

**Ududumbara Pradeshiya Sabha**

**Kandy District**

**1. Financial Statements**

**1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 16 April 2014 and the financial statements for the preceding year had been presented on 23 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 16 January 2015.

**1.2. Opinion**

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Ududumbara Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations for the year then ended.

**1.3. Comments on Financial Statements**

**1.3.1. Accounting Policies**

The trade licence fees, rents and three-wheeler charges, had been brought to account on cash basis.

**1.3.2. Accounting Deficiencies**

The following matters are observed.

- (a) The Pradeshiya Sabha had not been registered for Value Added Tax, but Value Added Tax amounting to Rs.106,281 had been charged by the Sabha while issuing the environment licence fees.
- (b) The water pipes accessories amounting to Rs.28,500 and stationary amounting to Rs.252,194 had been purchased during the year under review, and the total expenditure had been brought to account as an expenditure of the year, without following the stores advance accounting system.

- (c) The leased properties income received in advance as at 31 December of the year under review amounted to Rs.313,000, and it had been brought to account as Rs.276,000, understating the amount by Rs.37,000.
- (d) Though the pension in arrears of the year under review had been indicated as Rs.599,677 according to the returns submitted by the Department of Pension, this arrears had been brought to account as Rs.589,488 in the balance sheet as at 31 December 2013. Therefore the amount had been understated by Rs.10,189.
- (e) Though the ownership had not been vested with the Sabha, 04 vehicles valued at Rs.2,051,250 had been shown in the vehicles and carts account of the year under review.

### **1.3.3. Un-reconciled Control Accounts**

According to the control account, the total balances relevant to 04 items of accounts amounted to Rs.1,692,402, whilst the total balances according to the relevant registers and schedules amounted to Rs.1,709,038. Therefore a difference of Rs.16,636 was observed.

### **1.3.4. Accounts Receivable and Payable**

#### **a) Accounts Receivable**

The value of total balances of accounts receivable as at 31 December 2013 amounted to Rs.16,552,056 and out of this, the balances exceeding a period of 01 year, amounted to Rs.3,492,754.

#### **b) Accounts Payable**

The value of total balances of accounts payable as at 31 December 2013 amounted to Rs.14,122,158, and out of this, the balances exceeding a period of 01 year, amounted to Rs.1,855,614.

### **1.3.5. Non-compliance with Laws, Rules and Regulations**

The following instances of non-compliance with laws, rules and regulations were observed.

#### **Reference to Laws, Rules and Regulations**

#### **Non-compliance**

(a) Pradeshiya Sabha Act

No. 15 of 1987

(i) Sections 158

The total balance of arrears relevant to rates and taxes, acre taxes and water charges in the previous years, as at 31 December of the year under review amounted to Rs.1,363,001. But Action had not been taken, against the persons who evade payments, as stipulated in the referred regulations.

(ii) Sections 159

Though the balance of stall rent in arrears amounted to Rs.498,630, action had not been taken against the persons who evade payments, as stipulated in the referred regulations.

(b) F.R. 571 of Financial Regulations of the Republic of Sri Lanka

Action had not been taken to settle or take suitable action regarding the deposits amounting to Rs.77,586, relevant to years 2009 and 2012,.

## **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 2013 amounted to Rs.1,230,230, as compared with the excess of revenue over recurrent expenditure amounting Rs.177,932 for the preceding year. Therefore the financial result had been improved by Rs.1,052,298.

### **2.2. Analytical Financial Review**

Though the amount paid as salaries and allowances by the Sabha during the year under review amounted to Rs.9,316,099, only a sum of Rs.9,042,615 of this had been reimbursed. But the remaining salary reimbursement in arrears amounting to Rs.273,484 had not been shown as accounts receivable.

### 2.3. **Working Capital Management**

The ratio between total current assets and current liabilities was 1.18:1, and it was 1.02:1 in the preceding year. Therefore it was observed that these ratios were not in a superior level.

### 2.4. **Revenue Administration**

#### 2.4.1. **Performance on Revenue Collection**

##### **Estimated Revenue, Actual Revenue and Revenue in Arrears**

The information with respect to Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review, submitted by the Chairman are indicated below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	163	96	328
(ii) Lease Rents	1,377	1,290	503
(iii) Licence Fees	825	816	---
(iv) Other Income	3,880	4,831	3,507

#### 2.4.2. **Rates and Taxes**

The arrears at the beginning of the year under review amounted to Rs.117,679 and the amount billed for the year was Rs.77,618. The percentage of collections during the year had been, 84% out of the arrears, and 30.2% out of the amount billed, respectively, whilst the balance to be collected as at end of the year under review amounted to Rs.149,736.

#### 2.4.3. **Trade Licence Fees**

Since cash basis had been adopted in accounting, the arrears at the beginning or end of the year had not been disclosed.

#### 2.4.4. **Water Charges**

The arrears at the beginning of the year under review had been Rs.673,897 and the amount billed during the year amounted to Rs.718,827. Out of these, the collections during the year had been Rs.187,692 and Rs.70,410 respectively, and the relevant percentage of collection had been 27.8% and 23.7% respectively. The amount to be collected as at the end of the year under review was Rs.1,034,622 and out of this balance Rs.544,352 was further due as at 31 December 2014.

#### **2.4.5. Acres Taxes**

The opening balance of the arrears of the year under review amounted to Rs.168,600 and the amount billed during the year was Rs.12,252. Since the collections out of these income were Rs.557 and Rs.1,556 respectively, it was observed that the collection of taxes was in an extremely weak state.

### **3. Operating Review**

#### **3.1. Management Inefficiencies**

The following matters are observed.

- (a) A debt amounting to Rs.89,000 relevant to supplies and services provided without obtaining security deposits, had continued to remain unrecovered, and action had not been taken to recover this amount.
- (b) Action had not been taken to prepare an annual income and expenditure account, and a statement presenting cumulative cost benefits, for the Duplo Printing Machine and Tipper Truck (CP LH – 4778) purchased and deployed for business purposes.
- (c) 15 in number transmission facilities had been provided through 09 transmission towers, constructed by 05 communication companies without authority, over a period of 03 to 05 years. But proper action had not been taken regarding this unauthorised constructions even as at 21 November 2013.
- (d) Shortages of 674 items of which the value not mentioned; relevant to 78 items of furniture and fixing, and plant and machinery; and shortages of 356 library books valued at Rs.39,965; had been identified during the annual goods verification of 2012 and 2013. Action had not been taken, either to recover from the officers responsible for these shortages or to adopt proper action regarding these shortages.

### **3.2. Operating Inefficiencies**

The following matters are observed.

- (a) The reports had not been obtained after conducting a prior survey on billing with respect to the trade licence fees, rents and three-wheeler charges relevant to the year under review.
- (b) Water connections had been provided to 387 locations through 03 water projects owned by the Sabha and of this, water metres had not been fixed for 170 locations. Therefore the water management and earning of income by the Sabha had been in a weak state.
- (c) The business taxes amounting to Rs.30,000 had not been collected for the period from 2011 to 2013, for the Transmission Towers installed in 06 locations, by 06 communication companies.
- (d) Total of 05 vehicles, including 04 vehicles valued at Rs.2,051,250 and one vehicle of which the value not mentioned, had not been taken over by the Sabha.
- (e) The water bowser bearing registration number T-39305-11-TTI of which the value not mentioned, had been received from the Department of Local Government on 29 March 2012, and action had not been taken to register the vehicle even as at 18 September 2014.
- (f) Annual revenue licences had not been obtained for 18 vehicles of the Sabha.

### **3.3. Idle and Underutilized Assets**

It was observed that, a vehicle of which the value cannot be identified, and 10 vehicles valued at Rs.4,808,495 had been kept idling for one year or a period of above that, whilst 02 vehicles valued at Rs.297,000 had been underutilised.

### **3.4. Contract Administration**

The following matters are observed.

- (a) The concreting of the surface of Koswatta Road in the Kiripattiya Grama Sewaka division should be 04 inches in thickness, and the concrete mixture should be 1:2:4 ( $\frac{3}{4}$ ""). But the physical inspections carried out on this on 06 instances, revealed that the road had been constructed with the thickness of 3  $\frac{1}{2}$ ", 3 $\frac{1}{4}$ " and 3". Therefore the road had not been constructed in accordance with the estimated specifications.
- (b) According to the Item of Work No. 02 of the estimate relevant to the development of the road from Bambaranda Road to Panniyamale, the concreting of the surface of the road should be 05 inches in thickness, and the concrete mixture should be 1:2:4 ( $\frac{3}{4}$ ""). But the physical inspections carried out on this, the thickness had been 3 $\frac{1}{2}$ " and 4 $\frac{1}{4}$ ". Therefore the road had not been constructed in accordance with the estimated specifications.
- (c) According to the Item of Work No. 02 of the estimate relevant to the development of the road from Wevala to School, the Road should be constructed with concrete of 05 inches in thickness, using the 1:2:4 ( $\frac{3}{4}$ "") concrete mixture. But according to the physical inspection carried out on this, the thickness had been 3 $\frac{1}{2}$ " and 3". Therefore the road had not been constructed in accordance with the estimated specifications.

### **3.5. Delay in Projects**

The following matters are observed.

- (a) Mediwaka, Pallewela water project had been started around the year 2008 and the construction work had been continued till 2011 spending a sum of Rs.1,618,000 during the same period, and work in this project had been stopped abruptly, projecting a requirement of further funds amounting to over Rs.4,000,000 to complete the project. As at present, the installations of the project had been exposed to corrosion and decaying.
- (b) Madugalla Community Water Project, had been started in the year 2011, at a cost of Rs.5,201,067, and action had not been taken till 30 June 2014, to make it operational and provide benefits to the public.

### **3.6. Personnel Management**

There had been 59 appointments in the approved cadre, and 28 out of this had been vacant. 13 employees had been recruited on casual basis, without taking action to fill these vacancies.

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

### **4.1. Corporate Plan**

A corporate plan had not been prepared for the Sabha in the year under review.

### **4.2. Procurement Plan**

Though capital expenditure of Rs.11,826,925 had been incurred by the Sabha during the year under review, a procurement plan had not been prepared for that.

### **4.3. Action Plan**

An action plan had not been prepared for the year under review.

### **4.4. Audit and Management Committees**

Action had not been taken during the year under review, to appoint Audit and Management Committee Members and hold committee meetings.

### **3.7. Internal Audit**

Adequate internal audit had not been carried out by the Sabha during the year under review.

## **5. Systems and Controls**

Special attention 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
- f) Stocks Control
- g) Contract Administration