

Udapalatha 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 01 April 2014 and the financial statements for the preceding year had been presented on 27 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 23 December 2014.

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 Udapalatha 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. Non-compliance with the Accounting Standards

The following matters are observed.

(a) Though it had been disclosed in the accounts that the accrual basis had been used during the preparation of accounts, except for 07 items of income, the cash basis had been used in other items of income.

(b) A sum of Rs.11,771,277, invested in fixed deposits for a period exceeding one year, had been shown under current assets without complying with accounting standards.

1.3.2. Accounting Deficiencies

The following deficiencies are observed.

(a) When the money received in the year 2013, for the works debtors balances in the year 2012, action had not been taken to adjust and settle the funds received separately according to the funding sources. This had been set-off against each other and the balance amounting to Rs.12,869 had been adjusted through Journal Entry (Cash) No.95.

- (b) The income amounting to Rs.179,852 received prior to 31 December 2013, had been recorded in the final account as Rs,155,618.

1.3.3. Un-reconciled Control Accounts

The following matters are observed.

- (a) When the balance in the rates and taxes in arrears account and the pension contributions in arrears account, was compared with the schedules, a difference amounting to Rs.124,353 was revealed. Further, when the rates and taxes income in arrears account, was compared with the rates and taxes register, a difference amounting to Rs.20,000 was disclosed.
- (b) Though the value of plant and machinery schedule presented with the financial statements as at 31 December in the year under review was Rs.3,729,753, its correct total had been Rs.5,937,303. Therefore a difference of Rs.2,207,550 was observed.
- (c) Though 23 items relevant to 08 items of plant and machinery, not entered in the registers had been identified during the annual goods verification, this had not been brought to account in the year under review.

1.3.4. Accounts Receivable and Payable

The following observations are made.

a) Accounts Receivable

The total balances of accounts receivable as at 31 December 2013 amounted to Rs.37,323,558 and out of this, total balances of accounts exceeding a period of 01 year, amounted to Rs.5,834,384.

b) Accounts Payable

The value of total balances of accounts payable as at 31 December 2013 amounted to Rs.27,956,878, and out of this, balances over one year amounted to Rs.4,662,361. Out of this balance, Rs.4,404,824 was further payable as at 31 December 2014.

1.3.5. Lack of Evidence for Audit

Transactions totalling Rs.123,815,209 with relevant to 06 items of accounts, presented in financial statements, could not be examined satisfactorily during the audit, due to non-submission of required information to audit.

1.3.6. 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) Gazette Notification No. 1787 dated 30 November 2012 of the Republic of Sri Lanka	Action had not been taken to collect the fees, amounting to Rs.243,975 for the hoardings, located within the area under the authority of the Sabha.
(b) The Gazette Extra-ordinary Notification No. 1533/16 dated 25 January 2008, issued in accordance with the National Environmental Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and 53 of 2000, and the regulations promulgated under the Act, and the Gazette Notification dated 30 November 2012.	64 works, categorised as the works which should obtain environmental licences to operate within the area under authority, had not obtained the environmental licences.

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.23,911,697, as compared with the excess of revenue over recurrent expenditure amounting Rs.20,364,073 for the preceding year. Therefore the financial result had been improved by Rs.3,547,624.

2.2. **Analytical Financial Review**

The following matters are observed.

- (a) During the year under review, the rates and taxes income had been increased by 58% and income from service charges had been increased by 82%. But against above, there had been increase in; supplies and equipment expenditure by 47%, transport; communication, utility and service charges by 33%; aid, contributions, and subsidies expenditure by 30%; and decrease in capital aid by 34%. Therefore the surplus for the year under review had been decreased by 38%.
- (b) Though a sum of Rs.18,820,800 had been received from Central Provincial Council as the salary reimbursement of the permanent staff for the year under review, the expenditure in the year had been Rs.17,938,801. Therefore there had been a saving amounting to Rs.881,999 out of the salary reimbursement. Since it had not been settled, this factor had also contributed to increase in the surplus.

2.3. **Working Capital Management**

The ratio between total current assets and current liabilities was 2.3:1, and in comparison it was 3:1 in the preceding year. The Acid Ratio was 2.1:1 excluding the value of stocks, and in comparison, it was 2.8:1 in the preceding year. Therefore it was observed that the liquidity position of the Sabha was not in a safe position.

2.4. **Revenue Administration**

2.4.1. **Rates and Taxes**

The arrears at the beginning of the year under review amounted to Rs.1,533,411 and the billed amount for the year was Rs.1,283,597. Therefore the percentage of collections during the year had been, 21% out of the arrears, 48% out of the amount billed, respectively. The balance to be collected as at 31 December 2013 amounted to Rs.1,831,329 and action had not been taken in accordance with Article 158 of the Pradeshiya Sabha Act No. 15 of 1987, to recover the arrears of Rs.689,374 further due even as at 30 September 2014.

2.4.2. Lease Rent

The balance of arrears as at 31 December 2013 amounted to Rs.58,728 and the amount billed during the year under review was Rs.2,950. Out of this, the collection during the year was 0%, whilst the arrears as at the end of the year was Rs.61,678. Out of this balance, Rs.36,825 was further due as at 30 September 2014, and the Sabha had not taken legal action to recover this arrears.

2.4.3. Water Charges

The arrears at the beginning of the year under review had been Rs.1,607,507 and the amount billed during the year amounted to Rs.500,250. Out of these, the collections during the year had been Rs.147,804 and Rs.96,504 respectively, and the relevant percentage of collections had been 9% and 19% respectively. The arrears as at the end of the year was Rs.1,863,449, and a proper procedure had not been followed to recover this money.

2.4.4. Stall Rentals

The rent not paid with respect to stalls owned by the Sabha, as at the beginning of the year under review amounted to Rs.446,789, and the amount billed for the year was Rs.2,305,628. Out of this, the arrears as at the end of the year under review had been Rs.554,225. Out of this balance, Rs.460,710 was further due as at 30 September 2014.

2.4.5. Acres Taxes

The opening balance of the arrears of the year under review amounted to Rs.108,765 and the amount billed during the year was Rs.58,787. Since the collections of this income was Rs.62,157 and Rs.31,668 respectively, the arrears as at the end of the year under review had been Rs.73,728. Out of this balance, Rs.22,698 was further due as at 30 September 2014.

2.4.6. Transmission Tower Charges

Though 17 transmission towers constructed within the area under the authority of the Sabha, during the period from 2008 to 2010, had been identified, proper attention had not been paid to promulgate Bylaws with respect to these, and collect the income for the Sabha. Therefore the Sabha had been deprived an income of over Rs.1,650,000 from installation charges and income of over Rs.102,000 from annual licence fees.

2.4.7. Other Income

Though 05 hotels and guest houses located within the area under the authority of the Sabha, and registered in the Tourist Board had been identified, only Rs.492,274 had been collected as licence fees in the year 2013. Since the licence fees had not been collected after computing the fees correctly, as stipulated in Section 149 of the Pradeshiya Sabha Act No. 15 of 1987, the Sabha had been deprived of an income which should have been earned.

3. Operating Review

3.1. Management Inefficiencies

The following matters are observed.

- (a) An excessive amount of cash, in excess of the liquidity requirement had continued to be kept in the current account. Therefore Sabha had been deprived of an interest income, which should have been earned.
- (b) Water connections had been provided to 529 consumer locations on standard water charges basis, without water metres. Therefore income which could be earned by the Sabha had been limited.
- (c) It was observed during the audit, that the water projects implemented and operated by the Sabha, had been supplying drinking water to the general public, completely disregarding the responsibility of the Sabha, by operating without proper health safety and plan, and without studying and monitoring. The water charges due from water project operated in this manner as at 31 December 2013 amounted to Rs.1,863,449, and the answers given by the Chairman further revealed that, a substantial amount with faulty billings and erroneous entries are included in this.
- (d) Persons recruited on casual basis had been deployed as drivers and engaged in vehicle driving.
- (e) There had been 25 posts of the cadre vacancies in the Sabha, whilst excess of 02 posts of Development Officers existed.

3.2. Operating Inefficiencies

The following matters are observed.

- (a) Action had not been taken to settle the house rent deposits of 12 houses, amounting to Rs.28,224, collected by Udupussellawa Sub Office for several years.
- (b) Annual survey had not been carried out during the year under review to identify the businesses operating within the area under the authority of the Sabha. Therefore the trade licences had been issued only to 1212 organizations, and when it is compared with 1525 in the previous year, it is a decrease of 21%.
- (c) Action had not been taken to recover distress loans amounting to Rs.61,100 due from 03 members of the staff.
- (d) Though the Motor Cab bearing number CPPB-7657 had met with an accident causing a damage of Rs.460,385, a proper investigation had not been carried out regarding the matter.
- (e) Though the Motor Car bearing number 301-9057 had met with an accident causing a damage of Rs.105,455, action had not been taken to recover the amount and repair the vehicle.
- (f) 06 instances of unauthorised constructions had been reported to the Sabha in the year 2013. The Sabha had not taken follow-up action till July 2014, because the Field Officers had not submitted the relevant reports.

3.3. Idle and Underutilized Assets

06 items of assets of which value cannot be identified had been remained idle and underutilised, for a long period of time, as at the end of the year under review.

3.4. Contract Administration

The following matters are observed.

- (a) 07 roads selected on sample basis were subjected to physical examination, and it was revealed that, Technical Officer had certified payments totalling Rs.1,691,184 for items which had not been carried out as per estimates and specifications given in the estimate.
- (b) There were roads laid with interlocking concrete blocks, and payment for quality testing reports of interlocking concrete blocks in 05 roads, totalling to Rs.26,000 had been certified at the rate of Rs.5,200. But the relevant reports were not submitted for the audit.

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.44,288,502 had been incurred by the Sabha, a procurement plan had not been prepared for the year under review.

4.3. Action Plan

An action plan had not been prepared by the Sabha in the year under review.

4.4. Audit and Management Committees

Audit and Management Committee meetings had not been held, as Audit and Management Committees had not been established during the year under review.

4.5. Internal Audit

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

4.6. Budgetary Control

When the estimated revenue and expenditure in the budget prepared for the year under review was compared with the actual revenue and expenditure, variances in the range of, 13% to 142% in respect of 08 items of revenue, and variances in the range of 15% to 76% in respect of 06 items of expenditure were observed. Therefore it was observed during the audit that the budget had not been made use of as an effective tool of control.

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