

Madulla Pradeshiya Sabha

Monaragala 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 while the Auditor General's Report relating to those financial statements has been sent to the Chairman of the Sabha on 20 June 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Madulla 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

The following accounting deficiencies were observed.

- (a) Value of 02 blocks of lands taken over by the Sabha had not been assessed and brought to account.
- (b) A sum of Rs.13,934,815 incurred on 02 water scheme of the Sabha had not been capitalized.
- (c) A sum of Rs.1,551,347 spent for the construction of 04 meat and fish stalls at the Makulla Weakly Fair premises had not been capitalized.
- (d) A sum of Rs.644,702 spent for partitioning the trade stalls at the Makulla new bustand had not been capitalized.
- (e) The expenditure of the Makulla Water Scheme handed over to the Sabha by the Ministry of Economic Development in the year 2012 had not been recognized and capitalized.
- (f) A sum of Rs.201,000 payable as at 31 December of the year under review in respect of purchasing 02 computers for the office had not been brought to account.
- (g) As a stock of domestic garbage bins valued at Rs.27,600 had been reported as the sales on credit through the journal entries, accounts receivable and the surplus had been overstated by that amount.

- (h) In rectifying items of non-fixed asset valued at Rs.40,195 capitalized in the preceding years through the journal entries, it had been debited to the accumulated fund and as such, the accumulated fund been understated by that amount.
- (i) Without being credited to the revenue the penalty for delays amounting to Rs.529,358 computed relating to the construction of Madulla multipurpose building , it had been shown as the working creditors during the year under review. As such, the expenditure payable had been overstated and the accumulated fund had been understated by that amount.

1.3.2 Accounts Receivable and Payable

(a) Accounts Receivable

- (i) The outstanding balance of the trade stalls rental amounting to Rs.378,800 remained unrecovered over a number of years had not been recovered even during the year under review.
- (ii) Action had not been taken to recover the arrears in water charges amounting to Rs.29,024 relating to the years 2015 and 2016 even in the year under review.
- (iii) Stamp Fees amounting to Rs.96,030 receivable relating to the year 2015 and court fines amounting to Rs.91,099 receivable relating to the year 2016 had not been recovered even by the end of the year under review.

(b) Accounts Payable

A sum of Rs.722,891 payable in respect of 09 works carried out in the years 2015 and 2016 had not been settled even by the end of the year under review.

1.3.5 Non-compliance

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

Records had not been maintained for the confirmation of the arrival and departure of the officers with the use of a fingerprint machine as required by the Public Administration Circular No.09/2009 dated 16 April 2009.

02 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 had been Rs.2,883,402 as compared with the corresponding excess of revenue over recurrent expenditure of Rs.4,224,531 for the preceding year.

2.2 Revenue Administration

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

Details on the estimated revenue, billed revenue, collected revenue and revenue in arrears relating to the year under review and the preceding year are given below.

<u>Source of Revenue</u>	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.
(i) Rates and Taxes	-	685,965	567,996	117,969	1,200,000	1,270,364	1,144,689	125,675
(ii) Rents	5,332,260	5,320,664	5,320,664	-	5,325,369	5,309,433	5,309,433	-
(iii) Licence Fees	517,500	761,734	761,734	-	383,100	455,072	455,072	-
(iv) Other Revenue	11,745,350	3,922,532	3,922,532	1,247,599	10,574,500	1,148,676	1,148,676	1,564,293
Total	17,595,110	10,690,895	10,572,926	1,365,568	17,482,969	8,183,545	8,057,870	1,689,968

2.2.2 Performance in Collecting Revenue

The total billed revenue as at 31 December 2017 amounted to Rs.10.6 million and the revenue collected during the year amounted to Rs.10.5 million. However, revenue of Rs.1.3 million further remained recoverable even by the end of the year and the revenue in arrears had decreased by 19 per cent as compared with the preceding year.

2.2.3 Other Revenue

- A sum of Rs.109,700 pertaining to the year under review for hiring the Beko Loder of the Sabha had not been recovered even by the end of the year under review.
- In terms of the Pradeshiya Sabha Act No.15 of 1987, although publicity had been given regarding the recovery of charges as per the by-laws in respect of exhibiting hoardings, action had not been taken to recover the charges amounting to Rs.135,000.
- Water charges in arrears amounting to Rs.82,930 pertaining to the year had not been recovered even by the end of the year under review.

2.2.4 Court Fines and Stamp Fees

A sum of Rs.256,082 and Rs.1,178,647 had remained receivable from the Chief Secretary and other officers as court fines and stamp fees respectively as at 31 December 2017.

03. Operating Review

3.1 Performance

Matters revealed in the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people in terms of Section 3 of the Pradeshiya Sabha Act, are as follows.

(a) **By-laws**

By-laws should have been made under Section 126 of the Pradeshiya Sabha Act to carry out 30 main activities. Nevertheless, By-laws had been made only for 23 activities by 31 December 2017.

(b) **Action Plan**

Even though the activities that should be carried out by the Sabha as per the By-laws imposed had been determined, an Annual Action Plan had not been prepared.

(c) **Solid Waste Management**

Expenditure incurred during the year under review on waste management had not been settled by imposing by-laws relating to solid waste management and recovering garbage tax.

(d) **Sustainable Development Goals**

As the Sabha had not been aware of the 2030 Agenda for Sustainable Development Goals, the long-term plans to uplift the living standard and health of the people of the area of authority of the Sabha through the Global indicators relating to those goals, had not been formulated even up to 25 May 2018.

3.2 Operating Inefficiencies

- (a) Action had not been taken to assess and give on lease the new shopping complex and 24 trade stalls of the Sabha situated at the bus stand since year 2016.
- (b) In tendering properties annually, tender notice had not been published in three languages and when publishing newspaper advertisements for that purpose, bids had been invited only from the residents in the Monaragala district, thus restricting the suppliers.

3.3 Assets Management

3.3.1 Failure in carrying out maintenance and repairs

Without being utilized a sum of Rs.500,000 received on 26 December 2012 from the Rural Agricultural Roads Maintenance Fund for the maintenance of 21 rural roads, it had been retained in a savings account for more than a period of 05 years.

3.3.2 Assets not taken over

Action had not been taken to take over the ownership of 09 blocks of lands enjoyed by the Sabha and 35 cemeteries.

3.3.3 Idle/Under Utilized Assets

- (a) The library building at Obbegoda constructed at a cost of Rs.624,133 in the year 2013 and 588 books valued at Rs.195,695 purchased and received as the donations for that library had remained idle without being utilized even by the end of the year under review.
- (b) One hundred and four garbage bins of 20 liters valued at Rs.28,704 received by the Sabha in parallel to the National Programme of Segregating and Collecting Garbage had been stored while remaining idle over a period of about 04 years.
- (c) Vehicle service centre constructed at a cost of Rs.1,071,918 commencing from the year 2015 and equipment valued at Rs.123,325 purchased for the above service centre had not been utilized even by the end of the year under review.

3.4 Identified Losses

Without taking action to reimburse the loss of Rs.49,900 incurred due to causing accident to the Beko Loder bearing No. ZA 3922 of the Sabha from the insurance, a sum of Rs.39,900 had been spent from the funds of the Sabha for its repairs.

3.5 Procurement

3.5.1 Procurement Plan

The Pradeshiya Sabha had not prepared an Annual Procurement Plan for the year under review.

3.5.2 Supply and Services

The Pradeshiya Sabha had made purchases without preparing specifications.

3.5.3 Contract Administration

- (a) In terms of Guidelines No.01/2017 relating to the development projects, conditions should be included in the contract agreements stating that sub contracts should not be given form the constructions awarded to the Community Based Societies, whereas action had not been taken accordingly.
- (b) Compresing of roads had not been included in the estimates pertaining to the roads concreting projects.

04 Accountability and Good Governance

4.1 Budgetary Control

As significant variances were observed between the estimated revenue and expenditure, and the actuals of the Pradeshiya Sabha relating to the year under review, the budget had not been made use of as an effective instrument of management control.

4.2 Audit and Management Committee

Action had not been taken to adequately conduct the Audit and Management Committees of the Sabha relating to the year under review.

05. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Pradeshiya Sabha from time to time. Special attention is needed in respect of the following areas of control.

System

Deficiencies of the System

(a) Fixed Assets

(i) Failure in carrying out proper assessments.

(ii) Failure in adopting measures to take over the lands.

(b) Accounting

(i) Failure in accounting lands and buildings.

(ii) Failure in accounting accrued expenditure.

(iii) Failure in accounting receivable balances.

(c) Revenue Administration

(i) Failure in recovering revenue in arrears

(ii) Failure in recovering licence fees.