

**Ududumbara Pradeshiya Sabha**  
**Kandy District**

1. Financial Statements  
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1.1 Presentation of Financial Statements  
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Financial statements for the year under review had been presented for audit on 31 March 2011 and the financial statements for the preceding year had been presented for audit on 28 July 2010.

1.2 Opinion  
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In view of the comments and observations appearing in this report I am unable to express an opinion on the financial statements of Ududumbara Pradeshiya Sabha presented for audit for the year ended 31 December 2010.

1.3 Comments on Financial Statements  
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1.3.1 Accounting Deficiencies  
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(a) A loan obtained from the Local Loan and Development Fund amounting to Rs.1,500,000 had been debited to Accumulated Fund and credited to loan account in that the balance in the Accumulated Fund as at 31 December 2010 had been understated by that amount.

(b) In rectifying overstatements and understatements in plants and Machinery account in the preceding year by journal entry 31 and 34 of the year under review, the assets account and Accumulated Fund had been adjusted instead of being adjusted to assets account concerned and Revenue Contribution to Capital Account. Outlay had been overstated and understated by Rs.245,655 respectively as at 31 December 2010

- (c) In rectifying the omission of stationery balance of Rs.51,970 in the account relating to preceding years by journal entry 27 of the year under review, stock, of stationery had been debited and credited to the Accumulated Fund the balance in the Accumulated Fund account as at 31 December 2010 had been overstated by that amount.
  
- (d) Three hundred and eighty nine items of recurrent nature amounting to Rs.68,888 had been included in the plant and Machinery account as fixed assets in that the plant and machinery account had been overstated by that amount as at 31 December 2010.

1.3.2 Unreconciled Control Accounts  
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According to control accounts relating to 03 items of accounts, the balances totalled Rs.61,617,653 whereas according to subsidiary registers / reports account balances totalled Rs.61,862,757.

1.3.3 Accounts Payable  
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The value of accounts payable remained for over a period of 01 year as at 31 December 2010 was Rs.2,819,037.

1.3.4 Lack of Evidence for Audit  
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Non-remission of Information for Audit  
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Even though 07 sets of latrine equipment valued at Rs.10,150 had been purchased during the year under review for distribution among Navathagala Estate Community on Health and Sanitary day of Local Government week”, documents to confirm whether these equipment had been received by the beneficiaries were not made available for audit.

1.3.5 Non-compliance

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The following non-compliances with provisions in laws, rules, regulations and managements decisions were observed in audit.

Reference to Laws, Rules,  
Regulations and Management Decisions

Non-compliance

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(a) Inland Revenue Act No.10 of 2006

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Section 153

Withholding tax of Rs.33,433 in respect of supplies and services obtained in 04 instances during the year under review had not been deducted and remitted to the Commissioner General of Inland Revenue.

(b) Pradeshiya Sabha Act.No. 15 of 1987

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Section 19 (xxiv)

.The tipper of the Sabha bearing No CPLH 4778 had been given to a Company of Kandy Mahiyangana Road Development Project from 09<sup>th</sup> July 2010 on rent basis without the entering into an agreement

(c) Public Administration Circular  
No.41/90 of 10 October 1990

Fuel combustion of three vehicles belonging to the Sabha had not been checked in once in every 06 month and noted in log books.

- (d) Circular No.2006/5 dated 31 May 2006 of the Commissioner of Local Government.  
Section 03 and 04
- A sum of Rs.88,398 for telephone bills and Rs.75,541 for fuel had been paid out of Sabha fund during the year under review without obtaining the approval of the Commissioner of Local Government for the limits on telephone bills and fuel for vehicles being fixed.

2. Financial and Operating Review  
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2.1 Financial Results  
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According to the financial statements presented, the recurrent expenditure over the revenue of the Sabah for the year ended 31 December 2010 was Rs.127,670 as against the revenue over recurrent expenditure of Rs.127,041 for the preceding year.

2.2 No reliance on Financial Results  
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As a result of crediting a sum of Rs. 875,958 to Accumulated fund through No 12 Journal Entry during the year to rectify errors in adjustments made to revenue and expenditure of the proceeding year, revenue deficit of Rs. 353,766 declared in the financial statement presented for the year ended 31 December, 2009 had converted in to excess of revenue amounting to 522,192.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue  
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Particulars of estimated revenue, actual revenue and arrears of revenue submitted by Chairman in respect of the year under review and the preceding year are given below.

| Item of Revenue     | 2010      |          |                                       | 2009      |          |                                       |
|---------------------|-----------|----------|---------------------------------------|-----------|----------|---------------------------------------|
|                     | Estimated | Actual   | Accumulated Arrears as at 31 December | Estimated | Actual   | Accumulated Arrears as at 31 December |
|                     | Rs. '000  | Rs. '000 | Rs. '000                              | Rs. '000  | Rs. '000 | Rs. '000                              |
| (I) Rates and Taxes | 429       | 165      | 264                                   | 125       | 31       | 369                                   |
| (II) Lease Rent     | 1,671     | 674      | 997                                   | 1,065     | 833      | 726                                   |
| (III) Licenscc Fees | 407       | 407      | --                                    | 338       | 338      | -                                     |
| (IV) Other Income   | 4,721     | 2,453    | 2,268                                 | 1,544     | 529      | 2,468                                 |

2.3.2 Court Fines

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 Court fines of Rs.106,552 collected by a Magistrate Court up to 31 December 2010 under various Ordinances and remitted to Chief Secretary had remained as receivable to the Sabha.

2.3.3 Stamp Fees

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 Stamp fees amounting to Rs.1,163,935 had remained as receivable from the Registrar General as at 31 December 2010.

2.3.4 Rates, Charges and Rent

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 Action had not been taken to collect outstanding rates charges and rent amounting Rs.3,078,620 remained as at 31 December 2010 in terms of provisions in Sections 158 and 159 of Pradeshiya Sabha Act No.15 of 1987.

2.4 Expenditure Structure  
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Estimated and actual expenditure of the Sabha for the year under review and the preceding year along with the relevant variances are given below.

| Items of Expenditure<br>----- | Budgeted<br>----- | <u>2010</u>     |                   | Budgeted<br>----- | <u>2009</u>     |                   |
|-------------------------------|-------------------|-----------------|-------------------|-------------------|-----------------|-------------------|
|                               |                   | Actual<br>----- | Variance<br>----- |                   | Actual<br>----- | Variance<br>----- |
|                               | Rs.<br>'000       | Rs.<br>'000     | Rs.<br>'000       | Rs.<br>'000       | Rs.<br>'000     | Rs.<br>'000       |
| <u>Recurrent Expenditure</u>  |                   |                 |                   |                   |                 |                   |
| Personal Emoluments           | 11,962            | 9,497           | 2,465             | 9,882             | 8,736           | 1,146             |
| Other                         | 3,685             | 3,419           | 266               | 2,567             | 2,664           | (97)              |
| Sub Total                     | 15,647            | 12,916          | 2,731             | 12,449            | 11,400          | 1,049             |
| Capital Expenditure           | 36,400            | 57,821          | (21,421)          | 32,596            | 49,584          | (16,988)          |
| Grand Total                   | 52,047            | 70,737          | (18,690)          | 45,045            | 60,984          | (15,939)          |
|                               | =====             | =====           | =====             | =====             | =====           | =====             |

2.5 Human Resources Management  
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2.5.1 Approved and Actual Cadre  
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Particulars of approved and actual cadre of the Sabha as at 31 December 2010 are given below.

| Category<br>-----        | Approved<br>----- | Actual<br>----- |
|--------------------------|-------------------|-----------------|
| Staff                    | 02                | 02              |
| Secondary                | 13                | 10              |
| Primary                  | 18                | 15              |
| Other (Casual/Temporary) | --                | 11              |

2.5.2 Recruitment of Employees without Formal Authority  
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Eleven casual employees had been engaged during the period 19 December 1994 to July 2010 without proper approval of the Commissioner of Local Government under Section 19(1) of Pradeshiya Sabha Act No. 15 of 1987 and without posts are being approved in terms of F.R.71. Salary paid out of the Sabha Fund only for the period January to October 2010 amounted to Rs.1,462,120.

2.6 Assets Management  
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2.6.1 Idle and Underutilized Physical Resources  
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The Cab bearing No 53-4771 belonging to the Sabha which had been given to Army for operational duties had been return to the Sabha on 12 November, 2004 in damage condition. This vehicle is being decayed in the Sabha premises for over 06 years without being repaired and make use of or to dispose by an auction.

2.6.2 Accounts Receivable  
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The value of accounts balances receivable as at 31 December 2010 was Rs.24,012,093 and the account balances remaining for over a period of 01 year totalled Rs.4,077,827.

2.6.3 Staff Loans Recoverable  
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Staff loan advance balances recoverable as at 31 December 2010 totalled Rs.674,554.

2.6.4 Non-moving Current Assets

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The value of non-moving assets remained for over a period of 01 year as at 31 December 2010 was Rs.28,740.

2.6.5 Assets not Verified

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The value of assets not confirmed by physical verification but taken in to account on book value as at 31 December 2010 was Rs.68,206,992.

2.7 Vehicle Utilization

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An expenditure of Rs.100,338 had been incurred from Sabha Fund for the period January to October 2010 in respect of vehicles obtained on rent basis for activities of the Sabah.

2.8 Irregular Transactions

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(a) A land had been purchased on 25 March 2010 for the disposal of solid waste spending a sum of Rs.320,000 from Sabha fund ignoring the Government assessed value of Rs.100,000 for that land.

(b) A tipper bearing No.CPLH 4778 had been purchased on 06 June 2006 for Rs.2,968,000 from a private company on loan basis with the objective of gaining income from renting out same.

The following matters were observed in this regard.

(i) Purchase had been made from the company where second lowest quotations had been submitted ignoring the lowest quotations of Rs.2,685,000.

(ii) Recommendation of technical evaluation committee had been ignored.

(iii) Loss sustained by the Sabah on this purchase amounted to Rs.283,000.



- (iv) This vehicle had been given to a private institution from 07 July 2010 on rent basis without a written agreement. Out of rent due to Sabah a sum of Rs.126,400 had been retained by the institution concerned for the period 21 July to 20 August 2010 at a rate of Rs 8,000 pay day due to heavy fuel combustion of the Vehicle
- (v) Due to failure to get the above repairs done by the institution concerned during the guarantee period, this loss had to be bore by the Sabah Fund.

## 2.9 Operating Inefficiencies

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The following observations are made.

- (a) Even though 54 items of goods not inventor zed had been identified according to board of survey reports of the year under review, necessary action had not been taken in this regard.
- (b) According to survey of library books, 753 books had been misplaced. Action had not been taken to compute its value and recover from the parties responsible.
- (c) According to the board of survey conducted in respect of the public library of the Sabha for the year under review, there had been a shortage of 03 inventory items. Nevertheless, action had not been taken to settle this shortage even as at 20 July 2011.
- (d) Action had not been taken to collect capital grants amounting to Rs.1,781,421 receivable from Government institutions as at 31 December of the year under review in respect of 178 contracts relating to the period of 11 years from year 1998 to 2009.

- (e) Action required for the settlement of balances amounting to Rs.1,870,811 payable as at 31 December of the year under review in respect of 116 contracts relating to the period of 12 years from year 1998 to 2009.

2.10 Contract Administration

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Constructions  
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Deficiencies observed at field inspections carried out on 16 June 2010 in respect of constructions are given below.

- (a) Construction of a Side Wall and Concreting Culverts there on near the residence of Mr.Upali.

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- (i) Even though concreting of basement in 1- 2 ½ - 5(1") mix under work item No.02 should be done to a thickness of 01 feet, it had been done thickness of 06 inches and as a result a sum of Rs.17,280 had been overpaid for 0.61 cube at a rate of Rs.28,328 per 01 cube.
- (ii) A sum of Rs.23,282 had been paid for works not executed in constructing rubble wall beneath ground level under work item 03.
- (iii) Thickness of concreting the road in 12 - 1: 2 ½:5(1") mix under work item No.12 in certain areas work in various thickness such as 4", 4 ½ " and 5" . In computing the overage thickness it was observed that a sum of Rs. 5,382 had been over paid for 0.19 cubes at a rate of Rs. 28,328 per a cube.

(b) Supply of Water pipes for drinking water to families in Mhawaka Imbulpitiya Village

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(i) It was confirmed by statements made by consumers that water passes through the pipes contained rust.

(II). As a result of water supply has being mixed with mud the pipes had to clean regularly. This project had being commenced without proper feasibility study being carried out in the expenditure of Rs. 48,500 incurred had become fruitless.

(c) Concreting of Udadumbara Polic Ground Road

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Even though a sum of Rs. 50,059 had been paid for 03 work items under stage 11 of Jathika Saviya Gamanaguma – 2010 , it was observed that the expenditure incurred was for same work item. It was also observed that this work could have been done within 10 unskilled labor days. Accordingly it was also observed that a sum of Rs. 43,559 had been over estimated and paid.

(d) Construction of Community Halls

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(i) It was observed that a sum of Rs.351,310 had been spent by the year 2010 for construction and repairs 04 of community hall without action being taken to acquire the property by the Saba.

(ii) Even though the provision of Rs. 239,417 which should have been received in respect of repairs Gangodawila Community Hall under Jathikasaviya Gamanaguma in the year2008, had not been received even as at 31 December 2010. A sum of rupees 120,433 had been paid during in the year 2008 to the contractor's society concerned out of Saba Fund.

2.11 Internal Audit

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An adequate internal audit had not been carried out in the Institution.

3. Systems and Controls

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Special attention is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Financial Control
- (c) Debtors and Creditors Control
- (d) Vehicle Utilization