

Kalutara Pradeshiya Sabha

Kalutara District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2017 and financial statements for the preceding year had been presented on 31 March 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 27 September 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements as at 31 December 2016 give a true and fair view of 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

The following observations are made.

- (a) The balance of the Revenue Contributions to Capital Outlay Account should be equivalent to the balance of the Fixed Assets Account. However, there was a difference of Rs.659,162 between those two accounts as per financial statements presented.
- (b) The expenditure on industries under the Provincial Specific Development Grant amounted to Rs.5,831,503. However, it had been shown as Rs.5,449,088 in the financial statements resulting in an understatement of industrial expenditure of the year under review by Rs.382,415.
- (c) The loan instalment of Rs.39,650 payable to the Local Loans and Development Fund for the month of December 2016 amounting to Rs.39,650 should have been debited to the Loans Account and Credited to the Loan creditors. However, the Income and Expenditure Account had been debited instead of the Loans Account. Accordingly, the balance of the Loans Account of the Local Loans and Development Fund as at end of the year under review had been overstated by

Rs.39,650 and the surplus of the year under review had been understated by Rs.39,650 in the financial statements.

- (d) The revenue from interest on fixed deposits of the year under review amounting to Rs.384,637 had been shown under the reimbursement of salaries instead of other revenue. As a result, the reimbursement of salaries had been overstated by Rs.384,637 and the other revenue had been understated by Rs.384,637 in the financial statements.
- (e) Two grass cutters valued at Rs.25,060 had been purchased during the year under review. This had not been capitalized and as such the fixed assets and the Revenue Contributions to Capital Outlay Account had been understated by Rs.25,060.
- (f) The purchase of capital goods valued at Rs.315,451 during the year under review had been shown under recurrent expenditure in the financial statements.
- (g) The general supply creditors of Rs.32,957, industrial debtors of Rs.115,235 and the pension creditors of Rs.33,474 had not been shown as creditors of the year in the financial statements. As a result, the value of creditors of the year under review had been understated by Rs.181,666 and the expenditure of the year had been understated by Rs.181,666 in the accounts.
- (h) The amount payable to the Director of Pensions as at 31 December 2016 amounted to Rs.61,333. This had been shown as Rs.41,495 in the financial statements resulting in an understatement of creditors by Rs.19,838 in the accounts.
- (i) The revenue from rates and taxes for the year under review amounted to Rs.10,124,353. However, this had been shown as Rs.10,234,854 in the financial statements thus overstating the revenue from rates and taxes of the year under review by Rs.110,501 in the financial statements.
- (j) The industrial debtors and creditors of an industry carried out under the Programme of Uplifting Infrastructure Facilities of local authorities had been understated by Rs.566,381. Meanwhile, the industrial debtors and creditors of an industry carried out under the Western Province Development Grant Programme had been understated by Rs.43,034 in the accounts.
- (k) The creditors relating to the industry of the Sabha for the previous year amounting to Rs.400,000 had been entered as expenditure of the year under review instead of adjusting it in the Accumulated Fund. As a result, the expenditure had been overstated by Rs.400,000.

1.3.2 **Lack of Evidence for Audit**

Transactions totalling Rs.37,403,194 could not be satisfactorily vouched in audit due to now condition of necessary information for audit.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure for the year ended 31 December 2016 amounted to Rs.44,588,304 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.28,476,359 resulting in an improvement in financial results of the year under review by Rs.16,111,945. The increase in revenue by Rs.15,965,209 and the decrease in expenditure by Rs.146,736 could be attributed to the improvement in financial results by Rs.16,111,945.

2.2 **Revenue Administration**

2.2.1 **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.

<u>Item of Revenue</u>	<u>Estimated</u>		<u>Accumulated Arrears</u>
	<u>Revenue</u>	<u>Actual</u>	<u>as at 31 December</u>
	Rs.'000		Rs.'000
(1) Rates and taxes	10,235	8,295	4,618
(11) Lease rent	156	120	52
(111) Licence fees	1,966	1,966	--

2.2.2 **Rates and Taxes**

- (a) Out of the balances as at commencement of the year under review amounting to Rs.5,669,771 a sum of Rs.3,104,936 or 55 per cent had been recovered during the year. Out of the arrears of previous year, a sum of Rs.2,564,835 still remained as arrears.

- (b) Out of the bills of the year under review amounting to Rs.9,358,209, a sum of Rs.7,374,633 or 79 per cent had been recovered during the year. The arrears out of the present bills as at end of the year under review amounted to Rs.1,983,575.
- (c) The balance of rates and taxes as at end of the year under review amounted to Rs.4,548,410. According to the age analysis furnished, a sum of Rs.2,395,768 exceeding 3 years was due from 1854 units. Action had not been taken to distraint properties for rates and taxes in arrears.

2.2.3 **Industrial Tax/Trade Tax/Trade Licence Fees**

The above tax should be recovered at the commencement of each from year institutions/persons expected to pay industrial tax, trade tax and trade licence fees. However, industrial tax amounting to Rs.19,650 and the trade tax amounting to Rs.46,850 were due as at end of the year under review. Action had not been taken to recover these arrears.

2.2.4 **Court Fines and Stamp Fees**

The amount receivable from the Chief Secretary, Provincial Council and other authorities as at 31 December 2016 are shown below.

	Rs.
(1) Court Fines	53,809,684
(11) Stamp Fees	87,231,976

3. **Operating Review**

3.1 **Operating/Management Inefficiencies**

- (a) According to the financial statements presented, journal entries No.16 and No.17 had been passed to adjust the opening balance of 2016 with the schedule of stock and the difference of Rs.75,695 so observed had not been identified and brought to account.
- (b) The opening balances of the General stores, field stores and the library accounts had been adjusted and furnished in the accounts, namely, by debiting Rs.373,446 to the general stores, crediting Rs.297,651 to the field stores account and debiting

the library books account by Rs.659,161 respectively. As such, it was observed that the correct position of the annual financial statements had not been depicted.

- (c) Out of the 599 building applications received during 2016, 541 applications had been approved and 58 applications had been rejected. Of these, compliance certificates had been issued to 20 of them only. Action had not been taken to issue compliance certificates to the rest and to recover revenue from rates and taxes by issuing new assessments.

(d) Bank Reconciliations

- (i) According to the bank reconciliation statement prepared for the People's Bank Account No.039-1-001-2-2997958 (Ordinary) as at 31 December 2016, the unrealized balances of Rs.16,372 relating to 3 cheques since 2009 had not been settled. This continued to be brought forward in the bank reconciliation statements.
- (ii) Direct credits of Rs.3,523,860 and direct credits of Rs.319,800 had been shown in the bank reconciliation statements prepared as at 31 December 2016. These had not been identified and continued to be shown in the bank reconciliation statements, for many year

(e) Etawila Crematorium

The construction work of this crematorium had commenced in 2011 without total cost estimates. A sum of Rs.14,037,636 had been spent by 31 December 2016. Although 6 years had elapsed by now, the work had ended in failure as it had not been completed to meet the needs of the public.

(f) Property Management

Matters such as , non conduct of annual board of survey for all properties including the land and buildings of the Sabha, not updating the register of fixed assets, non rendition of files relating to land auction at Nagoda and Moranthuduwa sub offices from 2007 to 2014 and non receipt of title deeds relating to land obtained for common amenities while auctioneering land were observed.

(g) Non-recovery of Licence Fees from Three Wheeler Parks

According to the decision No.7.1.2 of the General Council of 27 March 2012, licence fees at the rate of Rs.600 per three wheeler should have been recovered. Accordingly, bye-laws had been framed. However, the Sabha had not taken action even by 17 March 2017 to recover Rs.305,400 from 509 three wheelers

during 2015 and Rs.346,800 from 578 three wheelers during 2016 both totaling Rs.652,200. Action had also been not taken to bring these to the accounts.

(h) Control over Vehicles

- (i) Out of the 45 vehicles of the Sabha, 03 tractors, 05 trailers, a stone roller, a water bowser and a hand tractor remained inoperative. Action had not been taken to repair them and make use of, or to dispose of them.
- (ii) Out of the money spent on repairs to a double cab which had met with an accident during the year under review, a sum of Rs.57,150 had not been settled by the Insurance Corporation. As such, the expenditure had been incurred from the funds of the Sabha.

3.2 **Solid Waste Material Management**

The garbage collected within the area of the Sabha had been handed over to the Urban Council.

The following shortcomings were observed with regard to garbage management.

- (a) bye-laws had not been framed for Solid Waste Material Management.
- (b) An environmental licence had not been obtained for the place of disposal.
- (c) Garbage tax had not been imposed to meet the expenditure on garbage management.

3.3 **Performance**

The monthly average balance of the current account of the Sabha had exceeded Rs.13 million. In addition, there were fixed deposits for Rs.6.4 million. Accordingly, the financial position of the Sabha was sound. But, the Sabha had executed 6 capital projects during the year under review. This included 2 jobs relating to painting of office building. Accordingly, only 4 jobs had been commenced during the year from the funds of the Sabha and only one of those jobs had been completed during the year.

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) Personnel Management
- (d) Control over Vehicles
- (e) Budgetary Control