

**Kalpitiya Pradeshiya Sabha
Puttalam District**

1. Financial Statements

1.1 Presenting Financial Statements

The financial statements for the year 2019 were submitted for audit on 02 March 2020 and the Auditor General's summary report on those financial statements was also submitted on 30 June 2020, the detailed management report was also sent to the Chairman on 11 August 2020.

1.2 Qualified Opinion

Except for the implications of the facts described in the Foundation section for the qualified opinion of this report I am of the view that the financial statements, as well as the financial position of the Kalpitiya Pradeheeya Sabha as at 31 December 2019 and It is my opinion that its financial performance reflects a true and fair position in accordance with generally accepted accounting principles.

1.3 The basis for the Qualified Opinion

(A) Accounting Deficiencies

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|-----------------------------------|--|
| The interest amount of Rs.710,992 due for 132 days of the year under review had not been accounted for the fixed deposit of Rs.20 million invested in Bank of Ceylon. | Should be properly accounted for. | As the interest, due on the deposit amounting to Rs.710,992 for the year up to 31st December 2019 has been neglected for the year 2019, therefore, I would like to inform you that it will be fixed this year. |

(B) Unreconciled Accounts

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|--|--|
| The total number of discrepancies between Schedule submitted for 08 Accounting Subjects, Balances by Utility Books and Balance by Financial Statements the balance sheet and the financial statements was Rs.2,098,788. | Action should be taken to correct the accounts by comparing the changes in the balances. | I kindly inform you that we will work to correct those changes in the year 2020. |

(c) Accounts Receivable and Payable

| ----- Audit Observation ----- | ----- Recommendation ----- | ----- Comments of the Accounting Officer ----- |
|---|---|--|
| (i) The total of 09 account balances due as at 31 December 2019 was Rs.124,613,031 out of which the balance due over 05 years was Rs.10,799,670. | Action should be taken to recover the amount due expeditiously. | I would like to inform you that prompt action will be taken to recover the arrears and those which cannot be recovered will be deducted on approval. |
| (ii) The total of 08 account balances as at 31 December 2019 was out of payable Rs.92,299,220 which Rs.7,442,826 was an outstanding balance exceeding 05 years. | Action should be taken to settle the expenses expeditiously | I would like to inform you that action will be taken to obtain the details of the amount due to the Pension Fund and to pay the amount due to the Inland Revenue Department in installments. |

(D) Lack of written evidence required for audit

| ----- Audit Observation ----- | ----- Recommendation ----- | ----- Comments of the Accounting Officer ----- |
|---|---|---|
| Due to non-submission of required information, 07 account subjects amounting to Rs.618,262,514 could not be examined satisfactorily during the audit. | Written evidence confirming the balance of accounts in the financial statements should to be required to produce. | I would like to inform you that action will be taken to submit the documents prepared in accordance with the prescribed format and the deed of transfer of lands etc. |

1.4 Non-compliance

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

The following are the instances of non-compliance with laws, rules and regulations.

| Reference to Laws, Rules, Regulations and Management Decisions | Non-compliance | Recommendation | Comments of the Accounting Officer |
|--|---|--|--|
| <u>(A) Pradeshiya Sabha Act No. 15 of 1987</u> | | | |
| (i) Section 129 (2) (e) | Steps had not been taken to obtain the rent and shop rent due to the Pradeshiya Sabha in a proper manner. | The relevant rules should be followed. | I would like to inform you that the officers have been instructed to take necessary legal action to recover the rent and shop rent. |
| (ii) Section 136 | No action had been taken to recover the assessment and acre tax revenue bill relating to the leased or rented property belonging to the Saba area. | The relevant rules should be followed | I accept. I would like to inform you that the Valuation Department has also carried out an assessment of the properties owned by the Saba and has taken necessary steps to recover the rate tax from the lessees who have leased the property. |
| (iii) Section 158 | No action had been taken to recover the arrears by banning the movable and immovable property of the tax payers to recover the rate and acre tax arrears. | The relevant rules should be followed. | I accept. At present the officer in charge of the subject has been instructed to take necessary action in accordance with the relevant rules. |

(B) 1988 Pradeshiya
Saba (Finance and
Administration) Rules

- | | | | |
|------------------|--|--|---|
| (i) Rule No. 33 | Property Prohibition Warrants had not been prepared at the end of each quarter. | Urgent action should be taken in accordance with the relevant rules. | Property restraining warrants are required to be prepared and submitted at the end of a quarter. |
| (ii) Rule No. 65 | A list of defaulters had not prepared at the end of the period allowed for payments. | Urgent action should be taken in accordance with the relevant rules. | I accept. Early in 2019 A list of defaulters has been submitted to the House instructing the officers in charge of the relevant divisions to act in accordance with the financial rules in the year 2019. |

(C) Financial
Regulations of the
Democratic Socialist
Republic of Sri Lanka

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|---------------------------------------|--|---|---|
| (i) Financial Regulations 371 (d) | No action had been taken to settle the advance of Rs.229,658 obtained during the period from 1989 to 2007. | Should comply with Financial Regulations. | If there are any advances that can be recovered, I will inform that I will act on the recommendations of the committee to recover them or settle within that period and if the advances are not properly duly recorded. |
| (ii) Financial Regulations 571 (2) | The amount of Rs.458,857 had not been dealt with in respect of overdue deposits | Should be act according to the Financial Regulations. | All Societies and Depositors who do not submit their notices within 14 days after giving written notice to the Contract Societies have been instructed to credit the fund in accordance with FR 571. |

(iii) Financial Regulations 1646

Original of daily running charts and monthly summaries of vehicles owned by the Sabha in the year 2019 had not been submitted to the Auditor General. Financial Regulations should be followed.

I accept. The officer in charge of the subject has been instructed to submit the originals of the running charts to the Auditor General in future.

2. Financial Review

2.1. Financial Results

According to the financial statements submitted, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2019 was Rs.26,362,687 and corresponding to the revenue exceeding recurrent expenditure of the previous year was Rs.35,068,615.

2.2 Revenue Administration

2.2.1 Estimated Income, Billed Income, Accumulated Income and Deficit Income

Following is the information on the estimated revenue, billing income, accumulated revenue and arrears submitted by the Pradeshiya Sabha for the year under review and for the previous year.

| Source of income | YEAR 2019 | | | | YEAR 2018 | | | |
|------------------|------------------|---------------|-------------------|---------------------------------|------------------|---------------|-------------------|---------------------------------|
| | Estimated income | Billed income | Revenue collected | Total deficit as at 31 December | Estimated income | Billed income | Revenue collected | Total deficit as at 31 December |
| | Rs..000 | Rs.. 000 | Rs .000 | Rs.000 | Rs .000 | Rs.000 | Rs.000 | Rs..000 |
| Rate and Taxes | 1,168 | 1,831 | 720 | 11,622 | 2,225 | 3,204 | 1,739 | 10,521 |
| Lease Rent | 12,014 | 9,468 | 9,493 | 7,154 | 10,968 | 10,056 | 8,643 | 7,179 |
| License fees | 2,200 | 1,719 | 1,736 | 43 | 4,136 | 2,607 | 2,607 | 60 |
| Other revenues | 105,121 | 93,992 | 55,546 | 41,411 | 96,116 | 91,566 | 48,143 | 43,424 |
| | 120,503 | 107,010 | 67,495 | 60,230 | 113,445 | 107,433 | 61,132 | 61,184 |

- * Collected income includes income collected from billed income for the year and income collected from arrears.

2.2.2 Revenue Collection performance

| Audit Observation ----- | Recommendation ----- | Comment of the Accounting Officer ----- |
|--|---|---|
| The total billed income for the year under review was Rs.107,010,699 and the deficit at the beginning of the year under review was Rs.61,184,871 while the billed income and arrears for the year was Rs.67,495,765. Accordingly, the progress of total revenue collection during the year was about 40 percent. | Action should be taken to recover the annual billed income within the year. | According to the survey, 50 percent of the arrears of assessment tax will be recovered this year and according to the survey, action will be taken to recover the acreage tax and to modernize and properly operate the drainage pipe system. |

2.2.3 Rates and Taxes

| Audit Observation ----- | Recommendation ----- | Comment of the Accounting Officer ----- |
|--|--|---|
| According to the utility documents, the assessment tax deficit at the end of the year under review was Rs.10,208,256, of which Rs.3,999,130 was more than 01 year and less than 5 years and Rs.5,168,617 over 5 years. | Action should be taken to recover the revenue due expeditiously. | After 20 years, due to the rapid increase in the valuation value of lands due to the revision of the assessment in 2010, due to the problematic situation that has arisen due to the increase in the assessment tax, action is being taken to recover the arrears of rates tax in installments. |

2.2.4 Acre Tax

| Audit Observation ----- | Recommendation ----- | Comments of the Accounting Officer ----- |
|---|--|--|
| According to the utility documents, there was an acreage tax arrears of Rs.914,168 due to the land owners as at 31 December of the year under | Documents should be kept up to date and action should be taken to recover revenue. | So far, a team has been appointed to conduct this acre tax survey and it has been instructed to collect the acre tax |

review and out of that amount Rs.506,555 was for more than 05 years and Rs.407,613 for a period of 01 to 05 years.

along with the arrears.

2.2.5 Rent

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|--|--|---|
| ----- | ----- | ----- |
| According to the utility documents, the total arrears of shop rent and rent as at 31 December of the year under review was Rs.7,154,484 out of which Rs.4,643,995 was over 5 years and Rs.1,530,689 was applicable for a period of 01 to 05 years. | Action should be taken to recover the revenue due expeditiously. | Shop rental assessments were carried out and instructed to recover arrears before entering new agreements. I would like to inform you that the butcher shop is unable to collect rent or take legal action. |

2.2.6 License fees

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|---|--|---|
| ----- | ----- | ----- |
| From 1980 to 2010, outstanding trade license fees of Rs.42,735 due from 61 places of business had not been collected. | It should be emphasized that it is the responsibility of the relevant officials to recover the trade licenses in a timely manner | As the arrears are not being recovered, they have been submitted to the North Western Provincial Commissioner for approval to be written off. |

2.2.7 Court Fines and Stamp Duty

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|---|---|--|
| ----- | ----- | ----- |
| The stamp duty due from the Chief Secretary of the Provincial Council as at 31 December 2019 was Rs.28,149,051 and the court fines were Rs.7,050,203. | Action should be taken to recover the court fines and stamp duty due expeditiously. | The North Western Provincial Revenue Department has been informed to obtain court fines and stamp duty and the balance confirmation letters have already been received. 12 million has been received so far from the stamp duty due. |

3. Operational review

3.1 Performance

Following are the facts revealed under Section 3 of the Pradeshiya Sabha Act regarding the regulation and control of matters relating to public health, public utility services and public roads, and the performance of the duties of the Sabha l which were to be performed by the wellbeing, convenience and welfare of the people.

(A) By-laws

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|---|--|
| ----- | ----- | ----- |
| Under Section 126 of the Pradeshiya Sabha Act, in addition to the 42 by-laws passed by the Local Government Institutions, the Sabha had embraced 12 new by-laws and submitted a proposed by-law for approval. | Action should be taken to embrace the relevant by-laws. | I agree. After obtaining the approval for the by-law prepared by the Sabha, it was gazette and the Department of Local Government has requested the Sri Lanka Institute of Local Government to provide the necessary support for the preparation of further by-laws. |

(B) Sustainable Development Goals

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|---|--|---|
| ----- | ----- | ----- |
| The Sustainable Development Goals 2030 "United Nations Sustainable Development Agenda 2030" the goals and objectives were identified and complied during the year under review. | Plans need to be implemented to achieve the Sustainable Development Goals. | Provisions have been made to achieve the objectives and it has been included in the activities of the sectoral plans. |

3.2 Management Inefficiencies

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|--|-----------------------------|--|
| ----- | ----- | ----- |
| (A) By-law had not been imposed to levy entertainment tax. | A by-law should be imposed. | Submitted to the Hon. Governor for approval. I |

(B) Although Rs.1,992,035 had to be paid as a contribution to the Local Government Services Pension Fund by 31 December 2019, the Sabha had not acted to pay that amount.

The value to be paid should be identified and the payment to the pension fund should be made expeditiously.

would like to inform you that after receiving the relevant approval, the order to impose the tax will be published in the Gazette.

Although a sum of Rs.1,992,035 should be paid as a contribution to the pension fund the letter dated 13.05.2019 has requested for information in this regard. It has also been submitted to the General Meeting held on 11.06.2019 to make necessary arrangements to pay these arrears.

(C) Out of 464 flagpoles provided by the Ministry of Provincial Councils and Local Government, 115 flagpoles amounting to Rs.147,344 had been handed over to external parties in previous years and no action had been taken to recover those flagpoles or their value in cash. In 2017, 31 flagpoles were lost and in 2018, 62 flagpoles were missing and no action had been taken.

Disappearances should be dealt with legally and assets should be protected.

Although 115 flagpoles given to Members of the Sabha and others could not be recovered as there was no relevant information I will inform you that action will be taken to recover 25 percent of the value of the pillars and the government fee from the store keeper in respect of the 93 flagpoles that were lost in 2017 and 2018.

(D) A fine of Rs.1,477,252 had been imposed on the Sabha for non-payment of VAT due to the Inland Revenue Department.

Those responsible for non-payment of VAT should be consulted and action should be taken to pay the tax levied by the government.

After discussions with the relevant institution, the Secretary of the Council has informed that necessary steps will be taken to reduce the fines and that the VAT will be paid in installments before the end of the year 2020. Accordingly, the relevant taxes will be paid before the end of this year without penalty.

3.3 Human Resource Management

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|--|--|
| ----- | ----- | ----- |
| (A) The post of Secretary to the Sabha had been vacant for many years and there were 04 vacancies for Secondary Grade Officers and 06 vacancies for Primary Grade Officers. | Action should be taken to fill the vacancies properly. | The post of Secretary the Sabha has been vacant for many years and while the second grade officer has been referred to recruit for the vacancies and recruitments will be made by the North Western Provincial Council Public Service Commission. I further inform that recruitment has been made for 06 vacancies in the Primary Grade posts. |

(B) Employee Loans Receivable

| | | |
|---|---|--|
| The total outstanding employee loan balance due as on 31 December 2019 was Rs.6,435,113, out of this, the loan balance of Rs.120,244 due from 54 retired, left the service and deceased employees has been in arrears for more than 5 years and no action has been taken to recover it. | Action should be taken to recover the amount due expeditiously and legal action should be taken against those who are unable to recover the amount. | Retired and officers who have left the service officers have been notified in writing but all but a few have been unable to be notified due to change of residence and recovery of debts of deceased employees has been a problem due to lack of any record. |
|---|---|--|

3.4 Operational Inefficiencies

| Audit Observation | Recommendation | Comments of the Accounting Officer |
|---|---------------------------------------|---|
| ----- | ----- | ----- |
| (A) The Sabha had failed to provide services to the clients in a timely manner regarding the complaints received regarding dangerous trees. | The relevant rules should be followed | Necessary steps have been taken to avoid delays in the duties notified by the audit from the year 2020. |
| (B) Registration of Community Based Organizations in the Sabha area, the assets and | The rules should be followed. | The Sabha has recommended not to give the approval of the Sabha for the construction, |

liabilities of those organizations should be supervised by the Sabha but no evidence of such supervision has been submitted. out of 22 community based organizations in the area, only 06 were registered with the Sabha.

extension and maintenance of drinking water projects in Community Based Organizations which are not yet registered the officer in charge of the subject has been instructed to issue annual licenses to the relevant water projects after registration and to take further action regarding the decision to be taken over by the Sabha through a proposal to the General Meeting to supervise their assets and liabilities.

(C) Documentation of the type of lamps currently installed on each road in the area, in terms of watts, had not been completed and the records had not been maintained using the prescribed forms for the retrieval of unused items during the repair of street lights and the return of unusable discarded accessories.

Documentation should be expedited.

All street lights installed in the council area are being numbered and registered and I would like to inform you that it will be completed soon.

3.5 Asset Management

3.5.1 Failure to document assets

Audit Observation

According to the board of survey report, no action was taken to remove the destroyed and sold goods from the inventory and accounts.

Recommendation

Inventory records should be kept up to date.

Comment of the Accounting Officer

I agree. According to the Annual Board of Survey Report, the goods were not auctioned off as no one offered to pay the estimated bid price. Therefore, those items have not been removed from the inventory and accounts, only the destroyed items have been removed from

the inventory. According to the survey report conducted this year, action will be taken to remove the relevant items from the inventory.

3.5.2 Failure to Ensure Security of Assets

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|--|---|--|
| ----- | ----- | ----- |
| The projector in the care of the storekeeper of the Sabha had gone missing and no action had been taken. | Action should be taken to recover the relevant losses from the responsible officials. | The projector owned by the Sabha has been taken to a program by the Community Development Division and has gone missing. The Head of the Division of the Community Development Division has been informed to pay the value of the machine and the relevant 25% government fee. If not, I will inform you that action will be taken to recover from her salary. |

3.5.3 Non-Acquired Assets

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|--|---|--|
| ----- | ----- | ----- |
| Sixty properties (lands and buildings) owned by the Kalpitiya Pradeshiya Sabha including shopping complex, weekly fairs, public playgrounds, children's parks, pre-schools, libraries, cemeteries, bus stands, public toilets and community halls had not been taken over. | Relevant acquisitions should be made expeditiously. | A detailed report has been sent to the Land Commissioner General's Office for the acquisition of lands with Sabha owned buildings which have not been taken over by the Sabha so far and the North Western Local Government Department has inquired into the matter and sent action to the relevant institution. |

4. Accountability and Good Governance

4.1 Internal Audit

| Audit Observation | Recommendation | Comment of the Accounting Officer |
|---|--|---|
| ----- | ----- | ----- |
| Adequate internal audits of the Sabha finances and operations were not carried out. | Internal audit should be strengthened and implemented. | A written order has been issued to conduct the internal audit of the Sabha as per the instructions given in the future. |