

Kundasale Pradeshiya Sabha  
Kandy District

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1. Financial Statements

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1.1 Presentation of Financial Statements

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Financial statements for the year 2017 had been submitted to audit on 29 March 2018 and the report of the Auditor General on the said Financial Statements were sent to the Chairman on 02 July 2018.

1.2 Qualified opinion

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In my opinion, except for the effects of the matters described in the paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kundasale Pradeshiya Sabha as at 31 December 2017, and of its financial performance for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on the financial statements

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1.3.1 Accounting deficiencies

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The following accounting deficiencies were observed in the audit.

- (a) Actions had not been taken to estimate and take into accounts regarding lands 1.044 hectares in extent and 16 lands which had not been measured and assigned to the kundasale pradeshiya sabha by the Pallekale Janasavigama Housing Project.
- (b) The value of a tractor trailer that belongs to the council had not been estimated and taken into accounts.
- (c) Water industry inventory valued at Rs. 4,837,105 which had not been physically available in the stocks as at 31 December of the year under review had been included in the financial statements.
- (d) Twenty six tons of Compost fertilizer valued at of Rs. 130,000 which had remained as at 31 December of the year under review had not been taken into accounts.
- (e) The value of constructions amounting to Rs. 3,574,595 which had been incurred on development of land and buildings in the year under review had not been capitalized.
- (f) The value of the library books purchased in the year under review had been overstated in the accounts by Rs. 23,887.
- (g) The interest relating to the year under review and the receivable interest amounting to Rs. 1,006,849 regarding the fixed deposit in Peoples Bank had not been taken into accounts.

- (h) Machinery and furniture valued at Rs. 4,379,100 which had been purchased in the year under review had not been taken into accounts.
- (i) A sum of Rs. 3,827,160 paid for the bills relating to extension of compost plant yard had been included in the advances unsettled during the year under review amounting to Rs. 7,928,837.
- (j) Court fines of Rs. 711,498 receivable as at 31 December of the year under review had not been taken into accounts as debtors.
- (k) A sum of Rs. 45,000 which should be paid for a Diploma Course during the year under review had been understated in the accounts.
- (l) Tax on garbage amounting to Rs. 478,700 of which had been written off in the year under review had not been removed from the accounts.
- (m) A separate account had not been prepared for income and expenditure of the project Aluthwaththa Compost Yard which is implemented under an agreement between Kundasale and Pathadumbara Pradeshiya Sabha's and it had been debited and credited to the income and expenditure account of the Sabha.

#### 1.3.2 Contingent liabilities

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Although 15 cases had been filed against the sabha regarding Building construction, Prohibition of unauthorized constructions and roads relating to awarding of tenders in Moragahapitiya Shopping Complex, it had not been disclosed in the accounts.

#### 1.3.3 Unreconciled Accounts

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A difference of Rs 73,541,203 was observed between the balances shown in financial statements regarding 6 accounting items valued at Rs. 121,917,551 and the balances shown in supporting documents.

#### 1.3.4 Suspense Account

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A debit balance of Rs. 15,219 was remained as at 31 December of the year under review by crediting Rs. 20 to the debit balance of Rs. 15,239 of the suspense account shown in the financial statements as at the end of the previous year. Although a sum of Rs. 143 had been debited to the balance of the suspense account in the previous year, actions had not been taken to rectify the balance.

### 1.3.5 Receivable and Payable Accounts

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The following observations were made.

#### (a) Receivable accounts

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- (i) A total value of balances of two receivable accounts was Rs. 16,143,706 as at the end of the year under review and the said balance had exceeded a period of one year.
  - (ii) An outstanding lease rent of Rs. 82,607 which should be recovered from 12 ground floor stalls and 10 first floor stalls of the Manikhinna Public Shopping Complex, and an outstanding lease rent of Rs. 273,080 which should be recovered from 29 stalls of Manikhinna New Shopping complex and a sum of Rs. 62,780 which should be recovered from 3 stalls near the Manikhinna bus depot had remained to be recovered as at 31 December of the year under review.
  - (iii) A sum of Rs. 379,379 had remained to be recovered from 86 stalls in Digana Ranawiru Street as at 15 December 2017.

#### (b) Payable Accounts

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The total value of 4 payable account balances as at 31 December of the year under review was Rs. 88,489,658 and out of that, the total of the account balances which had exceeded a period of one year was Rs.64,044,492.

### 1.3.6 Lack of written evidence for audit

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Transactions valued at Rs. 21,924,075 could not be satisfactorily verified in the audit due to failure in providing the necessary information.

### 1.3.7 Non-compliance

#### 1.3.7.1 Non-compliances with Laws, Rules Regulations and Management Decisions

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Instances of non-compliance with Laws, Rules Regulations and Management Decisions are mentioned below.

<b>Reference to Laws, Rules Regulations and Management Decisions</b>	<b>Value</b>	<b>Non-Compliance</b>
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	<b>Rs.</b>	
(ආ) Pradeshiya Sabha Act No. 15 of 1987		
(i) Section 132 (a)	110,000 24,570	(i) Expenses had been incurred for the construction of the pandol of the Building Ceremony of Digana Sports Complex, for “Daruwan Surakimu” national Project and for the Land Deeds Distribution Program of Mahaweli Authority without the approval of the Minister in charge.
(i) Section 149	14,462,640	A receivable income had been lost to the Sabha Fund due to recovering revenue based on a report provided by the hotel when calculating the tax of one percent which is recovered from the tourist hotels that are registered at the Tourist Board.
(ii) Extraordinary Gazette issued by the Minister of Environment and Natural Resources No. 1533/16 dated January 25, 2008 according to the Section 23 (a) of the National Environment Act No. 47 of 1980	27,000	Recoverable revenue had been lost due to not taking actions to issue permits to 09 Institutions that should obtain Environmental permits.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) Financial Regulation 104	1,272,790	Actions had not been taken regarding a deficiency of 423 items which the value had been recognized and unrecognized and the deficiency of library books as revealed by the survey reports of the year 2016.
(ii) Financial Regulation 571	-	Balances to be settled, balances to be paid, and balances to be transferred to revenue could not be identified due to

		not updating the deposit register for the year 2017
(iii) Financial Regulation 371 (4)	450,450	Interim imprest had been obtained for 9 instances where obtaining interim was not necessary.
(iv) Financial Regulation 371 (5)	210,000	Although according to the referred section, an interim imprest should not be paid to an officer who had not settled an obtained interim imprest, interim had been issued in 5 instances to two officers.
(v) Financial Regulation 371 (5)	330,000	Although imprest should be settled prior to 31 December of the year of issue, actions had not been taken to settle 3 and 6 imprest that had been issued in 2016 and 2017 respectively.
(c) Procurement Guidelines (i) 2:11:3	-	The tender meeting reports had not been recorded in a certain format included in the procurement guidelines and had not been signed by the members who were present.
(ii) 2:8:1 (b)	1,157,450	A specialist in the subject had not been included in the Technical Evaluation Committee in purchasing computers and printers.
(d) Public Finance Circular No. 1/2012 of January 5, 2012		
(i) section 3.2 (iv)		The contracts which had been awarded to the approved Associations had been sub-contracted by the said Associations.
(ii) section 3.2 (i) , (ii), (iii)		Information on financial capability and prior experience had not been obtained prior to the awarding of contracts by community-based organizations.

### 1.3.8 Transactions not confirmed with sufficient authority

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The following observations are made.

- (a) A revenue of Rs. 9,900,000 had been lost to the Sabha due to suggesting and recovering the rent for 48 stalls at Moragahapitiya Multipurpose Building, Balagolla, as Rs. 500 for the upper floor and Rs. 1000 for the ground floor in the General Meeting on 26 February 2015, as per the assessment by the Department of Valuation on 24th November 2014.
- (b) A loss of Rs. 1,908,000 had occurred to the Sabha due to recovering the rent as suggested in the General meeting held on 24 November 2014 without recovering rent assessed by the Department of Valuation on 24 November 2014 regarding 32 stalls in Digana Multipurpose Building.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the revenue that exceeded the recurrent expenditure was Rs. 77,794,557.92 for the year ended on 31 December 2017 and the correspondent revenue that exceeded the recurrent expenditure in the previous year was Rs. 56,976,713.

### 2.2 Revenue Administration

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#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

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Details of Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue for the year under review and the previous year are given below

Source of Revenue	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	7,663,428	7,846,617	5,751,996	4,983,478	7,487,520	7,931,869	57,093,663	4,999,325
Acreage Tax	7,685	6,978	936	41,570	6,885	6,847	1,310	42,855
Stall rent	6,471,658	6,084,477	4,248,115	1,836,361	6,129,373	6,627,136	5,831,582	1,981,846
License Fees	5,210,000	-	6,179,311	-	6,330,000	-	6,335,981	-

Mixed Revenue	-	-	6,144,177	-	-	-	9,210,611	-
Three wheelers	442,500	973,000	474,600	1,775,449	732,000	1,026,781	382,144	2,211,495
Garbage Tax	2,142,500	2,691,500	1,763,400	1,730,940	2,061,200	2,011,200	1,318,700	1845,240
	<u>21,937,771</u>	<u>17,602,572</u>	<u>24,562,535</u>	<u>10,367,798</u>	<u>22,746,979</u>	<u>17,603,833</u>	<u>80,173,991</u>	<u>11,080,761</u>

## 2.2.2 Performance of revenue collection

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The following observations are made.

- (a) Losses had occurred to the Sabha Fund due to recovering stall rents based on decisions made by the Sabha instead of recovering the assessed stall rent which is evaluated by the Department of Valuation when leasing the assets of the Sabha.
- (b) Although rate taxes should be evaluated once in five years, A massive income for the Sabha had been lost due to recovering rate taxes up to the year 2017 based on the rate valuation of the year 2007 and new rate units had been unable to be identified.

## 2.2.3 Rates and Taxes

### (a) Rates

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Although an outstanding balance of Rs. 4,983,478 had remained at the beginning of the year under review, only a sum of Rs. 2,206,658 had been recovered out of that. And out of Rs. 7,846,617 of billed revenue of the year under review, only a sum of Rs. 5,751,996 had been recovered.

### (b) Acreage Tax

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Although an outstanding of Rs. 41,570 had remained at the beginning of the year under review, only a sum of Rs. 4,252 had been recovered out of that within the year.

### (c) Garbage Tax

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The outstanding balance as at the beginning of the year of Garbage tax was Rs. 1,730,940 and out of that, only a sum of Rs. 578,200 had been recovered. The outstanding was Rs. 1,845,240 as at the end of the year under review.

#### 2.2.4 Rents

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##### Stall rents

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Although the outstanding of stall rents was Rs. 2,378,362 at the beginning of the year, out of that, actions had been taken only to recover Rs. 1,192,070 within the year.

#### 2.2.5 License Fees

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Institutions that had not paid license fees could not be identified due to a proper survey had not been carried out on market places during the year under review.

#### 2.2.6 Other Revenue

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##### Three-wheeler Parking charges

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The opening outstanding balance of the year under review was Rs. 1,775,449 and out of that only a sum of Rs. 208,591 had been recovered. Although the billed amount in the year was Rs. 1,026,781, due to the recovered amount being Rs. 382,144, the total outstanding at the end of the year was a high value of Rs. 2,211,495.

#### 2.2.7 Court fines and stamp fees

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The Court fines was Rs. 1,022,004 and stamp fees was Rs. 101,114,749 which was receivable from the Chief Secretary of the Provincial Council and other authorities.

### 3. Operational Review

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#### 3.1 Performance

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According to the section 3 of Pradeshiya Sabha Act, the following matters were revealed relating to formulation and regulating public health, public utility service and roads and wellbeing of the people, convenience and welfare which should be full filled by the Sabha.

(a) Lack of provisions

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Provisions had not been made from the annual budget on 6 activities which should be carried out by the council, according to the prepared annual action plan.

(b) Not achieving the expected output level

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Although a sum of Rs. 31,564,001 had been spent on fulfilling a task shown in the action plan, the desired output level had not been achieved. Details are shown below.



Activity	Estimated value	Value of the fulfilled amount	Observation
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	Rs.	Rs.	
Constructing Digana Shopping Complex	32,740,807	31,564,001	Actions had not been taken to finish work in 5 stalls in this shopping complex which was built in the year 2011.

(c) Not achieving the expected outcome.

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 Although the desired output level had been achieved in constructing Pallekale Rajaroopapola incurring a sum of Rs. 9,000,000, the expected output had not been achieved. The details are given below.

Activity	Expenditure up to 31 December 2017	Observations
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	Rs.	
Pallekale Rajaroopapola	9,000,000	The constructions of Pallekale RajaRoopapola which belongs to the Kundasale Pradeshiya Sabha had been completed incurring a sum of Rs. 9 million by December 2015. It had remained idle since August 2016 due to the appropriateness of the project not being identified by carrying out a feasibility test in implementing the project.

(d) Non-performed activities

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 Although 37 tasks had started in the year under review and previous years, and provisions of Rs. 3,234,534 had been made, the projects had been abandoned.

(e) Solid waste management

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 The following observations are made

- (i) Although four tons of fertilizers were manufactured daily by the automated aerobic organic fertilizer manufacturing industry which is implemented by Kundasale and Pathadumbara Pradeshiya Sabha's combined, a large amount of fertilizer had been collected in the garbage yard due to the amount of fertilizer that is being cleansed per a day being less because of only two machines are available. Even though a cleansing machine which matches the amount of manufactured fertilizer had been purchased in the year 2017, the machine had been removed from use due to inefficiency and excessive noise.

- (ii) The fertilizer manufacturing had not been counted in the year under review and only a revenue of Rs. 138,720 had been earned by manufacturing fertilizer.
- (iii) Non bio-degradable material which are not used for the manufacturing of compost had been dumped in a manner that is harmful for the environment without resorting to recycling.

(f) Sustainable Development Goals

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Actions had not been taken by the Sabha to identify and achieve sustainable development goals and indicators to measure progress had not been identified.

3.2 Management Inefficiencies

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Actions had been taken by the Sabha to lease the Kundasale Fish Market from 1 January 2017 to 31 December 2021 to the person who had leased it for several years. Actions had not been taken to recover the key money when leasing in long term leasing basis and the relevant agreement had been signed without a date.

3.3 Human Resource Management

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(a) Staff excesses and vacancies.

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- (i) There were 17 vacancies in 8 positions and 5 excesses in four positions during the inspection of approved and actual staff.
- (ii) Although there had been no outpatient clinic held at the Ayurvedic Medical Center, a sum of Rs. 630,304 for the year 2016 and a sum of Rs. 658,044 for the year 2017 had been paid as salary to the employed ayurvedic medical practitioner.

(b) Staff loans

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Actions had not been taken to recover Rs. 438,084 of loan balances from two officers who had been transferred in the year 2017.

(c) Staff security deposits

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Security deposit account books with balances of Rs. 4,622 in the staff security deposit register regarding two officers who had transferred in the year 2017 had not been assigned to the relevant institutions.

3.4 Operating inefficiencies

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A difference of Rs. 53,940 of 89 CFL bulbs had been found between the electrical equipment register and the equipment that had been taken over in writing by submitting request letters by the Electrical Technician.

### 3.5 Disputed Transactions

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Although according to the Circular of the Commissioner of Local Government No: 2016/3 dated 17th March 2016, an agreement must be reached by the lessee and the Chairman / Secretary of the Local Government in the agreement to lease the stalls in the market, payments had been made as Rs. 1,000 per each agreement by signing the said agreement by a lawyer.

### 3.6 Assets Management

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#### 3.6.1 Non-performing repairs and maintenance

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A Yamaha Motor cycle had been left idle in the office premises as at 19 December 2018.

#### 3.6.2 Inactive / Underutilized Assets

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The following observations are made

- (a) A defender had remained idle since 11 December 2014.
- (b) Thirteen stalls which belong to the council had remained idle due to not taking actions to lease.
- (c) The exercise equipment which had been purchased under 2015 Pradeshiya Sabha Member funds incurring Rs. 615,820 had not been used and had remained piled up in a room at Sabha office even up to 31 December of the year under review.

#### 3.6.3 Vehicle Utilization

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- (a) Even though a Tractor, Hino Lorry and a Motorcycle had been removed from the run as at 31 December 2017, actions had not been taken to repair and run or to dispose.
- (b) Although a land in the New Town of Rajawella belonging to the Mahaweli Authority of Sri Lanka was handed over to the Kundasale Pradeshiya Sabha on April 24, 2002 for the purpose of operating a children's park, the said land had remained idle since the year 2002.

### 3.7 Uneconomic Transactions

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A sum of Rs. 86,940 had been incurred in October 2017 to advertise the project of extending the compost yard of the council in two papers with false information,

### 3.8 Procurement

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#### 3.8.1 Procurement Plan

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The procurement register had not been kept up to date with the procurement plan. The committee members had not signed expressing agreement on the majority of the decisions. For some decisions, not even a single officer had signed.

### 3.8.2 Supplies and services

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Although 86 contracts valued at Rs. 38,781,297 had been awarded to community-based societies in the year under review, it was confirmed that these contracts had been carried out by former councilors and other persons by the statements issued by Presidents, Secretaries, and Treasures of the relevant societies.

### 3.8.3 Contract Administration

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Project of extending the Aluthwatta compost yard  
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An agreement had been made with a private contractor to a sum of Rs. 18,418,822 on 06 November 2017 and a sum of Rs. 16,364,652 had been paid under provisions of Rs. 20,000,000 provided by the Ministry of Provincial Councils and Local Government in the year under review.

- (a) The building plans regarding this construction had not been prepared.
- (b) Although according to work item 4 of the estimate, a sum of Rs. 481,740 had been estimated to fill soil and flatten the yard as Rs. 1,036 per cubic meter for a total of 465 cubic meters, a sum of Rs. 750,212 had been paid exceeding the initial estimate without taking actions to approve an additional estimate.
- (c) Although it was estimated to transport the soil from outside and fill and flatten, payments had been made by certifying a sum of Rs. 1,231,956 as Rs. 1,350 per cubic meter for a total of 912 cubic meters after filling soil with garbage.
- (d) According to the work item 14:1 of the estimate, a sum of Rs. 819,180 had been certified and paid as Rs. 18,792 per cubic meter for a total of 67.50 cubic meters for laying concrete on the road. However, a sum of Rs. 306,360 had been paid for work that had not been completed for 16.56 cubic meters of concrete due to the density being observed as 6",4.5",3" when physically inspecting randomly chosen 3 locations.
- (e) Although an expense of Rs. 860,011 had been incurred for additional work, the approval in that regard had not been obtained.
- (f) A sum of Rs. 100,000 had been estimated under work item 16 to supply and fix a gate. Payments had been made in full without considering the measurements. However it was revealed in the physical inspection, that a gate with low strength had been fixed using 1.5-inch square iron and Amano sheets.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

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In the year under review, a significant variation between budgeted and actual income and expenditure were observed even after the transfer of provisions. Hence the budget had not

been made use of as an effective management control and the following matters were observed in this regard.

- (a) Any expenditure had not been incurred from provisions of a sum of Rs. 785,000 which was allocated for eight recurrent expenditure items and a sum of Rs. 5,850,000 which was allocated for 6 capital expenditure items.
- (b) No income had been generated from the estimated Rs.700,000 income for four income items.

#### 4.2 Internal Audit

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Although an officer had been appointed for internal auditing, a sufficient internal audit could not be carried out due to assigning other duties also to the said officer.

#### 05. Systems and Control

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The deficiencies observed in the audit had been brought to the attention of the council from time to time and special attention should be given to the following areas of control.

<b>System</b>	<b>Deficiency</b>
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(a) Fixed Assets	<ul style="list-style-type: none"> <li>(i) Actions not being taken to survey the buildings that belong to the Sabha and identify all the assets.</li> <li>(ii) Letting outsiders to use the lands owned by the Sabha without proper approval.</li> <li>(iii) A vehicle that belongs to the Sabha had been kept in the garage for a period of about 4 years.</li> </ul>
(b) Accounting	<ul style="list-style-type: none"> <li>(i) Not identifying all the assets of the Sabha and not taking them to accounts.</li> <li>(ii) The final fertilizer stocks not being taken into accounts.</li> <li>(iii) Account balances not being settled and being continued for a long time.</li> </ul>
(c) Finance and Banks	<ul style="list-style-type: none"> <li>(i) Not taking actions regarding deposited but unutilized checks</li> <li>(ii) Not taking actions regarding dishonored cheques.</li> <li>(iii) Not identifying and settling the unidentified credit and debit balances.</li> </ul>
(d) Collection of Revenue	<ul style="list-style-type: none"> <li>(i) A huge outstanding being remained due to not paying attention to recover stall rents.</li> <li>(ii) A proper survey not being carried out in the beginning of the year regarding sales permits.</li> </ul>

- (e) Contract Administrations
  - (i) Failure to follow the tender procedure for constructions and failure of development proposals given to community-based societies.
  - (ii) Poor supervision regarding constructions.
  - (iii) Not updating documents of constructions