

Kuruwita Pradeshiya Sabha

Ratnapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented to audit on 14 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman of the Sabha on 07 June 2018.

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 Kuruwita 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) The interest on fixed deposits relating to the year under review amounting to Rs.1,652,055 had been credited to the accumulated fund without crediting to the revenue account and as such the revenue of the year had been understated by similar amount.
- (b) Receivables for work executed during the year under review on the provisions of Provincial Councils and Decentralized provisions and payables to the contractors totalling Rs.99,203,300 had not been brought to account as debtors and creditors.
- (c) Furniture and fittings and library books which were recommended to dispose by the Boards of Survey Report in the year under review totalling Rs.11,734 had been adjusted to the accounts balance before dispose of those.
- (d) Fixed assets totalling Rs.359,000 purchased during the year under review had not been capitalized.
- (e) Ayurveda grants amounting to Rs.85,500 had been brought to account as Rs.185,500 and as such the revenue for the year and ayurvedic drugs stock as at 31 December 2017 had been over stated by Rs.100,000.

- (f) A sum of Rs.16,250 received to pay for the Public Health Inspectors from the Magistrate Courts had been entered as court fines receipts. As such the court fines recoverable had been understated by similar amount.
- (g) Rates and taxes received in advance amounting to Rs.298,332 in respect of the year 2018 had been brought to account as revenue for the year under review and as such the revenue for the year had been overstated by similar amount.
- (h) Sums totalling Rs.290,480 paid in March 2018 relating to the year under review had not been brought to account and as such the expenditure for the year under review and the balance of the creditors as at 31 December 2017 had been understated by similar amount.

1.3.2 Unreconciled Accounts

The following matters were observed.

- (a) There was a difference of Rs.22,059,770 between the balances relating to 07 items of accounts as at the end of the year under review according to the financial statements and the balances according to the subsidiary registers.
- (b) A difference totalling Rs.23,488,355 was shown between the values of 06 items of revenue in the financial statements and the values shown in the records relating to that.
- (c) In comparing the values relating to the preceding year shown comparatively in the financial statements of the year under review and the values shown in the financial statements of the preceding year, a difference totalling Rs.32,570,886 had shown in respect of 08 items of accounts.
- (d) Even though, the balance of Local Loans Development Fund as at 31 December 2017 shown under non-current liabilities in the statement of financial position amounted to Rs.44,875, such a balance was not shown according to the loan particulars furnished to audit.
- (e) The balance of the Asian Development Bank Loan Fund as at 31 December 2017 had been shown as Rs.9,435,811 according to the financial statements. But, according to the loan particulars furnished for audit the loan balance payable amounted to Rs.9,046,211. Thus observed a difference of Rs.389,600.

1.3.3 Accounts Payable

According to the Creditors Register, the balance of the total creditors relating to the period from the year 2011 to 2016 amounted to Rs.7,886,701.

1.3.4 Lack of written Evidence for Audit

Eight items of accounts totalling Rs.158,436,971 could not be satisfactorily vouched in audit due to non-submission of required information.

1.3.5 Non-compliances

----- 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) 1988 Pradeshiya Sabha (Financial and Administration) Rules ----- Rule 204	11,350	Action had not been taken even by November 2017 on shortages of 11 units of goods revealed by the Report of the Annual Boards of Survey as at 31 December 2016.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. -----		
(i) Financial Regulation 371(2)(c)	3,090,069	Action had not been taken to settle the advances granted during the period from the year 2009 to 2016.
(ii) Financial Regulation 571	11,530,994	Action had not been taken on lapsed deposits relating to the period from the year 2001 to 2014.
(c) Guideline 8.12.1 (b) of the Procurement Guidelines	264,000	The payments had been made to a private institution without the recommendation of the Technical Evaluation Committee, that the computers purchased were in accordance with due specifications.

2. Financial 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 2017 amounted to Rs.3,298,073 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.23,301,090.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue

The information with regard to the estimated revenue, billed revenue, collected revenue and the arrears of revenue furnished for the year under review and for the preceding year appears below.

Source of Revenue	2017				2016			
	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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	2,313,624	3,551,623	4,222,649	3,854,219	2,419,591	1,830,205	1,599,919	4,556,262
Lease Rent	7,345,665	6,608,828	6,626,857	2,598,147	6,413,436	3,182,256	6,416,818	1,908,571
Licence Fees	1,773,000	2,643,275	2,636,040	-	1,451,100	2,179,154	2,179,154	-
Other Revenue	41,701,040	38,762,500	21,345,725	40,027,736	18,230,482	38,068,035	29,512,346	23,356,188

2.2.2 Performance in Collection of Revenue

A comparison of the estimated revenue of the year under review with the revenue collected showed an increase with regard to revenue items such as rates and taxes, licence fees, service charges, warrant charges and fines and other revenue by 82 per cent, 49 per cent, 02 per cent, 68 per cent and 49 per cent respectively and the revenue collected from the revenue item of lease rent had decreased by 10 per cent as compared with the estimated revenue.

2.2.3 Rates and Taxes

(a) Rates

The arrears of rates and taxes as at 31 December 2017 amounted to Rs.3,499,200 and it included a sum of Rs.2,293,068 recoverable from 377 units remained brought forward for over 05 years. Action of the Sabha to recover arrears had been at a weak level.

(b) Acreage Tax

It was failed to recover acreage tax as at 31 December 2017 amounting to Rs.4,099,057 even by the end of the year under review.

2.2.4 Lease Rent

Due to non-recovery of lease rent even from the commencing of 05 trade stalls of the new trading complex which given on lease basis in the year 2009, those trade stalls had been sealed and vested with the Sabha on 30 July 2014. The approval of the subject Minister had been sought to writeoff the arrears of lease rent of trade stalls and fines recoverable totalling Rs.4,436,000 by stating that no possibility to initiate legal actions as the agreements had not been entered with the lessees.

2.2.5 Licence Fees

The following matters were observed.

- (a) An annual survey had not been carried out to identify the places from which to be recovered industries tax, business tax and business licence fees situated within the authoritative area of the Sabha.
- (b) As the 14 business places of which to be renewed the environment protection licences during the years 2016 and 2017 in accordance with the National Environment Act No,47 of 1980 as amended by the Acts No.56 of 1988 and No.53 of 2000 and the Regulations imposed thereto had not renewed the licences, a sum of Rs.61,600 had been deprived by the Sabha while an evaluation on the environmental effect in maintaining said industries had not been carried out periodically.

2.2.6 Other Revenue

The Sabha had failed to recover of revenue receivable from 02 permanent advertisement hoardings displayed in the authoritative area of the Sabha totalling Rs.90,000.

2.2.7 Stamp Fees

The following matters were observed.

- (a) The revenue of stamp fees amounting to Rs.822,151 recoverable from the Land Registry, Avissawella relating to the period from January to March of the year under review had not been recovered even by March 2018.
- (b) Action had not been taken to identify and recover the stamp fees revenue recoverable from the Land Registry of Ratnapura and Land Registry of Horana for the year under review and for the preceding year.

3. Operating Review

3.1 Sustainable Development Goals

As the Sabha had not known the 2030 Agenda relating to the Sustainable Development Goals, the long term plans had not been prepared to upgrade the livelihood and health of the people of the authoritative area of the Sabha through global indicators for that objectives even by May 2018.

3.2 Management Inefficiencies

The balance in 02 current accounts maintained as collection accounts in respect of 02 sub offices of the Sabha had remained idle for over a long period. The total of above 2 accounts had been Rs.3,884,521 as at 31 August 2017.

3.3 Operating Inefficiencies

The following matters were observed.

- (a) The Sabha had not revealed the sale of 82 blocks of lands which total extent of 2.6 hectares within the authoritative area of the Sabha even by 14 December 2017. According to the particulars obtained from the website of the respective property sale company, 33 blocks of lands had been sold and finalized. Nevertheless, the recovery of 01 per cent of revenue to the Sabha from the sale of the land blocks in terms of the Section 154(1) of the Pradeshiya Sabha Act No.15 of 1987 had remained in doubt.
- (b) Action had not been taken to allocate and vesting the land to the Sabha for common purposes in extent of 102 perches out of the block out land in terms of Directive 22 of the Directives of Plans and Buildings of 1986 of the Urban Development Authority published by the Extra-ordinary Gazette No.392/9 dated 10 March 1986 as amended by the Extra-ordinary Gazette No.935/6 of the Democratic Socialist Republic of Sri Lanka dated 06 August 1996.
- (c) A tube well had been constructed by a resident near by in the land block of 184.7 perches which had been vested to the Sabha for common purposes in the land sales of Parakaduwa, Isuru Pedesa, Paradisewatta and utilized it personally. The Sabha had not paid adequate attention in respect of the security of that land block and to utilize that for expected objectives.
- (d) A revenue amounting to Rs.764,444 had been deprived by the Sabha due to recovery of tax less than the due amount in respect of 03 land sales carried out in the preceding year. The Sabha had failed to recover respective arrears of revenue even by March 2018 and had not been paid attention to initiate legal action in terms of Section 154(2) of the Act.

3.4 Assets Management

Non-recording of Assets

The property, plant and equipment of the Sabha had not been recorded in the Registers properly.

3.5 Procurements

3.5.1 Procurement Plan

A Procurement Plan had not been prepared by the Sabha for the year under review.

3.5.2 Contract Administration

The following matters were observed.

- (a) The Nadukaradeniya by road which developed by laying concrete had not been constructed properly and as such it was flooded from the rain water. The Sabha had developed that, again by laying concrete as a remedial action. A drain had not been constructed in a manner of flowing water from the right side of the road and as such the entire road was flooded further from the rain water. Accordingly, the objective of the development of the road by laying concrete was not achieved and the expenditure totalling Rs.247,815 had become a fruitless expenditure.
- (b) Even though, the Parakaduwa, Alupona, Welyaya Road had been concreted by incurring a sum of Rs.1,981,740 during the year under review, the action had not been taken to remove the electric posts fixed in the both sides of the road before developed the road and fixed those again, without any hindrance for the road and as such the objective of widening the road was not executed. Similarly, the rain water had collected in the road and it was a hindrance for the transport as the road concreting had not been done in a manner to flow out the rain water.
- (c) The common deficiencies observed in the physical examination carried out on the projects of developing the roads by laying concrete carried out by the Sabha are given below.
 - (i) In constructions of the roads, the edges of the road should be constructed with deploying soil/ gravel and should be compacted. Nevertheless, the edges of any of the roads subjected to the audit test check had not been compacted by deploying soil/ gravel.
 - (ii) As the concrete had not been laid on the roads with due standard as per the nature of the base of the roads and nature of the soil, the concrete layers laid on the roads had cracked as the pressure could not be borne by the concrete layer in the transportation of vehicles.
 - (iii) A methodology to check whether the due compressibility strength had with the concrete which laid on the roads had not been prepared.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters were observed.

- (a) The entire provisions totalling Rs.2,347,300 made for 12 Objects in the year under review had been saved.
- (b) Out of the total provisions of Rs.420,000 made for 02 Objects in the year under review, 99 per cent had been saved.

4.2 Internal Audit

The internal audit for the year under review and for the preceding year had not been carried out.

4.3 Audit and Management Committees

Action had not been taken to establish and implement the audit and Management Committees.

5. Systems and Controls

The 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 controls.

System

Deficiency

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|----------------------------|--|
| (a) Accounting | (i) Non-reconciliations between the values of the financial statements and the values of the records. |
| | (ii) Non-reconciliation of the ledger accounts and subsidiary registers. |
| | (iii) Non-reconciliations of the comparative values of the preceding year shown in the financial statements. |
| | (iv) Omissions in the accounts. |
| | (v) Non-availability of evidence to confirm. |
| (b) Assets Management | Non-recording of assets. |
| (c) Revenue Administration | (i) Failure to identify due revenue. |
| | (ii) Non-recovery of Revenue. |
| (d) Projects/ Contracts | Non- availability of adequate supervision. |