

Kahatagasdigiliya Pradeshiya Sabha
Anuradhapura District

01. Financial Statements

1.1 Presentation of Financial Statements

Financial statements of the year 2017 had been presented to the Audit on 29 arch 2018 and the report of the Auditor General relating to those financial statements had been sent to the Chairman on 25 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effect 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 Kahatagasdigiliya Pradeshiya Sabha as at 31 December 2017 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

The following matters were observed.

- a) As the interest totalling Rs. 187,635 paid for the loans obtained in the year under review from the Local Loan Development Fund, had not been shown in the Revenue and Expenditure Account, the surplus of the year had been overstated by that amount.
- b) Capital expenses amounting to Rs. 7,770,163 paid after the completion out of the provision received in the year under review under the programme for strengthening the Pradeshiya Sabha, had not been shown as fixed assets in the accounts.
- c) No allocations had been made in the financial statements on audit fees for the year under review.
- d) As the stamp fees of Rs. 865,725 receivable for the year 2015, had been shown as Rs. 496,775 in the accounts, the stamp fees receivable had been understated by a sum of Rs. 368,950.
- e) The sum of Rs. 376,763 paid as an advance, had been recorded as an income when being reimbursed, thus the surplus of the year had been overstated by that amount.
- f) Industrial creditors valued at Rs. 17,222,234 payable as at the end of the year under review, had not been brought to accounts as a capital expense. Accordingly, capital expenses had been understated by that amount.

- g) Industrial debtors valued at Rs. 18,979,754 payable as at the end of the year under review, had not been brought to accounts as capital receipts. Accordingly, capital income had been understated by that amount.
- h) The value of the construction of Pradeshiya Sabha building had been brought to accounts as 34,342,085. Nevertheless, the total contract value thereof amounted to Rs. 35,359,670 thus the lands and buildings had been understated by a sum of Rs. 1,017,585.
- i) The sum of Rs. 57,500 received in the year under review as income from the court fines relating to the period November – December, 2016, had been brought to accounts as income of the year under review.

1.3.2 Unreconciled Accounts

The following matters were observed.

- a) A difference of Rs. 211,026 was observed in the comparison of balances of the schedules furnished with the financial statements relating to 03 Items of Accounts, with the balances of the relevant ledger accounts.
- b) A difference of Rs. 15,083,041 was observed between the balances shown in the balance sheet as at 31 December 2016, and the opening balances of the year under review relating to 37 Items of Accounts.

1.3.3 Accounts Receivable and Payable

Action had not been taken to identify and rectify 02 receivable account balances totalling Rs. 667,094 continued to exist over an extensive period, and a payable account balance of Rs. 108,011.

1.3.4 Lack of Documentary Evidence for Audit

As the required information had not been made available, 03 items of account totalling Rs. 8,790,461 could not be satisfactorily vouched in audit.

1.3.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations, and Management Decisions, are as follows.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
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a) Pradeshiya Sabhas Act, No. 15 of 1987 Section 177	Bylaws had not been made to formulate a scheme for the payment of gratuity to the temporary and casual employees of the Sabha.

b) Pradeshiya Sabha Rules 1988
(Finance and Administration)

(i.) Rule 5.11

An insurance cover had not been obtained for the cash in transit and other valuable of the Sabha.

(ii.) Rule 33

A list containing the names of persons defaulting the payment of Rates, and the warrants for the confiscation of properties, had not been prepared at the end of each quarter.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue in excess of the recurrent expenditure amounted to Rs. 3,694,977 for the year ended 31 December 2017 as compared with the revenue in excess of the recurrent expenditure amounting to Rs. 4,963,457 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Outstanding Revenue

(a) Information submitted regarding the billed revenue, collected revenue and arrears revenue relating to the year under review is shown below.

Source of Revenue	Opening balance as at 01 January 2017	Revenue billed for the year 2017	Revenue Collected in the year 2017		Revenue in Arrears as at 31 December 2017
	Value	Value	2017.01.01 Deficit Value	Of the sum Billed for 2017 Value	Value
	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	559,780	1,310,413	64,275	894,809	911,109
Business Tax	-	600,000	-	737,700	-
Garbage Tax	77,078	385,000	9,000	385,000	68,078
Trade Licenses	-	250,000	-	374,950	-
Hoardings	-	300,000	-	353,000	-
Total	<u>636,858</u>	<u>2,845,413</u>	<u>73,275-</u>	<u>2,745,459</u>	<u>979,187</u>

2.2.2 Rates and Taxes

The following matters were observed.

- a) Out of the Rates in arrears as at the beginning of the year under review amounting to Rs. 559,780, a sum of Rs. 64,275 had been recovered in the year. However, action had not been taken in terms of Section 158 of the Pradeshiya Sabhas Act, No. 15 of 1987 to recover the Rates in arrears totalling Rs. 911,109 by the end of the year.

- b) According to the financial statements, the balance of Rates in arrears amounted to Rs. 637,268 at the beginning of the year, and as per the information furnished by the Secretary of the Sabha, the said balance amounted to Rs. 559,780, thus observing a difference of Rs. 77,488 between the financial statements and the information furnished by the Secretary. However, the Secretary failed to explain the difference.

2.2.3 Court Fines and Stamp Fees

The court fines and stamp fees receivable from the Chief Secretary of the Provincial Council and the other officials amounted to Rs. 1,736,055 and Rs. 287,345 respectively as at 31 December 2017.

2.2.4 Garbage Fees

Of the balance of the garbage fee amounting to Rs. 77,078 at the beginning of the year 2017, only a sum of Rs. 9,000 had been recovered during the year under review whilst a sum of Rs. 68,078 remained further recoverable.

3. Operating Review

3.1 Performance

Matters revealed in the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people in terms of Section 3 of the Pradeshiya Sabhas Act, are as follows.

a) Bylaws

The Sabha should have made bylaws and provided authority as per Section 122 of the Act in order to execute the activities mentioned in Section 126 of the Pradeshiya Sabha Act, No. 15 of 1987. However, the Sabha had not made bylaws even up to 31 December 2017.

b) Action Plan

Sums of Rs. 34.1 million and Rs. 9.6 million on recurrent expenses and capital expenses respectively by the Sabha had become a burden of expenditure for the

Sabha Fund in the year under review. However, an Action Plan had not been prepared to identify the activities to be carried out with such amounts. Furthermore, a performance report had not been prepared to verify the activities to be executed within the year under review.

c) Delays in the Execution of Activities

Provision amounting to Rs. 2,300,000 had been received from the provincial Department of Cultural Affairs for implementing 26 projects at religious shrines with economic hardships, but those projects had not been implemented in the year under review.

d) Environmental Problems

It was stated that the non-degradable waste in the garbage collected by the Sabha, would be disposed of in a pit dug at a land owned by the Government near the Pilisaru project and the pit would be closed with soil monthly. However, people in the vicinity would face health problems during rainy seasons as the pit would become waterlogged thus exposing the waste into the environment whilst being observed that the poisonous gases generated from the burning of non-degradable waste could be detrimental to the environment.

e) Sustainable Development Goals

The Sabha had not become aware of the sustainable development goals of the United Nations. As such, objectives relating to the Sabha, provision required to implement them and the staff, and the other related public institutions, had not been identified.

3.2 Management Inefficiencies

The following matters were observed.

- a) The tourist bungalow that had been renovated by the Puraneguma project and handed over to the Sabha, was not included in the Register of Fixed Assets.
- b) The main cash book, and the register of employee loans, had not been maintained properly. A pencil had been used to make entries.

3.3 Identified Losses

Library books worth Rs. 31,369 had been misplaced, but action had not been taken in terms of Financial Regulation 104 – 109 to eliminate the losses from the book.

4. Accountability and Good Governance

4.1 Budget

As the budget estimates had been prepared without forecasting properly, variances ranging from 43 per cent to 96 per cent were observed between the budgeted revenue and actual revenue relating to 04 items of revenue in the year under review. As such, the budget had not been made use of as an effective instrument of management control.

4.2 Internal Audit

It was observed that the internal audit officer appointed in terms of Paragraph 06 of the Letter, No. 04/2015 of the Commissioner of North Central Local Government, dated 18 March 2015 had not cooperated in formalizing the activities of the Sabha.

4.3 Audit and Management Committee

An Audit and Management Committee had not been established for the year 2017 in terms of the Circular, No. DMA/2009(1) of the Management Audit Department, dated 09 June 2009.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of control.

System -----	Deficiency -----
a) Accounting	Failure to properly identify and account the transactions.
b) Register of Fixed Assets	Failure to maintain in an up-to-date manner.
c) Solid Waste Management	Failure to recycle the solid and non-degradable waste.
d) Accounts Receivable and Payable	Failure to identify and settle the balances continued to exist over an extensive period.
e) Internal Control	(i.) Failure to carry out internal audits properly. (ii.) Meeting of the Audit and Management Committee had not been held properly.