

**Ududumbara Pradeshiya Sabha
Kandy District**

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been submitted to the Audit on 29 March 2018 and the Auditor General's Report on those financial statements was issued to the Chairman on 09 July 2018.

1.2 Qualified Opinion

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

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- (a) Machinery and Equipments account had been overstated by Rs.61,070 Because of stating 04 items of opening balances again as purchasing.
- (b) 03 water supply schemes installed in the preceding years and 02 water supply schemes developed during the year under review valued Rs.2,512,045 had not been capitalized.
- (c) Action had not been taken to assess and account all the Land and Building owned by the Sabha.

1.3.2 Accounts Receivable and Payable

(a) Accounts Receivable

Acumulated value of the Accounts Receivable had been Rs.12,008,673 at the end of the year under review and it included the accumulated value of the balances relating 1 to 5 years of Rs.1,767,633 and the accumulated value of the balances over 05 years of Rs.197,481 according to its time analysis.

(b) Accounts Payable

Accumulated value of the Accounts Payable had been Rs12,410,918 as at 31 December of the year under review and it included the accumulated value of the balances over 05 years of Rs.11,707 and the accumulated value of the balances relating 1 to 5 years of Rs.2,235,858 according to its time analysis.

1.3.3 Lack of Necessary Documentary Evidence for Audit

05 transactions valued Rs.24,500,390 could not be satisfactorily vouched because of non rendition of necessary details.

1.3.4 Non-compliance

Non-compliance with Laws, Rules, Regulations and Management Decision

Following instances of non-compliance with laws, rules, regulations and management decision were observed.

Reference to laws, rules, regulations and management decision	Amount	Non-compliance
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	Rs.	
(a) Pradeshiya Sabha Act No.15 of 1987 Section 18		No Documents had been acquired to declare the ownerships for 99 assets like Community Halls, Cemeteries, and Roads.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.571(2)	157,921	Actions had not been taken on 10 Deposits expired.
(c) The National Environmental Act amended by the Act No53 of 2000 and Act No.56 of 1988 and the regulations imposed by the Extraordinary Gazette No.16/1533 dated 25 January 2008	13,200	03 Industries including Grinding Mills had being running without obtaining the License.

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|-----|---|--------|--|
| (d) | Treasury Circular No.IAI/2002/02 dated 28 November 2002 | | A separated Register had not been maintained for the Computers and Equipments. |
| (e) | Paragraph 05 of the Public Administration Circular No.09/2007 dated 11 May 2007 | 62,557 | A Living Expenses Allowance for the period 19 October 2016 to 31 December 2017 had been paid for a Technical Officer recruited on 19 October 2016 under Contract Basis. |
| (f) | Circular No.03/2016 of the Commissioner of Local Authorities Central Province dated 17 march 2016 | | |
| | i. Paragraph 10 | | The Stalls owned by the Sabha should not be interim leased; it had been leased by the lessees for various people in various ways. |
| | ii. Paragraph 12 | | Even though the structure of the stalls should not been changed without an approval of the sabha the stall No.01 in the Shopping Complex had been partitioned and hired Rs.2,000 monthly per each. |
| (g) | Circular No.07 of the Commissioner of Local Authority dated 31 July 2013 and the Cabinet Memorandum included the instruction to regulate the Three Wheelers | | Even though the authority had been distributed to the Local Authority to regulate the Three Wheeler Service actions had not been taken accordingly. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2017 amounted to Rs.1,783,732 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs..2,687,732.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears of Revenue

Information relating to estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Revenue Source	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Tax	1,196,000	1,277,747	1,023,324	254,423	671,000	637,944	540,702	97,241
Rent	1,830,000	1,979,240	1,746,560	232,680	1,555,000	1,779,710	1,871,395	(91,684)
License Fees	1,290,000	1,131,590	833,140	298,450	940,100	1,206,750	1,058,700	148,050
Other Revenue	4,979,000	8,964,052	7,124,889	1,839,163	4,449,500	3,428,075	5,237,738	(1,809,663)
	<u>9,295,000</u>	<u>13,352,629</u>	<u>10,727,913</u>	<u>2,624,716</u>	<u>7,615,600</u>	<u>7,052,479</u>	<u>8,708,535</u>	<u>(1,656,056)</u>

2.2.2 Performance in Revenue Collection

Actions had not been taken to realize the developed areas and recover rates.

2.2.3 Rates and Tax

(a) Rates

- i. It had been recovered only Rs.97,942 out of the arrears opening balance as at the commencing date of the year under review of Rs.210,765.
- ii. The rates in Arrears as at 31 December of the year under review had been Rs.246,185 and that balance included balances relating 1 to 5 years of Rs.112,823.

(b) Acreage Tax

- i. It had been recovered only Rs.6,972 out of the arrears opening balance as at the commencing date of the year under review of Rs.197,257.
- ii. Acreage Tax in Arrears as at 31 December of the year under review had been Rs.200,564 and that balance included balances relating 1 to 5 years of Rs.51,620 and balances over 05 years of Rs.138,665.

2.2.4 Other Revenue

(a) Three wheeler and Taxi Charges

Receivable Taxi and Three-wheeler Charges as at 31 December of the year under review had been Rs.222,300 and that balance included balances of Rs.175,100 receivable for 1 to 5 years.

(b) Tractor and Bowser Service Charges

A balance of Rs.66,000 had been remained at the end of the year under review and it had been over 05 years.

(c) Water Charges

It had been recovered only Rs.402,238 out of the receivable opening balance as at the commencing date of the year under review of Rs.686,844. The receivable water charges as at 31 December of the year under review had been Rs.594,879 and that balance included balances relating 1 to 5 years of Rs.108,829 and balances over 05 years of Rs.138,665.

2.2.5 Court Fines and Stamp Fees

The following matters had been observed.

- i. Court Fines of Rs.59,285 and Stamp Fees of Rs.2,594,694 had been receivable as at 31 December of the year under review from the Chief Secretary and the other officers of the Provincial Council.
- ii. The arrears Stamp Fees of Rs.2,594,694 as at the end of the year under review included balances over 05 years of Rs.11,000 and balances of 01 to 05 years of Rs.763,954.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Sabha in terms of Section 3 of Pradeshiya Sabha Act, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

(a) Spending Provisions

Even though it should spent at least 30 per cent of the self generated income of the Sabha for development of the Area it had been spent only Rs.1,133,474 out of the recurrent revenue of Rs.8,497,334 for the Development of the Area, that is 13 per cent. Capital Expenditure had been made only on Rs.14,342,954 out of the Capital Aids received of Rs.17,977,168.

(b) By-laws

Though by-laws should be imposed to implement 30 main objectives under Section 126 of Pradeshiya Sabha Act, by-laws had only been imposed for 02 objectives even as at 31 December 2017.

(c) Action plan

According to the by-laws imposed, annual action plan had not been prepared for an objective which should be implemented by the Sabha.

(d) Not Achieving the Expected Level of Output

A Multifunctional Building had been built spending provisions Rs.42,160,398 received under Puraneguma Project and achieved the expected level of output but, 4870 sq.ft of the building had not been used for anything.

(e) Solid waste Management

Decaying garbage of 1.5 tons and non-decaying garbage of Rs.0.5 out of the garbage collected monthly within the area had been sent to the Kewelegama yard. It had been spent Rs.3,487,828 for the Garbage Dump and Stores in the year 2010 and it had been spent Rs.5,069,140 on purchasing Machinery and Equipment in the year 2012-2017. Observations are given below.

- i. Folding Garbage by the Backhoe Machine and Pulling out the Decayed Garbage could not be done because of not making the roof properly over the Dump and at the point of observations the Yard had been full of Garbage.
- ii. Even though it had been targeted completing the aims like Distribution of high quality Compost Fertilizer to the Community by building Garbage Yards and purchasing Machinery and Equipment, Distribution of Organic Fertilizer for the Home Gardening, Completion of the Compost Fertilizer Project Efficiently and Effectively, Compost Fertilizer had not been produced until January 2018.

(f) Sustainable Development

Actions had not been taken by the Sabha to identify sustainable development objectives and targets and to achieve them as well as to identify indexes to measure the progress.

3.2 Management Inefficiencies

Following matters were observed.

- (a) An advance until it would be reimbursed by the training allowances on qualifying the Excellency Bar for Inquiring Computer Skills of Rs.3,783 on 08 march 2013 and an advance for paying the Course Fees of the Local Governance Diploma Course 2016/2017 for the Officers who participate of Rs.150,000 on 17 march 2017 had not been reimbursed as at 18 May 2018.
- (b) Tissa Attanayaka Conference hall had been repaired by spending Rs.817,000 in the year 2016 and Rs.4,758,528 in the year 2017 under the Program for Strengthening the Local Authorities. But the removed Bulbs, Doors Windows and Doorposts had been piled up in front of the Building at the Physical Inspection held on 24 January 2018.

3.3 Human Resources Management

Employee Vacancies and Excesses

An Employee Excess and 29 Vacancies had been revealed when investigating the Approved and Actual Cadre.

3.4 Operational Inefficiencies

Following matters were observed.

- (a) Even though the Number of Water Consumers had been 523 of the 03 Water Projects owned by the Sabha, approved meters had been installed only for 135 Consumers. It had been charged fixed charges of Rs.200 for Commercial institutions and Rs.150 for Domestic Consumers from all the rest 388 Consumers.
- (b) An amount of Rs.79,440 should be recoverable from the Common Market and Stalls as at 31 December of the year under review.

3.5 Assets Management

3.5.1 Idle / Under-utilized Assets

Following matters were observed.

- (a) The Backhoe loader valued Rs.17,649,179 and the Dump Track valued Rs.6,009,602 received from the Ministry of Public Administration and Local Government under the Program of Distributing Machinery and Equipment in the year 2015 had been used for a little time and it had been underutilized.
- (b) A Development Officer Office had been located in a room of the Old Vilage Council Building and the rest of the building had been idled.

3.6 Procurement

3.6.1 Procurement Plan

Even though Sabha had spent Rs.3,724,877 on Capital Expenditure A Procurement Plan had not been prepared.

3.6.1 Supplies and Services

Repairing Tissa Attanayaka Conference Hall

The Following matters had been observed when investigating the Procurement Procedure of repairing Tissa Attanayaka Conference Hall under the Provisions of the Program of Strengthening the Local Authorities of Rs.5,400,000.

- i. The Prices of Darshana Constructions who had done this contract had been changed using correction fluid.
- ii. Even though the items No.08, 17, and 18 could be estimated those items had been incurred as extra works and an extra estimate had not been prepared and obtain an approval.

3.6.1 Contract Administration

a) Offering Contracts to the Community Based Associations

17 contracts valued Rs.7,745,000 had been offered to the Community Based Associations during the year under review. Even though the provisions had been provided to direct offer the contracts to the Community Based Associations in the aim of increasing the participation of the Community in the Development Projects within the area and

completing the Projects in Higher Quality by the State Finance Circular no.1/2012 dated 05 January 2012 it had been proved that the contracts had been received by other contractors through these Associations and also it had been observed that those contracts had not been completed in the Standard Quality.

b) Making the Rain Drainage of the Ududumbara Halyaya Road

Making the Rain Drainage of the Ududumbara Halyaya Road valued of Rs.1,000,000 under the Sabha Funds in the year 2017 had been offered to the Ududumbara Village Samurdhi Association and finished the work of Rs.876,082. Following matters had been observed when investigating this contract physically on 23 January 2018.

- i. According to the work item No.04 it should be used the concrete mixture as 1:2:4 the concrete mixture used for the Drain in a weak state.
- ii. Even though the thickness of the bottom of the Drain should be 04 inches when checking 04 places after breaking the thickness of the bottom of the Drain had been 3,3,4,3 ½.
- iii. The amount of Rs.876,082 had been become useless because of the concrete mixture used for the Drainage had been in a weak state.

c) Repairing the Hunnasgiri Wate Project

Even though it had been recommended to pay Rs.1,309,587 as at 26 December 2017 for the work No.1 to 33 of the estimate of the Repairing Hunnasgiriya Water Project valued Rs.4,325,000 under the provisions of the Program for Strengthening the Local Authorities in the year 2017 at the point of physical investigation on 24 January 2018 it had been plastering inside the Filter Tank. Because of completing only the work valued Rs.1,309,587 from the provisions received for Strengthening the Sabha of Rs.4,325,000 it had not been used 69.7 per cent out of the Provisions.

d) Developing the Agricultural Road of Aswedduma

Developing the Agricultural Road in Aswedduma valued Rs.300,000 had been offered to the Nugethenna West Farmer's Association under the Aids of Specific Provincial Development and finished the work of Rs.270,000. The following matters had been observed when physically check the contracts on 23 January 2018.

- i. Even though it had been stated that the number of benefited families should be above 20 by the Commissioner of Local Authorities Circular, Method of completing the projects funded with government funds No.2/2011 dated 14 October 2011 of the contract had been done on one benefited family.
- ii. The Financial Ability of the Association had not been proved according to the Section 3.2(1) of the State Finance Circular No.01/2012 dated 05 January 2012.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the budget had not been made use of as an effective tool of management as there is a significant variation between budgeted and actual income and expenditure even after transferring provisions in income and expenditure items during the year under review. Following matters were revealed in this regard.

- (a) Provisions allocated on 12 items of Expenditure of Rs.2,360,000 had not been used for any expenditure.
- (b) Variances of 30 per cent to 92 per cent had been observed between the Net Provisions and the Savings on 23 items of Expenditure.
- (c) Variances of 25 per cent to 13,200 per cent had been observed between the between the Estimated and Actual Items of Revenue.
- (d) Actions had not been taken to recover and income from 10 items of Revenue of Rs.2,483,000.

4.2 Internal Audit

Though an Officer had been appointed for internal audit that officer had been imposed with other duties therefore, a sufficient internal audit had not been conducted. Only 02 reports of audit had been rendered for the year 2017.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time and special attention is needed in respect of the following areas of control.

System	Deficiencies
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(a) Fixed Assets	(i) Failure in taking actions to identify all assets by conducting surveys on lands and buildings belonging to the Sabha. (ii) Letting to consume the Lands owned by the Sabha without a formal approval.
(b) Accounting	(i) Failure in identifying and accounting all assets belonging to Sabha.

- (ii) Carrying forward accounts balances continuously without settling.
- (c) Vehicle Control
 - (i) Some vehicles had been let to be idled.
 - (ii) Failure to render the daily running charts of the vehicles
- (d) Revenue Control
 - (i) Failure to make agreements under the new assessments of the stalls owned by the Sabha.
 - (ii) Failure to identify the newly developed areas.
 - (iii) Non taking actions to recover the receivable income
- (e) Debtors and Creditors
 - (i) Failure to take actions to make a regular procedure to settle the debtors and creditors balances continuously brought forward.