

Kalpitiya Pradeshiya Sabha

Puttalam District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been submitted to Audit on 29 March 2018 and the Auditor General's Report relating to those Financial Statements had been sent to the Chairman on 30 October 2018.

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 Kalpitiya 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) Only the expenditure on building constructions amounting to Rs.78,089,770 had been brought to account by the Sabha instead of accounting the assessed value of lands and buildings.
- (b) Assets valued at Rs.265,500 donated by the Sabha had not been eliminated from accounts of assets.
- (c) The stock of library books valued at Rs.340,996 purchased in the year under review had not been brought to account as fixed assets.
- (d) The pre-school office room at Daluwa constructed by spending a sum of Rs.557,977 had not been brought to account as fixed assets.
- (e) Provisions had not been made in the financial statements for expenses payable amounting to Rs.273,589 relating to the year under review.

1.3.2 Unreconciled Accounts

A difference of Rs.2,527,396 had existed between the values according to financial statements and relevant schedules relating to 08 Items of Accounts.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

Action had not been taken to recover 09 receivable accounts amounting to Rs.115,571,695 which remained as at 31 December 2017.

(b) Accounts Payable

Action had not been taken to settle 08 payable accounts amounting to Rs.66,214,118 remained as at 31 December 2017.

1.3.4 Lack of Documentary Evidence for Audit

Six Items of Accounts totalling Rs.244,040,377 could not be satisfactorily vouched in Audit due to failure in producing necessary information.

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

Instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
(a) Pradeshiya Sabha Act, No.15 of 1987		

Sections (b) and (f) of 129(2) and Sections 150(4) and 158	17,129,000	Steps had not been taken to recover rates and taxes, acreage tax, lease rent and licence fees.
(b) Pradeshiya Sabha Rules of 1988 (Finance and Administration)		

(i) Rule 5(7)		An internal audit had not been carried out on transactions relating to finance and stores.
(ii) Rule 10(4)		Revenue registers of sub-offices of the Sabha had not been maintained in an updated manner.

(iii) Rule 69	A Register on taxes for sale of lands had not been maintained in terms of specimen P.S 26
(iv) Rule 217	Details of all lands and buildings belonging to the Sabha had not been recorded in a register of specimen P.S.46.
(v) Rule 218	Annual surveys had not been conducted on lands and buildings belonging to the Sabha.
(c) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	685,859 Deposits lapsed for 02 years had not been taken to the revenue of the Sabha.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2017 had been Rs.20,987,905 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.23,079,818.

2.2 Financial Control

An erroneous value of Rs.17,907 had been recorded as the balance in hand in the monthly bank reconciliation statements of the bank current account of the Sabha.

2.3. Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears of Revenue

Details on estimated revenue, billed revenue collected revenue and arrears of revenue submitted relating to the year under review and the preceding year are given below.

Source of Revenue	<u>2017</u>				<u>2016</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.000'	Rs .000'	Rs.000'	Rs.000'	Rs.000'	Rs .000'	Rs .000'	Rs .000'
(i) Rates and Taxes	1,664	1,890	577	10,201	1,698	1,842	1,767	8,888
(ii) Rents	12,139	8,737	8,076	6,865	19,892	10,627	11,780	6,204
(iii) Licence fees	3,800	1,693	1,693	63	3,720	2,402	2,410	63
(iv) Other revenue	26,873	6,106	6,106	97	76,007	5,732	5,732	97

Note :- The collected revenue comprised of collections from billed revenue for the year and collections from arrears of revenue in the preceding years.

2.3.2 Performance in the Collection of Revenue

Only a sum of Rs.16 million had been collected out of Rs.33 million including the billed revenue for the year under review and arrears of revenue in the preceding years. The arrears of Rs.15 million as at the end of the preceding year had been Rs.16 million as at the end of the year under review.

2.3.3 Rates and Taxes

Only a sum of Rs.546,750 equivalent to 06 per cent of Rs.10,278,209 which was the billing for the year under review and the balance in arrears of the preceding year had been collected. A sum of Rs.437,350 from 27 units of rates exceeding Rs.10,000 had not been recovered and rates had not been recovered on a temporary assessment of new constructions.

2.3.4 Rents

A sum of Rs.8,076,477 had been collected out of Rs.14,952,479 including the billed revenue for the year under review and the arrears of revenue in the preceding years. The balance in arrears of Rs.6,204,276 as at the end of the preceding year had been Rs.6,865,906.

2.3.5 Licence Fees

Balances in arrears of Rs.62,985 relating to the period from the year 1980 to the year 2010 from 87 business premises had not been recovered.

2.3.6 Other Revenue

Water connections had been supplied to nearly 200 houses and business premises by the Water Project of the Sabha and in the recovery of water charges, sums of Rs.30 and Rs.75 had been billed respectively for a house and business premise without considering the number of units consumed. Consumers who had not paid water charges during the period of 12 preceding years were observed and arrears of water charges amounting to Rs.361,713 should have been recovered as at 31 December 2017, are as follows.

3. Operating Review

3.1 Performance

In terms of Section 3 of the Pradeshiya Sabha Act, the matters revealed in respect of the performance of functions of the Sabha such as 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 within the area.

(a) By Laws

Even though By Laws should have been enacted for executing 30 key functions in terms of Section 126 of the Pradeshiya Sabhas Act, By Laws had been enacted only for 14 functions by 31 December 2017.

(b) Action Plan

An Annual Action Plan had been prepared for the functions which should have been executed by the Sabha according to By Laws enacted while progress reports had not been prepared.

(c) Failure in making Provisions

According to the Annual Action Plan prepared, provisions had not been made for 16 out of 42 functions.

(d) Solid Waste Management

The following matters were observed.

- (i) Out of 07 tons of waste collected daily from the area of authority of the Sabha, about 03 tons are transported to the compost yard and the remaining waste was being disposed of to a vacant land without classifying.
- (ii) As three phase electricity had not been supplied to the Waste Management Centre, the machines that waste crusher machine could not be operated.

(e) Sustainable Development Goals

Activities such as construction of office premises and proper placement of officers, providing equipment and facilities required for the office, development of road systems, waste management, commencement of tree planting programmes and programmes such as protecting mangroves and protecting the coastline had been carried out according to the goals and targets to be achieved in terms of the 2030 “Agenda for Sustainable Development” of the United Nations. However, the targets and progress thereof had not been examined.

3.2 Management Inefficiencies

The following matters were observed.

- (a) The **inventories** had not been maintained in an updated manner and issue of stocks had been carried out without proper recommendations and approval.

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- (b) The total monthly billing of the Sabha water project amounted to Rs.3,860 and the monthly electricity bill of the water pumphouse had been ranging from Rs.20,530 to Rs.30,561. Non-issue of bills according to the number of water units consumed, had resulted in the decrease in revenue.
- (c) Even though it had been reported that 365 three wheelers are parked in 15 three wheeler parks located in the area of authority of the Sabha, the Sabha had not taken action to recover parking charges.
- (d) Even though billing should be carried out by identifying the businesses existing in the area of authority of the Sabha, the annual billing had been carried out by taking only the revenue into consideration.
- (e) Action had not been taken to pay a sum of Rs.1,968,085 payable to the Local Government Service Pensions Fund by 31 December 2017.
- (f) No files whatsoever had been maintained by the Sabha for 27 telephone communication towers located in the area of authority of the Sabha. Moreover, in terms of Schedule V of the Gazette Extraordinary No.1597/8 dated 17 April 2009, processing charges, for issue of Certificates of Conformity and service charges relating to the said towers had not been recovered.
- (g) Action had not been taken to get back or to recover losses relating to 115 flag posts given to external parties out of 464 flag posts received to the Sabha from the Ministry of Local Government and Provincial Councils.

3.3 Human Resources Management

(a) Approved and Actual Cadre

According to the approved and actual cadre of the Sabha as at 31 December 2017, vacancies in the post of Secretary of Executive Grade, 08 and 12 posts respectively in Secondary and Primary Levels existed. Moreover, there had been an excess in 31 posts in Primary Level on casual/substitute basis.

(b) Recoverable Staff Loans

Action had not been taken over a period of 03 years to recover loan balances amounting to Rs.349,295 of 59 retired, vacated the post and deceased employees.

3.4 Assets Management

3.4.1 Idle and Underutilized Assets

The following matters were observed.

- (a) The upper floor of the Norochcholai Public Library constructed by spending a sum of approximately Rs.18 million had remained completely idle.
- (b) Electricity facilities required for waste crusher machines received in the years 2016 and 2017 had not been available and as such, those machines remained idle.
- (c) Five motor vehicles of the Norochcholai Sub-office premises and the Waste Management Centre had remained without being used for a period ranging from 01 year to 05 years.
- (d) Certain office equipment of the Norochcholai Sub-office which was limited to two employees, had remained idle.

3.4.2 Identified Losses

According to the physical verification carried out relating to several **stock items**, a deficit of goods valued at Rs.49,438 existed.

4. Accountability and Good Governance

4.1 Internal Audit

An internal audit had not been carried out relating to financial and operating affairs of the Sabha.

5. Systems and Controls

The deficiencies in systems and controls revealed during the course of audit were brought to the notice of the Pradeshiya Sabha from time to time and special attention is needed in the following areas of systems and controls.

System	Deficiency
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(a) Control of Fixed Assets	(i) A Register of Fixed Assets had not been maintained in an updated manner. (ii) Lands and buildings had not been surveyed annually.

(b) Revenue Administration	Failure in taking action to recover arrears of revenue
(c) Maintenance of Registers	Non-maintenane of subsisiary registers
(d) Debtors/Creditors Control	Failure in taking action to settle debtors/creditors balances
(e) Internal Audit	Non-identification of the requirement of internal audit.