

Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha

Kandy District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 28 March 2014 and the financial statements for the preceding year had been presented on 30 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 16 January 2015.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) According to the register of fixed assets, 11 blocks of land had not been valued and brought to account.
- (b) The Scooter valued at Rs.32,000 and auctioned during the year under review, had continued to be shown in the motor cars and carts account.
- (c) An advance payment amounting to Rs.76,490 had been given in February 2013 for the purchase of medicine. The relevant stock of medicine had been received by the Sabha on 23 March 2013, and even when a part of the stock was in use, the relevant value had continued to be shown in the account as stores advance.

- (d) The salaries and increments in arrears paid to 06 officers of the Sabha, with respect to the period from 2006 to 2012 amounting to Rs.188,111, had been brought to account as expenditure of the year under review.

1.3.2. Un-reconciled Control Accounts

According to the control accounts relevant to 04 items of accounts, the total balances amounted to Rs.15,650,621, whilst the total balances of these accounts according to the schedules amounted to Rs.15,941,383. Therefore a difference of Rs.290,762 was revealed.

1.3.3. Accounts Receivable and Payable

a) Accounts Receivable

The total balances of accounts receivable as at 31 December 2013 amounted to Rs. 65,591,469 and out of this, the balances carrying forward since a period of 01 to 12 years, amounted to Rs.38,154,823. Action had not been to inquire about these balances and settle them.

b) Accounts Payable

The value of total balances of expenditure creditors as at 31 December 2013 amounted to Rs.62,683,036, and out of this, the total balances of expenditure creditors over one year amounted to Rs.26,424,452.

1.3.4. Lack of Evidence for Audit

Transactions totalling Rs.34,030,085 with relevant to 04 items of accounts, could not be examined satisfactorily, due to non-submission of required information to audit.

1.3.5. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with Laws, Rules and Regulations were observed.

Reference to Laws, Rules and Regulations

Non-compliance

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| (a) Section 132 (a) of The Pradeshiya Sabha Act No. 15 of 1987 | A sum of Rs,87,814 had been spent from Sabha funds for the Vice Chairman and another Member, to follow courses of studies not relevant to the objectives of the Sabha. |
| (b) F. R. 371 (2) of Financial Regulations of the Republic of Sri Lanka | Advances should be settled immediate after the completion of the work. But action had not been taken to settle the advances amounting to Rs.100,422, obtained in 18 instances within a period of 01 to 07 years. |
| (c) The Urban Development Authority Act No. 41 of 1978, as amended by Acts No. 04 of 1982 and 44 of 1984, and the Gazette Notification No. 1597/8 dated 11 April 2009. | Legal action had not been taken with respect to unauthorised construction of houses in 04 locations within the area under the authority of the Sabha. |

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 2013 amounted to Rs.35,156,167, as compared with the excess of revenue over recurrent expenditure amounting Rs.6,272,187 for the preceding year. Therefore the financial result had been improved by Rs.28,883,980.

2.2. Revenue Administration

2.2.1. Performance on Revenue Collection

Estimated Revenue, Actual Revenue and Revenue in Arrears

The information with respect to Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review, submitted by the Chairman are indicated below.

Item of Revenue	Estimated	Actual	Cumulative Arrears
	Rs.'000	Rs.'000	as at 31 December Rs.'000
(i) Rates and Taxes	10,713	6,290	8,925
(ii) Lease Rent	313	57	158
(iii) Licence Fees	4,707	2,874	131
(iv) Other Income	11,672	38,485	42,653

2.2.2. **Rates and Taxes**

The following matters are observed.

- (a) The rates and taxes in arrears at the beginning of the year under review amounted to Rs.7,666,265, and as at the end of the year under review Rs.6,137,424 had remained unrecovered further. Therefore the collection of the rates and taxes in arrears during the year had been only 20%.
- (b) There had been 234 units of rates, which are charged with rates and taxes of over Rs.4,000. The rates and taxes in arrears due from these units during a period between 03 to 20 years had been Rs.1,974,353.
- (c) There had been rates and taxes in arrears amounting to Rs.123,640 with regard to 14 government institutions in the zone under the authority of the Bowala Sub Office and action had not been taken even as at 30 June 2014, to collect this amount which had been due over a period of 05 years.

2.2.3. **Lease Rent**

The lease rent in arrears which was due over a period of 01 year as at 31 December 2013 amounted to Rs.157,527 and proper action had not been followed to recover the arrears.

2.2.4. Licence Fees and Taxes on Waste

The licences fees in arrears amounting to Rs.130,710 and taxes on waste in arrears amounting to Rs.51,780, had been carrying forward over a period of 02 years and action had not been taken to recover these arrears.

2.2.5. Electricity Charges in Arrears

There had been electricity charges receivable, amounting to Rs.2,734,948 which is carrying forward over a period of 10 years. But action had not been taken either to recover the amount or to settle it by following a proper procedure.

2.2.6. Stamp Fees

The stamp fees, receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013 had been Rs.36,843,639. This balance had been carrying forward since the year 2003, and action had not been taken to follow-up and recover them.

3. Operating Review

3.1. Working Capital Management

The ratio between total current assets and current liabilities was 1:0.81, and the ratio in the preceding year was 1:0.91. Therefore it was observed that these ratios were not in a superior level. Further, 50% of the total current assets amounting to Rs.54 million were revenue debtors whilst 70% of total current liabilities amounting to Rs.62 million consisted of sundry creditors.

3.2. Operating Inefficiencies

The following matters are observed.

- (a) A loan balance amounting to Rs.847,686, had been due, from 40 employees who had been transferred, interdicted, retired and deceased, and action had not been taken to recover this amount which had been due for periods of 03 to 10 years.
- (b) The total value of balances in 04 items of debtors amounting to Rs.1,224,583 of which the details not made available, had been carrying forward over a period of 05 years, and action had not been taken either to recover the amount or to settle it by following a proper procedure.

3.3. **Idle and Underutilized Assets**

A stock of materials relevant to water works valued at Rs.6,487,162 as at the end of the year under review, had been lying idle and underutilized for a period over 10 years.

3.4. **Contract Administration**

The following matters are observed.

(a) **Tennekumbura – Thekkawatta Road**

Tennekumbura – Thekkawatta Road had been completed on 30 November 2013, by laying interlocking concrete blocks, at a cost of Rs.500,000. According to the Item of Work No. 04 in the payment report relevant to the construction, the concrete protective kerb should be constructed with a width of 6” and height of 9” using 1:2:4 ($\frac{3}{4}$ ”) concrete mixtures. But the height of protective kerb from the right side, at the end of the road had been, 6 $\frac{1}{2}$ ”, 7”, 7 $\frac{1}{2}$ ” and 9”, whilst the height of the protective kerb close to the house on the right side, at the beginning of the road had been, 1 $\frac{1}{2}$ ”, 2”, 2 $\frac{1}{2}$ ” and 3 $\frac{1}{2}$ ”; showing that the relevant measurements of the protective kerb had been less than the estimated specifications.

(b) **Development of Road Located in Front Close to Bolawatta Sethsiri Stores**

The road located in front, close to Bolawatta Sethsiri Stores had been completed on 20 December 2013, laying interlocking concrete blocks at a cost of Rs.500,000. According to the Item of Work No. 03, the payments had been made for the concrete protective kerb on both sides of the road for a height of 10”. But according to the measurements of the protective kerb the height was 7”, 8” and 9”.

(c) **Radagaswatta Road - Laying of Concrete Paving Blocks**

Radagaswatta Road had been completed on 19 December 2013, by laying interlocking concrete blocks at a cost of Rs.500,000. Though the payments for the concrete protective kerb had been made for a height of 9”, the measurements of the protective kerb had been 4 $\frac{1}{2}$ ” and 4”.

(d) Development of Gammedda Road close to Ketawala Cemetery

The Gammedda Road close to Ketawala Cemetery had been completed on 10 January 2014, by laying interlocking concrete blocks, at a cost of Rs.500,000.

- (i) According to the Item of Work No. 04 of the estimate, 5.50 cubic metres of concrete retaining wall on both sides of the road, consisting 1:2:4 ($\frac{3}{4}$ " cement, sand and metal mixture had been estimated at Rs.85,140. But a sum of Rs.102,322 had been paid for 6.61 cubic metres.
- (ii) The payments for 6.61 cubic metres of concrete protective kerb constructed under work No.04 amounting to Rs.102,322 had been made based on the height of 9", and the width of 6". But the measurements of the protective kerb had been 4 $\frac{1}{2}$ " and 5".

(e) Development of Mee Kanuwa Victoria Garden Road

The Mee Kanuwa Victoria Garden Road had been completed on 23 March 2014, by laying interlocking concrete blocks, at a cost of Rs.433,545.

- (i) Paving blocks utilised for the road had sunk in an area of 30 feet in length and 2 feet in width.
- (ii) According to the Item of Work No. 04, a sum of Rs.86,378 had been paid for 5.58 cubic metres of concrete protective kerb constructed using 1:2:4 ($\frac{3}{4}$ " cement, sand and metal mixture, based on the width of 6" and the height of 9". The physical inspection carried out on this, revealed that the height of the protective kerb had been $\frac{1}{2}$ " along a stretch of 15' along the road. Further, the inspection carried out along the remaining part of the road on 02 instances, revealed that the height of the protective kerb had been 7 $\frac{1}{2}$ " and 4 $\frac{1}{2}$ ".

(f) Concreting Polwatta Upper Section

Polwatta Road Upper Section had been completed on 03 October 2013, by concreting at a cost of Rs.485,000. This road should be constructed with a length of 900 feet, a width of 09 feet and a thickness of 04", using 1:2 $\frac{1}{2}$:5 (01" cement, sand and metal mixture. Though

payments amounting to Rs.100,671 had been made for 2.97 cubic metres of concrete, it was revealed that the thickness of the road had been 2½” , 3” and 4”, and the road had been constructed without complying with the estimated specifications.

(g) **Concreting Ampitiya Meddegama Road**

Ampitiya, Meddegama Road had been completed on 29 December 2013, by laying interlocking concrete blocks at a cost of Rs.500,000. According to the Item of Work No. 04, a sum of Rs.88,245 had been paid for 5.72 cubic metres of concrete protective kerb consisting 1:2:4 (19 mm) cement, sand and metal mixture, based on the height of 9”, and the width of 6”. But during the physical inspection carried out on 04 instances, it was observed, that the height of the protective kerb had been 7”.

4. Accountability and Good Governance

4.1. Procurement Plan

Though capital expenditure of Rs.61,838,904 million had been incurred in the year under review, a procurement plan had not been prepared.

4.2. Internal Audit

Adequate internal audit had not been carried out by the Sabha during the year under review.

4.1. Budgetary Control

The following matters are observed.

- (a) Since the provisions in 28 expenditure heads as at 31 October of the year under review had been insufficient, provisions amounting to Rs.2,898,000 had been transferred from 25 other expenditure heads.
- (b) Due to the over estimation without proper study and planning, there had been savings within the range of 15% to 60% under the provisions in 06 expenditure heads.

- (c) Due to the underestimation without proper study and planning, there had been insufficiency in the provisions within the range of 06% to 100%, in 10 expenditure heads. Therefore provisions had been transferred from other expenditure heads.
- (d) Provisions amounting to Rs.1,647,000 had been allocated for 20 expenditure heads, and the entire amount had been saved.
- (e) When the estimated revenue and expenditure for the year under review were compared with the actual revenue and expenditure, variances in the range of, 39% to 426% in respect of 05 items of revenue, and variances in the range of 23% to 46% in respect of 03 items of expenditure were observed. Therefore the budget had not been made use of as an effective tool of control.
- (f) Though revenue of Rs.400,000 had been estimated for the sub item of revenue - taxes from waste, no revenue had been collected under this item.
- (g) The total estimated revenue of 04 items of revenue amounted to Rs.36,672,410 and out of this, only Rs.7,981,462 had been earned during the year under review.

5. **Systems and Controls**

Special attention is needed in respect of the following areas of systems and controls.

- a) Accounting
- b) Internal Control
- c) Budgetary Control
- d) Revenue Administration