, action had not been taken up to May 2016 to settle the advance of Rs.539,789 obtained for the said entertainment and education tour.

- (b) The official period of the Sabha had ended on 15 May of the year under review. Meanwhile, a sum of Rs.15,000 had been overpaid to 2 members as members' allowances.

3.3 Contract Administration

An advance of Rs.2,357,232 had been paid for the construction of Type 01 of the trade complex on 11 May 2015. The contractor had abandoned the work halfway due to an order made by the courts.

4. Good Governance and Accountability

4.1 Annual Procurement Plan

An annual procurement plan had not been prepared for the year under review.

4.2 Internal Audit

Action had not been taken to establish and operate an internal audit unit by affording necessary facilities to it.

4.3 Implementation of Audit and Management Committees

Action had not been taken to establish and implement Audit and Management Committees.

5. 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) Contract Administration