

**Udunuwara Pradeshiya Sabha
Kandy District**

1. Financial Statements

1.1 Presentation of Financial Statements

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 31 July 2018.

1.2 Adverse Opinion

In my opinion, according to the importance of the matters described in the paragraphs 1.3 and 2.2.3 of this report, the financial statements do not give a true and fair view of the financial position of the Udunuwara 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 Financial Statements

1.3.1 Accounting Deficiencies

- (a) Three items of office equipment valued at Rs. 143,540 which had been purchased in the year under review had not been taken into accounts.
- (b) Five office equipment items which had been received as donations from the Pura Naguma Project valued at Rs. 563,851 had been understated by a sum of Rs. 454,303 due to taking the value into accounts as Rs. 109,548
- (c) Library books valued at Rs. 71,196 which had been destroyed in the year 2018 had been written off from the accounts of the year under review without writing off the books valued at Rs. 62,619 which had been destroyed in the year under review.
- (d) Two hand carts valued at Rs. 40,000 had not been capitalized.
- (e) Court fines of Rs. 381,501 receivable for the year under review had not been taken into accounts.
- (f) Court fines of Rs. 762,337 which had been received relating to the year 2016 had been taken into accounts as a revenue of the year under review.
- (g) According to the stamp fee register, receivable stamp fees of Rs. 62,559,862 as at 01 January 2017 had not been taken into accounts as the opening balance of the stamp fee account.
- (h) Billing of high rates regarding the year under review was Rs. 982,169 and out of that, a sum of Rs. 178,250 had been received within the year. Accordingly, receivable high rates of Rs. 803,919 for the year under review, had not been identified or taken into accounts.
- (i) While Receiving of court fines of Rs. 418,499 in the year under review had been shown in the accounts under warrant charges of General administration, the said value had been shown as a revenue of the year under health services and also had been taken into accounts under receivable revenue.

- (j) Although a revenue of rate taxes of Rs. 189,661 which had been received in the year under review relating to the previous year had been taken into the outstanding rate taxes account, it had not been adjusted to its final balance.
- (k) The revenue of the year had been overstated by Rs. 500,000 due to a sum of Rs. 54 which had been received as vehicle parking charges being credited to special charges revenue account as Rs. 500,054.
- (l) Revenues of Rs. 40,242,820 which had been received by 04 revenue codes had been credited to other revenue codes in 09 occasions without crediting to the relevant revenue code.
- (m) Revenue of Rs. 36,955,750 which had been shown under other aid (1.71 and 1.73) of General Administration Program, had been shown again under capital revenue (1.81), thus the revenue of the year under review had been overstated by the said amount.
- (n) The revenue of the year under review had been overstated by Rs. 18,123,973 by showing the said amount again under other revenue (1.70) while being shown under Capital revenue of General Administration Program (1.83).
- (o) The revenue of the year under review had been overstated by a sum of Rs. 427,200, due to showing the said amount again under other aid, while being shown under License fees of Health service program.
- (p) The expenditure of the year under review had been overstated by Rs. 1,148,816, due to adjusting the said amount by considering it as an expense of the year under review, while paying the said amount relating to 12 expenditure items of the previous year.
- (q) Total provisions of Rs. 210,000 which had been allocated for Library Prize Giving and holding competitions, had been shown erroneously as Rs. 370,000 and the total provision had been taken into accounts as creditors without identifying expected expenditure to be incurred.
- (r) Payable salaries and allowances of Rs. 111,823 under Health services as at 31 December of the year under review had been shown in the General Supplies Creditor account without mentioning in the Unpaid Salaries and Wages account.
- (s) A sum of Rs. 823,812 which had been paid in 10 occasions in the year 2018 for 10 expenditure items regarding the year under review, had not been taken into accounts as creditors.
- (t) Although Miscellaneous deposits should be shown under current liabilities in the balance sheet, miscellaneous deposits valued at Rs. 78,295 had been shown under current assets.
- (u) Staff loans account had been understated by a sum of Rs. 3,000,000, due to the fact that erroneously crediting a sum of Rs. 3,000,000 to the staff loans account, which had been transferred to current account No. 4070335 of Bank of Ceylon for granting staff loans from the current account for general activities No. 4070181 of Bank of Ceylon.
- (v) Due to maturing of 02 fixed deposits valued at Rs. 16,000,000 in the year under review, the said value had been debited to the investments account and had been credited to Capital assets selling revenue account while re-investing in another bank after withdrawing the said fixed deposits.

- (w) The investments account had been overstated by a sum of Rs. 1,000,000, due to debiting the investments account by the said amount which had not been invested in the year under review.
- (x) Capital assets repair and maintenance expenses account and capital expenditure account had been credited while debiting the creditors account by Rs. 1,588,852 which had been taken into accounts under creditors for 34 contracts carried out under council funds and external provisions in the years 2014,2015 and 2016 in the year under review.
- (y) Although it had been agreed to a sum of Rs. 1,335,000 for the painting of Pradeshiya Sabha building in the year under review, it had been taken into accounts erroneously as Rs. 13,350,000 under the creditors. Hence Creditors Capital Assets repair and maintenance expenses had been overstated by a sum of Rs. 12,015,000.
- (z) Cash in hand amounting to Rs. 501,103 which should be taken into the general deposits account relating to the years from 2014 to 2016, had been accounted under creditors.
- (aa) Ten contracts valued at Rs. 1,375,000 which had not been entered into agreements in the year under review had been taken into accounts under creditors.
- (bb) The contract creditors and capital aid revenue account had been overstated by Rs. 2,435,833 due to taking a sum of Rs. 2,057,425 which should be received as at the end of the year under review into accounts as Rs. 4,493,258.
- (cc) Although the value of stationary issued in the year under review was Rs. 397,964, the Stationary stocks account had been understated by Rs. 195,771 and the stationary of the year had been overstated by the said amount due to taking it into accounts as Rs. 593,735.

1.3.2 Unreconciled Accounts

- (a) A total unreconciled balance of Rs. 123,659,729 were observed between the final balances of financial statements prepared as at 31 December 2016 and initial balances of financial statements prepared as at 31 December 2017 relating to 22 accounting items.
- (b) According to the financial statements as at the end of the year under review, a difference of Rs. 54,822,229 was observed between the balances of 13 account items and the relevant schedules.
- (c) A difference of Rs. 869,004 were observed between the balances of P.S 12 expenses register and the relevant balances of the expense's ledger relating to 4 expenditure items.
- (d) A difference of Rs. 452,108 was observed between distress loan balances according to staff loans register and the balances from the information on staff loans at the salaries unit regarding 56 officers.
- (e) Although the payment during the year under review was Rs. 6,603,434 according to industries creditors account, due to payment during the year being Rs. 7,665,654 according to the creditors register, a difference of Rs. 1,062,220 was observed.
- (f) Although the initial balance in the year under review was Rs. 150,877 according to Stationaries schedule, due the said balance being Rs. 594,003 according to the account, a difference of Rs. 443,126 was observed.

1.3.3 Suspense Accounts

The process of settlement of the suspense account balance of Rs. 16,667,314 which existed as at 31 December 2016 had not been presented to audit.

1.3.4 Receivable and Payable Accounts

(a) Receivable Accounts

The total of 07 items of receivable account balances as at 31 December 2017 were Rs. 54,701,753 and an age analysis in this regard had not been presented.

(b) Payable Accounts

The total of 05 Payable account balances as at 31 December 2017 was Rs. 34,596,380 and an age analysis in this regard had not been presented.

1.3.5 Lack of Written evidence to audit

- (a) Although the trial balance had been prepared as at 01 January 2017 by adjusting the mistakes done in preparing financial statements of the years 2015 and 2016, no any written information regarding the adjustments that were carried out had been submitted to audit.
- (b) Nine accounting items valued at Rs. 122,864,467 could not be satisfactorily verified in audit due to not being presented the necessary information.
- (c) Details regarding each revenue items which had been shown under Other revenues of Health services valued at Rs. 1,092,751 had not been submitted to audit.
- (d) No information relating to the transaction for crediting Rs. 24,185 to Pension and Contribution Expenses account and debiting to the Unpaid salaries and wages account.
- (e) Payment information and documents required to inspect the balance of Rs. 16,940 shown in the General Supplies creditor account had not been submitted to audit.
- (f) Although the accumulation fund had been debited and investments account had been credited by Rs. 132,479 in the year under review, journal entries or written evidence in this regard had not been submitted to audit.
- (g) Identifiable schedules and Journal entries relating to Industrial Creditor balance of Rs. 19,401,177 which had been written off in the year under review, had not been submitted to audit.

1.3.6 Non Compliances

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

Reference to Laws, Rules Regulations and Management Decisions	Value Rs.	Non-Compliance
(a) 1988 Pradeshiya Sabha (Financial and Administrative) Rules		
(i) Regulation 32	10,288,937 (Billings of the year)	A rate tax register had not been maintained regarding all buildings and lands that should pay the rate tax.
(ii) Regulation 59	--	A survey regarding the industries that are being operated in the council jurisdiction had not been carried out.
(iii) Regulation 218	111,927,750	An annual survey had not been carried out regarding the lands and buildings that belong to the council.
(b) Section 22 (1) of the Urban Development Authority Act No. 41 of 1978 published in the Gazette of the Democratic Socialist Republic of Sri Lanka No. 935/06 dated 06th August 1996	--	Two lands 24 perches and 46 perches in extent which had been donated to the sabha in subdivisions regarding the land auctions had remained with no use without developing it as a Community recreation or outdoor area.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) 396 (d)	31,562	Actions had not been taken relating to 03 cheques which had been issued but not presented for payment relating to a current account.
(ii) 571(3)	461,822	Agreement deposits and miscellaneous deposit which had been deposited in 191 occasions in the period from the year 1980 to 2015 had been retained in the General deposits account even up to the end of the year under

		review.
(d)	Treasury Circular No. IAI / -- 2002/02 dated November 28, 2002	A register had not been maintained to register computers and computer accessories.
(e)	Circulars of Commissioner of Local Government	
(i)	Paragraph 01 (04) of the 1,640,654 Circular No. 2/2011 dated 14 October 2011.	Development activities regarding 03 contracts had been carried out without a feasibility study.
(ii)	Paragraph 03 of the -- Circular No. CPC / CLP 1/1 dated December 27, 2017	Although only one general cash account should be maintained for the collection of funds regarding institutions of Local Government with the approval of the relevant Minister in charge, in addition to that, a current account had been maintained for staff loan transactions.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue that exceeded the recurrent expenditure was Rs. 41,190,418 for the year ended 31 December 2017 and the correspondent revenue that exceeded the recurrent expenditure in the previous year was Rs. 57,207,972.

2.2 Revenue administration

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

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

	2017 Source of Revenue	Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 December	2016 Estimated Revenue	Billed Revenue	Collected Revenue	Total Outstanding as at 31 December
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	6,770,000	12,484,060	8,276,425	17,044,620	7,257,142	5,005,511	3,513,992	14,364,585
(ii)	Rentals	1,473,000	1,280,180	1,205,740	800,262	1,206,000	1,556,752	1,657,160	66,860
(iii)	License fees	1,301,000	1,411,600	1,411,600	--	1,651,500	2,350,000	2,350,000	--
(iv)	Other revenue	29,000,000	32,857,590	38,963,237	15,584,440	30,374,000	849,546,335	731,061,716	41,367,021
	Total	38,544,000	48,033,430	49,857,002	33,429,322	40,488,642	858,458,598	738,582,868	55,798,466

2.2.2 Performance of collection of revenue

An outstanding balances of Rs. 33,429,322 had remained at the end of the year under review out of all income items. And also, due to the revenue documents not being prepared up to date and due to accounting deficiencies relating to income items, the performance of the said items could not be satisfactorily inspected.

2.2.3 Rates and Taxes

- (a) A financial irregularity was revealed while collection of rates in the period of time from the year 2011 up to the year 2015, and further, matters regarding the said financial irregularity had been revealing in the field. As the initial and final inspections on this regard had not been completed, it could not be satisfied on the accuracy of the outstanding balance of rates of Rs. 16,918,855 shown in the financial statements as at the end of the year under review.
- (b) Actions had not been taken to conduct a survey on acre taxes and to bill annually after 01 January 2015.

2.2.4 Court fines and Stamp Fees

The receivable court fines and stamp fees from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017 were Rs. 662,020 and Rs. 14,922,420 respectively.

3. Operational Review

3.1 Performance

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) Not achieving the desired output level

- (i) Although provisions of Rs. 4,200,000 had been allocated for 15 activities which had been shown in the action plan, the said provisions had not been utilized to achieve the expected objectives.
- (ii) Although a sum of Rs. 21,950,000 had been estimated to fulfill 11 miscellaneous activities which had been shown in the action plan, a sum of Rs. 4,960,429 out of the said amount, that is, due to it being spent in a range of 0.48 per cent and 29 per cent, the desired objectives of the action plan had not been fulfilled.

(b) Combined Plan

It had been planned to fulfill 557 industries by using provisions of Rs. 145,330,000 from the period between the year 2017 to the year 2020 through the 04 year plan prepared in the year 2015. In the year under review 139 industries valued at Rs. 41,550,000 had not been fulfilled according to the plan while other activities had been fulfilled. Hence the four-year plan prepared by the council had not remained in the practical and operational condition.

(c) Delays in fulfilling tasks

The performance of the council had remained in a lower level due to starting the work of industries after a delay of 02 to 07 months of the approvals were given during the period from December 2016 to September 2017 regarding 10 estimated development proposals valued at Rs. 4,121,172 under council funds in the year under review.

(d) Activities deviate from objectives

Although roads should be developed in a manner such that it covers a maximum number of beneficiaries in the area under the program of developing 1000km of rural roads, the by road near the Kelamadeniya Hospital which could benefit only six beneficiaries had been developed under an estimation of Rs. 1,500,000.

(e) Solid Waste Management

The following observations were made in the physical inspection of Kiriwawala Manel Anga garbage disposal yard which is aimed a systematically managing and disposing garbage collected in the Udunuwara Pradeshiya Sabha area under the project of solid waste management.

- (i) Although the manufacturing of compost had started on 11 September 2015 under the theme of “Converting what cannot be reused into something usable” after establishing under provisions of Rs. 4,283,097 of Central Environmental Authority, the manufacturing of compost had been stopped as at 21 February 2018.

- (ii) A large quantity of non-biodegradable material had been stored in the building premises which had been built for manufacturing of compost without being used for that purpose.

(f) Environmental issues

- (i) The non-biodegradable polythene and biodegradable garbage collected in the field had been informally disposed of on the slopes of the land where mixed waste is disposed, and waste water had been mixing with downstream water sources on rainy days.
- (ii) Although the disposal of garbage had been carried out in the Kirivawula Garbage yard since the year 2015, actions had not been taken to obtain an Environmental Protection License in this regard even up to 22 February 2018.

(g) Sustainable development goals.

The council had not been informed on achieving sustainable development goals according to Circular No. NP / SP / SDG / 17 of the Ministry of National Policy and Economic Affairs dated 14 August 2017 and a preparation of plans in this regard had not been done.

3.2 Management Inefficiencies.

- (a) A software for calculating rates had been purchased from the Global Computer Systems Company for a sum of Rs. 42,000 on approval of the general council on 22 September 2005. Although audit queries had been issued regarding committing of financial irregularities in the past years using this rates software and weaknesses such as inability to obtain essential information and misrepresentation of information had existed, the old rates software had been used even up to May 2018.
- (b) Although when an employee who has obtained a loan has applied for a loan within the credit limit only the balance of the debt he could pay should be recorded in the documents, an informal method of erroneously documenting as having repaid the existing loan balance and repaying the entire amount payable on salary had been followed. As a result of that it was not possible to check the credit balance and interest of each employee.

3.3 Human Resources Management

- (a) Vacancies of 14 positions and an excess of 01 position had existed between the approved cadre and the actual cadre for the Sabha as at 31 December 2017.
- (c) Actions had not been taken to recover a loan balance of Rs. 391,762 from 07 transferred officers during the period from the year 2012 to the year 2016.

3.4 Operating Inefficiencies

Although the assessed stall rental should be revised at least once in 5 years according to the Circular of the Commissioner of Local Government and Provincial Councils dated 17 March 2016, rentals had been recovered based on the valuation of the year 2011 for 09 stalls in the Davulugala shopping complex.

3.5 Assets Management

3.5.1 Non - recording of Assets

One hundred and fifty-one items of fixed assets valued at Rs. 83,982,759 which belongs to the Sabha had not been recorded in the fixed assets register.

3.5.2 Idle / Underutilized Assets

- (a) Four vehicles which belong to the Sabha valued at Rs. 2,636,000 had remained idle and underutilized without being used for running for a period of time from 07 months to 08 years
- (b) A car of which the value could not be identified had remained to be idle and destroyed since the year 2013.
- (c) A bank account which had been maintained in the Davulagala Branch of Peoples Bank had remained idle for a several years with a balance of Rs. 639,444.

3.6 Informal Transactions

A three wheeler which belongs to the Sabha had met with an accident while being run for a personal purpose by the Secretary of the Sabha on 13 May 2017. Without taking actions formally in this regard, a sum of Rs. 33,960 had been spent on repairs by changing the time of arrival of the driver and without reporting the occasion of accident to the police.

3.7 Procurement

3.7.1 Annual Procurement Plan

Although procurement activities for the coming year should be prepared in detail according to the section 4.2.1 (c) of the Government Procurement Guidelines 2006, while a sum of Rs. 8,110,000 for capital expenditure and a sum of Rs. 1,350,000 for expenses in repairing and maintenance of capital assets had been allocated from the annual budget. Procurement plans for the said expenditure items had not been prepared.

3.7.2 Contract Administration

A sum of Rs. 211,500 had been paid after finishing work of the contract of developing the Boyagama Gangoda border road as at 10 May 2018. Although the bills had been recommended as the road had been concreted by 12.57 cubic meters of dimensions of 117'-0"x9'-1 ½ ''-0'5'' with 1:2:4 (19") mixture of cement, sand and stone, according to the physical inspection, it had been done by 11.16 cubic meters of dimensions of 117'-0"x8'-1''-0'5''. Accordingly, a sum of Rs. 26,497 had been paid for 1.41 unfulfilled cubic meters.

3.8 Visible Irregularities.

A financial irregularity of Rs. 22,548 had been revealed by the inspections which had been further carried out in the field in addition to audit inquiries bearing numbers CL-01 / KD / F / PS-UDN / 05/2015/138-ii and CL-01 / KD / F / PS-UN / 05/2017/138-iii regarding a financial irregularity committed by a revenue inspector while issuing trade licenses and recovering rate taxes.

4. Accountability and Good Governance

Budget Control

Estimated revenue and expenditure could not be compared with actual income and expenditure due to the values of balances not being arranged accurately in the prepared revenue and expenditure account for the year under review.

5. Systems and Control

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 governance.

System -----	Deficiency -----
(a) Accounting deficiencies	<ul style="list-style-type: none"> i. Account books and documents not being updated ii. Failure to follow due accounting principles
(b) Assets / Property	<ul style="list-style-type: none"> i. Not recording. ii. Documents not being up to date iii. Assets being under utilized
(c) Staff management	<ul style="list-style-type: none"> i. Not filling the vacancies ii. Existence of unsettled loan balances
(d) Projects / Contracts	<ul style="list-style-type: none"> i. Constructions not being complied with standards ii. Lack of supervision
(e) Revenue Administration	<ul style="list-style-type: none"> i. Not recovering the outstanding revenues. ii. Documents not being up to date