

## **Kegalle Pradeshiya Sabha**

### **Kegalle District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 30 March 2015 while Financial Statements relating to the preceding year had been submitted on 31 March 2014. The Auditor General's Report relating to the year under review was sent to the Secretary to the Sabha on 03 August 2015.

##### **1.2 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 Kegalle Pradeshiya Sabha as at 31 December 2014 and its financial performance for the year then ended in accordance with Public Sector Accounting Standards of Sri Lanka.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Deficiencies**

Following matters are observed.

- (a) A sum of Rs. 193,399 payable to the Local Government Pension Fund in respect of the year 2013 and prior years had been accounted as expenditure for the year under review. Due to that, surplus for the year under review had been understated in a sum of Rs.193,399 in the financial statements.
- (b) Stamp Fees Preparation Allowance payable amounting to Rs. 20,425 for the for the period from August to December of the year 2013 had been accounted as an expenditure of the year under review. Due to that, surplus for the year under review had been understated in a sum 20,425.
- (c) The value of balance of materials and equipment amounting to Rs. 1,768,024 as at 31 December of the year under review had not been included in the financial statements. Due to that, surplus for the year under review and value

of Stock as at the end of the year had been understated at a rate of Rs. 1,768,024.

- (d) The value of 196 amounting to Rs. 31,696 received as donations relevant to three libraries belong to the Sabha had not been capitalized. Due to that, value of Fixed Assets and balance of the Contribution from Revenue to Capital Outlay Account as at the end of the year under review had been understated at a rate of Rs.31,696.
- (e) Provision for Creditors had not been made in respect of expenditure amounting to Rs.252,072 relevant to three Works completed as at 31 December of the year under review. Due to that, surplus for the year under review had been overstated in a sum of Rs.252,072 and the value of Creditors as at the end of the year had been understated to that extent.
- (f) Capital Grants amounting to Rs. 148,013,505 received from other institutions for carrying out 975 Works under 09 sources of funds during the year under review and Capital Expenditure incurred amounting to Rs. 146,306,954 spent out of that had been accounted as Receipts of Deposits and Payments of Deposits. Due to that, surplus for the year under review had been understated in a sum 1,706,551 in the financial statements.
- (g) The value of 22 books included in the reference registers in the two Public Libraries at Moradana and Moronthota had not been computed and accounted.
- (h) The value of Thalawela Cemetery amounting to Rs. 10,000 included in the Register of Fixed Assets had been accounted as Rs. 1,000. Due to that, value of Fixed Assets had been understated in a sum 9,000.
- (i) The value of the cab vehicle amounting to Rs. 625,000 belongs to the Sabha and the value of the cab vehicle amounting to Rs. 6,390,000 received from the Ministry of Local Government and Provincial Councils had not been accounted. Due to that, value of Fixed Assets had been understated in a sum 7,015,000.

### **1.3.2 Non-reconciled Control Accounts**

Ten items of Lands and Buildings valued at Rs. 9,485,760 shown in the Account remained un-reconciled with the schedules given in the Statement of Accounts due to non-recording those in the Register of Fixed Assets.

### **1.3.3 Accounts Receivable and Payable**

- (a) While the value of Accounts Receivable as at 31 December 2014 amounted to Rs. 21,788,106, out of that a sum of Rs.791,582 had been old more than a year.
- (b) While the value of Accounts Payable as at 31 December 2014 amounted to Rs. 1,506,161, out of that a sum of Rs.398,223 had been old more than a year.

### **1.3.4 Non-compliance with Laws, Rules and Regulations**

Non-compliance with the following laws, rules, regulations and management decisions were observed in audit.

<b><u>Reference to Laws, Rules, Regulations and Management Decisions</u></b>	<b><u>Non-compliance</u></b>
(a.) <u>Financial Regulations of the Republic of Sri Lanka</u> F.R. 571	- Action had not been taken to settle a sum of Rs.1,035,809 deposited in 113 instances. From 2008 to year 2012
(b.) <u>Code of Financial Rules of the Sabaragamuwa Provincial Council Rule</u> 261.2. 2	- A Travelling Advance of Rs.25,000 obtained during the year 2005 had not been settled even up to the end of the year under review.

(c.) Circular No. 2005/4 dated 01 June 2005

of Local Government

- (i.) Clauses ii and iii - Advance of 1% to be obtained based on the temporary assessment obtained relating to the selling price of blocks of land before approving the blocking out plans had not been obtained.
- (ii.) Clause iv - An agreement had not been entered into with the land seller.

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha I for the year ended 31 December 2014 amounted to Rs. 17,525,581 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 16,077,745. Accordingly, an improvement of Rs. 1,447,836 was observed in the financial results for the year under review.

### 2.2 Revenue Administration

#### 2.2.1 Performance of Collection of Revenue

Information on the estimated revenue actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is shown below.

Source of Revenue	Arrears as at 01.01.2014	Recoveries out of Arrears as at 31.12.2014	Billings during the year	Recoveries out of billings for the year	Recoveries out of arrears as at 01.01.2014	Out of billings for the year	Total Arrears
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
(i) Rates and Taxes	362,689	95,416	598,072	447,702	267,273	150,370	417,643
(ii) Lease Rent	114,137	52,971	230,137	159,648	194,372	70,489	131,655

When above statement of revenue in arrears is compared with the final account, following differences were observed.

	<b>Balance According to Statement of Revenue in Arrears</b>	<b>Balance according to Financial Statements</b>
	----- Rs. 000	----- Rs. 000
Rates in Arrears	417,643	256,198
Other Revenue in Arrears	131,655	21,078,765

### **2.2.2 Trade License Fees**

- (a) Action had not been taken to recover Trade License Fees amounting to Rs.7,150 to be recovered from 13 trading entities which had been carrying on during the year 2014.
- (b) Although 1% tax should be recovered on the basis of turnover during the preceding year from two hotels registered in the Tourism Promotion Board of Sri Lanka, taxes had been recovered on the basis of the declarations made by managers of the hotels.

### **2.2.3 Court Fines and Stamp Fees**

Court Fines and Stamp Fees amounting to Rs. 18,675,303 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014.

## **3. Operating Review**

### **3.1 Management Inefficiencies**

Following matters are observed.

- (a) Action had not been taken to get the ownership of 09 vehicles valued at Rs. 8,922,450, provided through the Sabaragamuwa Provincial Council transferred in favor of the Pradeshiya Sabha.

- (b) While course of action taken with regard to 15 unauthorized construction out of 36, identified through the petitions received at the Pradeshiya Sabha during the years 2013 and 2014 were not furnished to audit, follow up had not been made to ensure that the orders given by the Sabha with regard to 16 unauthorized constructions were complied with.
- (c) Action had not been taken to recover overpaid salaries mounting to Rs. 49,938 due to erroneous calculation of no pay leave of 06 Sabha employees.
- (d) Although a land in extent of 10 acres out of the Moronthota, Haalmessa, Lunugalawatta land had been purchased for sum of Rs. 4 million during the year 2014 on approval of the Sabaragamuwa Chief Minister for a solid waste management project, assessment of the Government Valuer had been Rs. 3 million. Accordingly Rs. 1 million had been over paid.

### **3.2 Sub-divisions of Lands**

Following matters are observed.

- (a) Plans for blocking out lands in extent of 13 acres 02 rude 22.67 perches had been approved through the Pradeshiya, although the Institute of Building Research had approved 08 Acres 01 Rude 8.41 perches in two instances. While extra land in extent of 05 acres 01 rude 14, 26 perches had been approved due to that, action had not been taken to ensure compliance with the requirements laid down in the instruction leaflet issued by the Institute of Building Research when approving those blocking out plans.
- (b) Although it was required to concrete the drain systems and culverts where necessary according to the instructions of the Sabha, provide three phase electricity for all roads, construct a fence around the portion of land vested in the Sabha etc. according to the instructions issued by the Sabha on 12 November 2014 when approving the relevant blocking out plan for sale of a land in extent of 10 acres and 19 perches, those works had not been performed even up to the time of audit in January 2015. However, sale of 90% blocks of lands had been finalized by that time.

### **3.3 Idle and Under-utilized Assets**

- (a) Value of non-moving assets during a period of more than one year as at 31 December 2014 amounted to Rs.504,440.
- (b) Three items of Assets valued at Rs.1,051,050 belong to the Sabha had remained idle during a period from 03 to 08 years.

## **4. Accountability and Good Governance**

### **4.1 Budgetary Control**

Out of the provisions made available in the Budget furnished for the year under review, a total provision of Rs. 12,573,761 being 100% provisions for 14 items of work totalling to Rs.5,438,000 and provisions between 50% and 99% for 13 items of work totalling Rs. 7,135,761 had not been utilized for Sabha activities.

### **4.2 Audit Queries not resolved and not replied**

While replies had not been submitted to 02 audit queries as at 23 June 2015, value of transactions subject to those queries amounted to Rs.2,176,330.

## **5. Systems and Controls**

Special attention of the Sabha is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Internal Control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Debtors and Creditors Control