

Katuwana Pradeshiya Sabha
Hambanthota District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 March 2017 while Financial Statements relating to the preceding year had been submitted on 29 March 2016. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 26 September 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report the financial statements give a true and fair view of the financial position of the Katuwana Pradeshiya Sabha as at 31 December 2016 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies are observed during the course of audit.

- (a.) The Crematorium building valued at Rs.6,313,558 had not been accounted to the date 17 November 2016.
- (b.) The Stamp Fees income had been understated by Rs.6,250,100 during the year under review.
- (c.) Debtors Provisions had not been made of Rs.432,336 for a work which made an agreement during the year under review.
- (d.) According to the recommendation made by the Board of Survey in the year 2015, the assets removed during the year under review cost of Rs.208,308 had not been written-off by the accounts.
- (e.) Six assets purchased and received as donations of Rs.107,000 during the year under review had not been accounted.
- (f.) Retention money of Rs.90,497 had not been accounted and a stock of stationery and fuel had been understated by Rs.53,570 during the year.
- (g.) Stock value of Rs.61,882 had been accounted under the machinery and equipment instead of accounting in the General Stock.

1.3.2 Unreconciled Control Accounts

Differences of Rs.46,367,385 were observed between the balances of 02 items of accounts in the financial statements and the balances of relevant registers and schedules.

1.3.3 Accounts Receivable and Payable

Following observations are made.

(a.) Accounts Receivable

- (i.) Property Loan interests of Rs.76,717 receivable from number of years had not been recovered during the year under review.
- (ii.) Balance brought forward since the year 2006 of receivable reimbursements for street lamps improved to Rs.521,529 as at 31 December 2016 had not been recovered during the year under review.
- (iii.) Money had been recoverable amounted to Rs.16,407,810 from 20 works since the year 2013 to the year under review.

(b.) Accounts Payable

- (i.) Payments payable for 20 works performed since the year 2013 amounted to Rs.16,457,810.
- (ii.) Liabilities not settled by the Sabha totaled to Rs.22,271,895 to the date 31 December 2016 and Rs.11,593,846 from that liabilities belonged to the previous year.

1.3.4 Lack of Evidence for Audit

Registers and schedules on receivable stamp duty amounted to Rs.152,702 for the years 2011 and 2012, schedules of receivable water charges income totaled to Rs.5,118,836, updated schedules of licence fees and stall rents receivables respectively totaled to Rs.110,150 and Rs.1,421,468 had not been furnished therefore could not be satisfactorily audited.

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

The following instances of non-compliance with laws, rules and regulations were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.,</u>	<u>Non-compliance</u>
(a) Pradeshiya Sabha Act No.15 of 1987	
(i.) 152(2)	Tax had not been recovered from the professionals practice within the territory of the Sabha.
(ii.) 154	Instead of recovering 01 per cent tax for Land sale on the assessed value of the land tax recovered on the sales value within the Sabha territory.

- (b) Pradeshiya Sabha Financial and Administrative Rules of 1988
- (i.) Rule No.177 Action had not been taken to tender 08 Weekly Fairs and lease out in the Sabha.
- (ii.) Rule No.218 Annual inspections had not been under taken on the land and buildings owned by the Sabha.
- (c) Financial Regulations of the Republic of Sri Lanka
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- (i.) Financial Regulation 571 Action had not been taken for disposition of 41 balances of industrial retention money of Rs.874,285 over two years. The log books of the vehicles had not been updated.
- (ii.) Financial Regulation 1645(a)
- (d) Paragraph 4.3 (a) (b) and (e) of the letter of the Director of Public Finance No.PED/RED/2015/08 General(i) of 09 October 2015. Loan balances of Rs.26,525 had not been recovered from 09 officers transferred, diseased, retired, resigned and interdicted.

1.3.6 Transactions Without Authority

Following observations are made.

- (a.) Money amounted to Rs.50,989, had been spent on the work of constructing the Entrance Road of the Middeniya fair without any Sabha Committee decision.
- (b.) Information regarding the quotation bids, orders of electronic appliances had not been furnished to audit which had been supplied at two instances during the year under review totaled to Rs.198,710 and the payments on those had not been made to the date 31 December 2017.

2. Financial and Operating 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 2016 amounted to Rs.11,702,240 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.4,556,232. Accordingly, an improvement amounting to Rs.7,146,008 is shown in the financial results of the year under review.

2.2 Analytical Financial Review

Following matters are observed.

- (a) Recurrent expenditure was at a high rate of 86 per cent of the recurrent revenue of the year under review and did not disclose a satisfied situation from financial management.
- (b.) It had been shown that recurrent expenditure had exceeded the self-generated income of each year in considerable amounts and there was a situation that recurrent expenditure could not be recovered in any way without revenue aids provided, and the Sabha had not given any consent to control expenses.

2.3 Working Capital Management

The creditors balance during the year under review included balances over 03 years amounted to Rs.16,407,810 therefore, the liquid situation disclosed by the quick and current ratios had not been existed.

2.4 Revenue Administration

2.4.1 Performance in Collection of Revenue

The following observations are made on performance in collection of revenue during the year under review.

- (a) Revenue had been collected amounted to Rs.29,535,393, from the revenue billed amounted Rs.40,407,161 during the year under review. Accordingly the progress of the performance of collection of revenue had been 73 per cent.
- (b) The sum of revenue receivable at the end of the year under review had been Rs.12,668,669, from that Rs.8,745,995 had been recovered. Accordingly the progress of receivable revenue collection had been 69 per cent.

2.4.2 Rates and Taxes

Action had not been taken to assess the tax under Section 134(1) of the Pradeshiya Sabha Act No.15 of 1987 and recover the tax even though it had been stated the developed village areas in the Gazette Extraordinary No.1346/9 on 23 June 2004 during the year under review.

2.4.3 Acreage tax

Recovering of the acreage tax had not been on an adequate level under Section 158(1)(a) of the Pradeshiya Sabha Act No.15 of 1987. It had been recovered 7 per cent from the opening deficit during the year under review.

2.4.4 Stall Rent

Following observations are made.

- (a.) Rent had not been recovered from 21 stalls amounted to Rs.394,347 during the year under review.

- (b.) One off money had not been recovered from 02 stalls registered in the year 2015 under the Paragraph 4 of the Circular No.දළපා/පළාතො/2010/01 of Commissioner of the Southern Provincial Council on 27 December 2010 amounted to Rs.425,000.

2.4.5 Industrial Tax and Trade Licence Fees

Fees had not been recovered from 25 units of works and businesses amounted to Rs.25,850 during the year under review.

2.4.6 Stall Rent

(a.) Machinery Income

Revenue on machinery for the years 2013, 2014, 2015 and the year under review had been amounting to Rs.923,557.

(b.) Water Charges Income

Receivable Water Charges Income amounted to Rs.5,118,836 as at 31 December 2016.

2.4.7 Court Fines and Stamp Fees

Court Fines Rs.800,372 and Stamp Fees Rs.6,213,800 were receivable from the Chief Secretary to the Southern Provincial Council and other authorities as at 31 December 2016.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- (a.) Sabha had not been acquired the possession of 05 vehicles given by various state institutions and 12 lands of Rs.860,750.
- (b.) Action had not been taken to make an agreement with the lessees who selected from the tender call on 01 August 2016 to lease out 06 stalls at the Middeniya Super Market Complex on long term lease out basis, up to the date 31 July 2017.
- (c.) Even though, 9 out of 10 stalls of Middeniya Weekly Fair had been given to 9 persons for one-off money instead of following the tender procedure, Rs.50,000 each aggregating Rs.450,000, action had not been taken to recover the rents over a year.

3.2 Solid Waste Management

The following matters are observed.

- (a.) Action had not been taken to obtain an Environmental Protection Licence to the date of 31 July 2017, according to the New Gazette amendment of No.53 of National Environmental Act No.53 of 2000 and the Gazette Extraordinary No.1553/16 on 25 January 2008, for the land where Sabha dumped garbage and the Compost Production Project.
- (b.) Sabha had not appointed permanent employees for the Compost Yard and 02 substitute workers had been worked time to time therefore the work of the Project had not been carried out continuously.

- (c.) Even though the production had been started on 07 May 2016 of the Compost Yard, the Compost produced had been piled up in a part of the Yard to the date 31 July 2017 because there had no Huller Machine owned by the Sabha.

3.3 Idle Assets

The concrete mixing machine during the year and other 6 vehicles since several years owned by the Sabha had been idled.

3.4 Human Resource Management

Following observations are made.

- (a.) The excess staff had been 9 and number of vacancies had been 9. Action had not been taken at the end of the year under review to fill the vacancies and regulate the excess staff.
- (b.) Instead of Duties for their posts 16 employees had been appointed in other duties.

4. Good Governance and Accountability

4.1 Budgetary Control

Complete Provisions of Rs.1,192,000 for 28 items of expenditure, savings of provisions of Rs.11,733,194 for 72 items of expenditure have been saved and they had been in the range of 10-98 per cent. Therefore it had been observed that the budget had not been used as an effective Management Control Tool.

4.2 Unsolved Audit Paragraphs

The value of 04 Lands owned by the Sabha had not been valued and accounted.

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.) Budgetary Control