

Katana Pradeshiya Sabha

Gampaha District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 29 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 05 October 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Katana Pradeshiya Sabha give a true and fair view of the financial position 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

The following accounting deficiencies were observed.

- (a) The Sabha's policy is to adopt cash basis for accounting stamp fees and court fines. However, the court fines of Rs.10,137,000 and the stamp fees of Rs.98,245,670 receivable as at end of the year under review had been brought to account on accrual basis. As a result, the surplus had been overstated by Rs.108,382,670.
- (b) Although Rs.23,409,835 had been paid for industries during the year under review, a sum of Rs.8,823,982 only had been capitalized resulting in an understatement of capital by Rs.14,585,853.
- (c) Although a separate account had been maintained showing the opening balance of Decentralized and Provincial Council Aid Receivable as Rs.90,932,432, a sum of Rs.10,251,752 had been provided for that account by debiting another debtors' account. While receiving aid for the above provision, Other Debtors Account had been credited instead of crediting the Decentralized and Provincial Council Aid Receivable Account. As a result, a credit balance of Rs.60,969,151 had originated in that account and that had been set off against the debit balance of Rs.200,246 of the Pre-payments Account. Subsequently, a credit balance of Rs.60,768,905 had been inappropriately shown as credit balance of Pre-payments Account in the final accounts.

1.3.2 Unreconciled Accounts

- (a) The difference of 08 items as per accounts furnished as at 31 December 2017 and the related registers/schedules aggregated Rs.38,847,043.
- (b) The difference of 03 items of revenue as per accounts of the year under review and the revenue as per subsidiary registers as at that date aggregated Rs.50,900,037.

1.3.3 Suspense Account

Although a debit balance of Rs.18,730 continued to be brought forward in the Suspense Account for many years, action had not been taken to identify it and settle the balance.

1.3.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
(a) 1988 Pradeshiya Sabha (Finance and Administration)		
(i) Rule 5(7)	-	Adequate internal audit had not been carried out regarding financial and stores transactions.
(ii) Rule 202	-	The register of consumer goods and stock books had not been balanced at the end of each year so as to carry forward it to the new year.
(iii) Rule 213	-	No goods should be released without and issue order signed by the Secretary. However, none of the issue orders had been signed by the Secretary and acknowledgements had not been obtained.
(b) Circular of the Commissioner of Local Government No.LGD/05/2016 of 25 May 2016	-	Rates and taxes recovered upto end of the year under review had been based on the assessments made in 2007

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 2017 amounted to Rs.114,308,008 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.82,122,028.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

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

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	34,469	35,336	34,314	30,054	50,286	38,634	39,976	30,353
Rent	1,593	1,022	1,045	8	952	1,013	902	36
Licence Fees	980	1,187	1,187	-	865	1,157	1,161	-
Other Revenue	190,026	179,686	71,298	14	6,869	12,477	112,678	14

2.3.2 Performance in Collection of Revenue

- (a) Out of the arrears of revenue from rates as at commencement of the year under review, 38 per cent amounting to Rs.11,559,075 had been recovered.
- (b) Feasible estimates had not been prepared and as such the billings had exceeded the estimated revenue from licences for the year under review by 21 per cent.
- (c) Out of the bills for other revenue of the year under review, 37 per cent only had been collected.

2.2.3 Rates and Taxes

The following matters were observed.

- (a) Units of rates relating to seven villages and roads of the Pradeshiya Sabha area had not been subjected to assessment of rates during the assessment of rates in 2007. The Sabha had not taken action to recover rates and taxes from those units even by the year under review.
- (b) Arrears of rates of the Pradeshiya Sabha exceeding Rs.5,000 as at 31 December 2017 amounted to Rs.7,272,988. The Sabha had not taken action to recover these arrears or to issue distraining orders.
- (c) The percentage of recovery of arrears of rates as at 31 December 2017 relating to sub offices at Katana, Aandiambalama, Raddoluwa and Demanhandiya were 7.8 per cent, 10.9 per cent, 15.6 per cent and 12.5 per cent respectively.
- (d) Out of the arrears of rates of Rs.30,054,061 as at 31 December 2017, a sum of Rs.26,771,337 was due as at 31 December 2018. However, distraining orders had only been issued to 580 properties valued at Rs.2,185,802.
- (e) The arrears of rates relating to Raddoluwa sub office as at 31 December 2017 amounted to Rs.6,065,988. Action had not been taken to issue red notices for the sum of Rs.4,163,794 recoverable as at 31 March 2018.

2.2.4 Licence Fees

Licence fees not exceeding 1 per cent of the total turnover of the previous year should have been recovered from hotels registered at the Tourism Development Board in terms of the Tourist Development Act. However, no licence fees, whatsoever, had been recovered up to now from the Tamarind Tree Hotel within the area of the Aandiambalama sub office.

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 the 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.,

Sustainable Development Target

The Sabha was unaware of the 2030 Agenda of the United Nations Organizations relating to the sustainable development objectives.

3.2 Management Inefficiencies

- (a) The Pradeshiya Sabha had to pay a surcharge of Rs.317,792 due to delay in remittance of contribution of the Employees' Provident Fund for the period 2001 to 2015 on a verdict of the court No.L33/854 of 18 May 2017. A loss of Rs.275,874 had been caused to the funds of the Sabha due to one of the 3 officers who was responsible for the delay in settling the dues.

- (b) According to the agreement signed on 01 November 2002 it had been decided to give on lease the land of the Walisinghe Harischandra Playground to the Gampaha District Association for a period of 30 years. The agreement had been cancelled on 27 October 2007 for reasons such as, no development work being carried out as per conditions in the agreement, non payment of the share of money due to the Sabha from the money earned on offering the playground for competitions, due to sub-letting and the only source of money received was Rs.180,000 received at the initial stage. However, the sports association concerned had carried out its work for about 10 years from the date of cancellation of the agreement without paying any money to the Sabha. But, the Sabha had not taken any action in this connection. Further, the entire 8.8527 hectares of land including the cricket ground of 5.5840 hectares had not been developed during 2002 to July 2018 and the Sabha had been deprived of an extensive revenue that it could have earned.

3.3 Operating Inefficiencies

- (a) According to the request made by the Chairman of the Sabha to construct a lake in about an acre of private land at Sabidiyawaththa of Ivan Silva Mawatha, Kandawala for the welfare of the public of the area, the owner of the land had taken action to construct a pond of 270 feet length, 103 feet breadth and a depth of 20 feet during the year 2012. The soil removed had been made use of, for reclamation of Sabidiyawaththa barren land. The permission of the Central Environmental Authority, Urban Development Authority and

the Land Reclamation and Development Corporation had not been obtained for this purpose. One acre of land filled with water had been vested with the Sabha by a title deed on 10 May 2012. A physical verification carried out at the spot on 11 June 2018 revealed that although about 06 years had lapsed since the vesting of land with the pond to the Sabha, it had not been used for welfare activities of the people of the area except the barbed wire erected around the pond.

- (b) The owner of the Sabidiyawaththa land, Ivan Silva Mawatha, Kandawala of 05 acres, 03 roods and 17 ½ perches had forwarded a plan for approval on 03 May 2015 to sell the land in blocks. However, the approval had not been granted. But, sale of blocks of land had been done and the buyers had constructed houses and occupied the premises. Though the plan had not been approved by the Sabha the land for common amenities and road had been vested with the Sabha. The Sabha had not taken legal action against the owner of the land for selling the land in blocks without the approval and for non payment of 1 per cent of the sales value to the Sabha.

3.4 Assets Management

3.4.1 Annual Board of Survey

- (a) The physical existence of the leg pull down physical culture equipment handed over by the Ministry of Sports, Western Province for use at the physical culture centre established at the Udammita multi purpose building belonging to the Raddoluwa sub office had not been confirmed by the annual board of survey.
- (b) The value of goods auctioned or destroyed as per Board of Survey recommendations had not been adjusted in the respective accounts in terms of the Secretary's letter dated 30 March 2017.
- (c) Items purchased during the year under review for Udammita multi purpose building had not been utilized even by 30 June 2018.

3.4.2 Stock Control

- (a) A method had not been adopted for calculation of stock of fuel. As such, annual verification of stock could not be carried out. The balances entered in the register alone had been included in the accounts.
- (b) There were instances where materials issued had not been entered in registers. Materials worth Rs.509,236 issued to patch the Etambagahawaththa New Colony Road on 22 September 2017 had not been entered in the registers.
- (c) There was a gap between the first tarring and the second tarring. However, the entire quantity of tar had been issued for the first and second tarring.

3.5 Procurement

Contract Administration

- (a) Nine suppliers had been registered on 21 December 2016 for supply of 14 construction materials for the entire year of 2017. Out of them 07 persons had stated as 'cannot be supplied, for quotations calling for 4" x 4" rubles and sand. As such, instead of calling for quotations for 4" x 4" rubles and sand quotations had again been called for on 11 April 2017. At this stage, the prices of 05 construction materials had increased and the payments made at the increased rate had caused a loss of Rs.644,815 to the Sabha.
- (b) An agreement had been entered into on 23 December 2016 for construction of the first stage of the Madawala Community Centre at Rs.1,493,589 with the expectation of completing in 3 months. However, the project had not been commenced even by 30 June 2018. The Sabha had not instructed to suspend the contract and further action had not been taken regarding the contractor.
- (c) An agreement had been entered into on 27 November 2017 for Rs.1,694,750 to renovate the Aramba Main Road, expected to be completed in two weeks. This project had not been commenced even by 30 June 2018. The Sabha had neither instructed to suspend nor to take further action against the contractor.
- (d) An agreement had been entered into on 31 December 2012 for Rs.2,480,432 to construct a clinic and a community centre near the Jeyaraj Fernandopulle Vocational Training Centre, for completion within 3 ½ months. But, the time spent to execute the work was 5 ½ months and demurrages had not been claimed for the delay. A sum of Rs.5,000,000 had been obtained in 2014 under the Gama Neguma Programme for the third stage. But, the work had been completed in 2015. An agreement for the fourth stage had been entered into on 23 December 2016 for Rs.1,965,945, for completion of work within 3 months. But, the work had not been completed even by end of 2017. The contractor had not been instructed to suspend the work and further action had not been taken against the contractor. An agreement had been entered into with the same contractor on 03 October 2017 for Rs.1,485,000 for the fifth stage of construction, for completion of work within 03 months. The contractor had failed to complete this work too even by 30 June 2018.

4. Accountability and Good Governance

Internal Audit

Adequate internal audit had not been carried out at the institution.

5. Systems and Controls

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

System -----	Deficiency -----
(a) Revenue Administration	Action had not been taken to recover the arrears of revenue.
(b) Accounting	Existence of differences among balances and unresolved suspense accounts.
(c) Procurement	Lack of preparation of a procurement plan.
(e) Assets Control	Certain assets not being presented for verification.