

Udarata Development Authority of Sri Lanka

1. Financial statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the Financial position of the Udarata Development Authority of Sri Lanka as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations were made.

- (a) Five cheques valued at Rs.20,756,690 out of the sixteen cheques amounting to Rs.25,145,466 which were written in December 2011 but not issued even as at 28 February 2012 due to the non-supply of relevant goods had been cancelled. The value of such cheques had been included in the expenditure of the year, thus resulted in an overstatement in the expenditure of the year.
- (b) Despite a cash balance of Rs.53,513,844 received from the Treasury and the Ministry of Economic Development for the completion of development activities as at 31 December 2011, a sum of Rs.50,000,000 had been brought to account as receivables from Treasury for continuous work and liabilities. As a result, current assets (receivable funds) and accumulated fund had been overstated by the same amount.

- (c) The total value of 158 works amounting to Rs.32,478,637 which were expected to carry out during the year under review but no expenditure incurred thereon had been brought to account as the development expenditure of the year with the intention of carrying out those works during the following year.
- (d) Even though the two vehicles bearing numbers 56-6504 and 254-0401 had been received as donations from the Ministry of Economic Development, those had not been brought to account under the fixed assets and government grants.

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

The following non-compliances were observed.

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Non-compliance</u>
(a) Section 3(1) of the Sri Lanka Udarata Development Authority Act No. 26 of 2005	Even though the area of authority was extended to 08 districts, it had been restricted only to 05 Divisional Secretariat areas of Kandy district according to the plans implemented during the year under review.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
i. F.R. 237	Approval / Certification of payments should not be done without a certificate to the effect that the goods and services have been received. Nevertheless, cheques had been written in respect of 16 vouchers valued at Rs.23,345,466 without being approved and certified the payments, despite the non-receipt of goods concerned.

ii. F.R 212 (2)

Even though salary advances can be paid subject to only 40 per cent limit of the monthly salary of an officer, salary advances ranging from 51 to 68 per cent of the salary had been paid to two officers.

1.2.3 Transactions not supported by Adequate Authority

A lease rent amounting to Rs.107, 500 recoverable from a lessee due to the close down of milk bar maintained at the University of Peradeniya, had been written off from the relevant debtors account while the approval of Board of Management had not been obtained in this connection. According to the reply of the Chairman, it was stated that legal action was being taken to recover such amount, thus it was confirmed that the write off from accounts as mentioned above is not an appropriate action.

1.2.4 Apparent Irregularities/Irregular Transactions

The following matters were observed.

- (a) Despite the requirement of 5100 plants identified under the Divi Neguma Domestic Economic Unit Project, 10,200 plants valued at Rs.306,000 had been purchased without a proper basis. Due to the lack of adequate space for the plants obtained in excess, those had to be distributed among the school teachers and students.
- (b) Despite the requirement of 3,024 chicks for the Animal Husbandry Programme in parallel with the Divi Neguma Development Programme, 6000 chicks had been ordered without a proper basis, thus 2,976 chicks valued at Rs. 892,800 had been obtained in excess. Even though those chicks were not received as at 31 December 2011, the total value of Rs.1,800,000 had been brought to account and written the cheques. Out of that, only 1616 chicks were received by April 2012.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2011 had resulted in a surplus of Rs.5,679,287 as compared with the surplus of Rs.7,561,888 for the preceding year thus indicating a deterioration of Rs.1,882,601 in the financial results of the year under review. Increase of development expenditure and expenses on personal emoluments and contractual services as compared with the preceding year had mainly affected the deterioration.

3. Operating Review

3.1 Performance

Even though 1147 development activities amounting to Rs.300 million had been estimated to carry out under 04 main sections during the year under review, only 70 per cent of the activities amounting to Rs.210 million had been completed. When taking in to consideration the matters in paragraph 1.2.1(a) of this report, the physical progress of the year under review was Rs.185 million and it represented 61 per cent.

3.2 Management Inefficiencies

The following observations were made.

- (a) Despite the action being taken to distribute turmeric and ginger recommended under the supervision of Extension Officers of the Department of Export Agriculture with the intention of promoting the cultivation of turmeric and ginger, 7027 kg of turmeric and ginger had been purchased at higher prices from a private nursery who was not registered at the Department of Agriculture without a recognized certification, thus the institution had suffered a loss of Rs.262,300. Further, 50 per cent of installments (granted under the Revolving Fund) recoverable to the Authority due to the reasons such as failures in germination, rot and subsequent destruction of most of the suckers purchased had not been properly recovered.

- (b) Two trade stalls belonging to the market complex in Kadugannawa had been leased out on the pretext of a Dairy Farmers Society and a Bees Control Society during the year under review while a refundable deposit of Rs.200,000 in respect of those trade stalls had not been obtained. In further investigations, the Director had confirmed that such a Dairy Farmers Society was not registered under the Provincial Department of Animal Production.

3.3 Uneconomic Transactions

An expenditure of Rs.2,338,590 had been incurred for the supply of equipment required for beauty culture to the self-employees in 03 Divisional Secretariat areas under the Livelihood Development Project and quotations had been called from 04 institutions for the purchase of such equipment. Nevertheless, it was observed that the expected objectives of the project were not achieved due to the failure to pre-determine the specifications relating to the equipment to be purchased, purchase on the basis of 03 fraudulent prices submitted by a person, and confirmations made by the relevant beneficiaries that certain ornaments were not usable.

3.4 Deficiencies in the Contract Administration

- (a) According to the Supplementary to the Procurement Manual of 09 March 2011 which amended Section 3.9.1 of the Procurement Guidelines, contracts up to Rs.2 million could be awarded to a society selected and approved by a committee comprised of two representatives named by the Divisional Secretary and the Head of the Department without calling for tenders. Nevertheless, the contracts relating to the bridge at Wivala, Narangaspitiya and the bridge at Siththodaya with estimated values of Rs.13,894,175 and Rs.3,204,882 respectively had been awarded to two approved societies disregarding the above limit. Further, advances amounting to Rs. 2,135,894 and Rs.288,549 had been paid exceeding the maximum limit for advances of Rs.200,000 which could be granted to such societies without a bank guarantee in terms of Sub section 5.4.4(11) of the Guidelines.

- (b) The contract with an estimated value of Rs.1,015,944 for the construction of a plant sales center of 18'x25' within the premises of Peradeniya Botanical Garden had been awarded to a private contractor without being vested in the relevant land and following the procurement procedure whereas a formal agreement was also not available. Contrary to the paragraph 5.4.4 of Procurement Guidelines-2006, 20 per cent of advances amounting to Rs.199,560 had been paid without obtaining a security. Overestimation of Rs.220,904 relating to 05 works had been made while payments for the work done had been suspended due to the completion of construction not complied with the standards and with an unsatisfactory finish.
- (c) In the work for the development of outer canal at Keheldeniya in Mapamadulla of Harispaththuwa Divisional Secretariat area, the concrete on the bottom of canal should be laid with a thickness of 06 inches. Nevertheless, a concrete of a thickness of 02 inches with a substandard mixture had been laid, while a sum of Rs.154,017 had been overpaid with regard to the work not done in this connection despite the poor condition of the concrete. Further, a sum of Rs.21,695 had been overpaid due to the overestimation made relating to the excavation work in the construction of canal.
- (d) An agreement for a sum of Rs.731,000 had been entered into for the development of canal at Yaya Kumbura, Poldeniya in Alawathugoda in the Akurana Divisional Secretariat area. Nevertheless, it was observed that the existence of canal would not be lasted for a long time due to the reasons such as planning the canal walls with a thickness of only 04 inches without an adequate thickness and strength for the capacity of canal, poor completion of canal side walls with lesser thickness, existence of places with uncovered tension steel wires, and thickness of less than 3.25 inches in certain places. Further, a sum of Rs.77,466 had been overpaid in respect of the work not done relating to the construction of the canal bottom.

(e) Cancelled Works

Seven works commenced during the year under review at an estimated cost of Rs.1,398,699 were continued to the year 2012, while advances amounting to Rs.43,620 had been paid in respect of two works out of the above. Subsequently, those seven works had been cancelled.

3.5 Staff Administration

Recruitments for the posts of Director Development and Engineering had been made without scrutinizing the required qualifications.

3.6 Utilization of Vehicles

(a) Three old vehicles belonging to the institution had been lying idle at the office premises for over one year.

(b) Running Charts of 15 vehicles relating to a period of 04 months from January 2012 up to April 2012 had not been presented to audit.

4. Accountability and Good Governance

4.1 Corporate Plan

Even though a Corporate Plan had been prepared for a period of five years from 2008-2012, it had not been timely reviewed and updated. Action had not been taken to carry out most of the activities targeted in the Corporate Plan.

4.2 Action Plan

Even though 1147 various works and activities valued at Rs.300 million which were based on Grama Niladhari Divisions had been included in the Action Plan, those had not been stated in detail indicating the estimated value of each work.

4.3 Internal Audit

An Internal Audit Unit had not been established in the institution.

4.4 Procurement Plan

Even though a Procurement Plan for the year was prepared, it had not been prepared in a realistic manner, while the plan had not been updated and made use of as an effective instrument of management control.

4.5 Budgetary Control

(a) Provisions ranging from 16 to 99 per cent relating to 08 Recurrent Objects had been transferred to other Objects and due to the inadequacy of provisions of 08 Objects , provisions ranging from 38 to 312 per cent had been transferred from other Objects.

(b) Savings ranging between 29 to 100 per cent of 06 Capital Objects amounted to Rs.123,522,256.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were pointed out by my reports from time to time. Special attention is needed in respect of the following areas of control.

- (a) Internal Audit
- (b) Implementation of Projects
- (c) Stores Control
- (d) Control over Vehicles
- (e) Payment of Salary Advances
- (f) Contract Administration
- (g) Maintenance of Books of Accounts

