

## **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 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 sent to the Secretary of the Sabha on 29 September 2017.

##### **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 2016 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 Policies**

The following matters are observed.

- (a) In the rectification of opening balances of Rs.31,700,777, the corresponding comparative data relating thereto had not been revised.
- (b) In the presentation of schedules relating to significant items of the financial statements such as property, plant and equipment, the comparative values relating thereto had not been presented.
- (c) The closing stocks of the year had not been valued to the lower value of the cost or net realized value whichever is less.

###### **1.3.2 Accounting Deficiencies**

The following matters are observed.

- (a) The interest income from 02 fixed deposits amounting to Rs.75,822 and Rs.289,393 relating to the year under review and the preceding year respectively had not been brought to account while the balance of fixed deposits had been understated by Rs.365,215 as well.

- (b) The difference of Rs.162,389 between the balance of the Industrial Deposit Account and the balance of the schedule as at 01 January of the year under review had been eliminated through a journal entry without identifying it precisely.
- (c) Stamp Fees revenue amounting to Rs.6,000,000 had been accounted under Charges for Services which is a source of revenue generated.
- (d) Weekly Fair fees amounting to Rs.2,190,780 had been accounted under Other Revenue which is not a source of revenue generated.
- (e) The value of equipment and accessories purchased for Rs.117,346 in the year under review had not been disclosed in the financial statements.
- (f) The value of the public block of land, “Alawwegama Watte” amounting to Rs.100,000 had not been shown in the financial statements.
- (g) The construction value of the Solid Waste Centre of Rs.3,004,453 had not been shown in the financial statements.

### **1.3.3 Unreconciled Control Accounts**

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The following matters are observed.

- (a) Eight Items of Accounts totalling Rs.1,434,460 were unreconciled with the balances of relevant subsidiary registers.
- (b) According to the financial statements, employee security deposits amounted to Rs.160,038. However, employee security investments had been shown as Rs.157,938.

### **1.3.4 Accounts Receivable and Payable**

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The following matters were observed.

- (a) Accounts Receivable

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The accounts receivable amounting to Rs.24,849,399 as at 31 December 2016 comprised sums of Rs.1,905,136 and Rs.37,302 outstanding for periods between 01 year and 03 years and above 03 years respectively.

- (b) Accounts Payable

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Except for the payment of the value identified as security guarantee deposits out of the balances of accounts payable amounting to Rs.14,798,049 as at 31 December 2016, action had not been taken to pay the other liabilities.

### 1.3.5 Lack of Evidence for Audit

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Detailed schedules, age analyses and survey reports relating to 03 Items of Accounts totalling Rs.8,868,421 had not been made available to audit. As such, a detailed examination on those Items could not be carried out.

### 1.3.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

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The following instances of non-compliance with laws, rules, regulations etc. are observed.

Reference to Laws, Rules and Regulations -----	Non-compliance -----
(a) <u>Tea, Rubber and Coconut Estates (Control of Fragmentation) (Amendment) Act, No. 2 of 1958</u>  Section 23 a(1)	Approval of the Sabha had been granted for 06 plans submitted without the approval of the Board of Control for Fragmentation of Lands for allotment of the coconut land named Kahatagahamula Hena Watte of 12 Acres 3 Roods and 36.2 Perches in extent.
(b) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u>  (i) Financial Regulation 371 (2)	Even though sub-impressts should be settled immediately after the completion of the relevant purpose, 03 sub-impressts of Rs.61,205 had been settled with delays.
(ii) Financial Regulation 571 (2)	Action had not been taken relating to nine deposits amounting to Rs.75,928 lapsed for 02 years.
(c) Pradeshiya Sabha (Financial and Administrative) Rules of 1988 Rule 178 (3)	In renting motor graders, quotations had been obtained from only 4 suppliers.

## 02 Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 had been Rs.10,920,871 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year

amounting to Rs.8,177,503, thus indicating an improvement of Rs.2,743,368 in the financial result.

## **2.2 Analytical Financial Review**

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The increase in revenue from operations by Rs.2,497,244 in the year under review as compared with the preceding year had mainly attributed to the improvement of the financial result.

## **2.3 Revenue Administration**

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### **2.3.1 Performance in Collection of Revenue**

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The accumulated arrears of revenue receivable as at 31 December 2015 amounting to Rs.11,816,401 had increased up to Rs.12,523,845 by 31 December 2016.

### **2.3.2 Rates**

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A sum of Rs.190,744 should have been recoverable as at the end of the year under review including the arrears of rates amounting to Rs.171,278 in the preceding years.

### **2.3.3 Lease Rents**

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A sum of Rs.1,361,798 equivalent to 99 per cent could be recovered out of the billed revenue from lease rent in the year.

## **03. Operating Review**

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### **3.1 Management Inefficiencies**

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The following matters are observed.

- (a) An overpayment of Rs.7,800 had to be made in the purchase of 03 computers in October 2016 with a delay of 07 months despite the possibility of purchasing computers at the rate of Rs.81,900 each, on a decision of the Procurement Committee of 17 March 2016.
- (b) Action had not been taken to recover the employees loan balance amounting to Rs.40,584 on reasons such as transfers/deaths.

### **3.2 Operating Inefficiencies**

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The following matters are observed.

- (a) Even though water and electricity facilities had not been provided, the Sabha had granted approval for the allotment plan undated, relating to the auction of Alawwegama Watte of 02 Acres and 02 Roods in extent.

- (b) The property auctioning company had not purchased the Kahatagahamulahena land located at Moragolla of 12 Acres, 03 Roods and 36.2 perches in extent from the owner and the Secretary had granted approval for 06 allotment plans on the agreement of purchase. Five turning points with a standard diameter of 30 feet of internal roads had not been constructed and provided with electricity and pipe borne water.
- (c) According to the allotment plan, the public utility land should be of 179.6 perches in extent. Nevertheless, only an extent of 170.6 perches had been provided from 05 places located distantly from each other. Moreover, 03 blocks at the extent of 92.15 perches on that public utility land had been allocated from distant points located at the end of the relevant land.

### **3.3 Transactions of Contentious Nature**

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The following matters are observed.

- (a) A sum of Rs.1,031,450 had been paid for the first phase of motor grading 24 selected roads in the area of authority of the Pradeshiya Sabha on an undated estimate without entering into an agreement with a contractor selected improperly. Moreover, the contractor who carried out the first phase had been awarded with the contract of 132 hours of motor grading 14 roads under the second phase as well on an estimate of Rs.462,490.
- (b) According to the Industrial Deposit Schedule of the year under review, a sum of Rs.50,000 not included as at 01 January, had been included as at 31 December 2016, mentioning the date of deposit as 24 January 2014 in that schedule.

### **3.4 Idle/Underutilized Assets**

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The following matters are observed.

- (a) The Cab vehicle bearing Number 53-6111 had remained idle from 19 August 2015.
- (b) The Wannigama library building had remained idle since the year 2015 due to failure in carrying out repairs.
- (c) One hundred and thirty three wire posts received as donations on 31 December 2015, had not been made use of.

### **3.5 Uneconomic Transactions**

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Even though the road in front of the Sabha had been developed in the year 2009 by spending a sum of Rs.3,636,467 and the Economic Centre building valued at Rs.2,000,000 had been constructed in the year 2006 by obtaining loans from the Domestic Loan Development Fund, it had been a fruitless expenditure due to the redevelopment of the road and demolishing and disposal of the building in the year 2014 on Government policies.

### 3.6 Contract Administration

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The following matters are observed.

- (a) Inviting quotations for 07 contracts to the estimated value of Rs.9,002,152 had not been carried out with transparency.
- (b) According to the newspaper advertisements for 04 works valued at Rs.6,177,505 in the year 2016, the competition had been limited by mentioning only “ From registered contractors of the Kobeigane Divisional Secretariat”.
- (c) The works of reconstructing the access road of the solid waste centre to the estimated value of Rs.78,095 had not been implemented.
- (d) The constructions of the well of the solid waste centre had been delayed. As such, liquidated damages of Rs.18,276 recoverable from the contractor had not been recovered according to the agreements.

### 3.7 Solid Waste Management

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The solid waste found in the garbage collected daily, had been disposed of to the environment.

## 04. Good Governance and Accountability

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### 4.1 Budgetary Control

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The following matters are observed.

- (a) The total amount or an approximate amount relating to 14 Objects had been saved in the year 2016.
- (b) Forty three road development projects planned on obtaining public requests, had not been implemented.

## 05. Systems and Control

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Weaknesses in systems and controls revealed during the course of audit by my Audit Queries were brought to the notice of the Chairman of the Pradeshiya Sabha from time to time and special attention is needed in respect of the following areas of systems and controls.

Areas of Systems and Controls	Observations
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(a) Accounting	i. Non-classification of values accurately. ii. Failure in accounting the assets collected in the year.

- iii. Non-reconciliations of balances of accounts with schedules.
  - iv. Non-submission of comparative values for notes for accounts.
  
- (b) Revenue Control Non-recovery of arrears of revenue
  
- (c) Development and Sale of House and Property Failure in taking action according to by laws
  
- (d) Solid Waste Management Unavailability of an arrangement in respect of recyclable waste
  
- (e) Contract Administration
  - i. Non-selection of contractors properly
  - ii. Failure in the recovery of liquidated damages
  - iii. Weakness in physical progress
  
- (f) Assets Control Assets remaining idle.