

**Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha
Kandy District**

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 29 March 2016 while Financial Statements relating to the preceding year had been submitted on 07 April 2015, and the Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 16 August 2016.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha as at 31 December 2015 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

Following matters were observed.

- (a) Motor Vehicle No. WPPF – 7488 valued at Rs. 6,390,000 had not been disclosed in notes to the account which had been given to the Sabha in the year 2014 by the Ministry of Local Government and Provincial Council, however the ownership had not been transferred
- (b) The documents to verify the ownership had not been available with regard to 19 lands mention in the land register maintained by the Sabha, actions had not been taken to verify of those lands and to account by assessing the value

1.3.2 Non-reconciled Control Accounts

As per the schedule, the Staff Loans as at 31 December year under review was Rs. 7,175,620 and as per the financial statements it was Rs. 7,282,002 hence the non-reconciliation was Rs. 106,382.

1.3.3 Accounts Receivable

While the value of 06 Accounts Receivable balances as at 31 December 2015 was aggregating Rs. 124,549,528, out of that value of balances that had been outstanding over 01 year was aggregating Rs. 75,048,169.

1.3.4 Accounts Payable

While the value of 03 Accounts Payable balances as at 31 December of the year under review was aggregating Rs. 95,402,205, out of that, the value of account balances that had been outstanding over 01 year was aggregating Rs. 25,725,125.

1.3.5 Lack of Evidence for Audit

Following matters were observed.

- (a) Transactions totaling Rs. 8,906,670 relating to 03 items of accounts could not be satisfactorily examined in audit due to non-presenting of required information to audit.
- (b) Four assets items valued at Rs. 106,910 shown under Motor Vehicles and Carts in the financial statements as at 31 December year under review was not presented to physical verifications.

1.3.6 Non-compliance with Laws, Rules and Regulations etc.

Following instances of non-compliance were observed.

Reference to laws, rules and regulations etc.	Non-compliance
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(a) Pradeshiya Sabha (Finance and Administrative) Rules Series of 1988	
(i) 217	Register had not been maintained for lands and buildings of the Sabha in format P.S 46
(ii) 218	Actions had not been taken to conduct verification for all lands and buildings.
(b) National Environmental Act No. 47 of 1980 (amended from acts No. 56 of 1988 and No. 53 of 2000)	Environment Protection License had not been issued to 48 factories which lapsed the validity period of Environment license as at 31 December 2015.
(c) Establishments Code of the Republic of Sri Lanka chapter xxxii paragraph of 2:3:4	Though, the approval for Five days of leave with pay should be taken by the Vice Chairman in each month for the participation of meetings and related activities subject to emergency at the time he holds the position as Divinaguma Development Officer, had participated 13 sittings and 26 committees without getting the approval for leave.
(d) Commissioner of Local Government (Central Province) Circular No. 2006/05 CP/PLGD dated 31 May 2006	Though the provisions had not been made to provide official vehicle and fuel for Vice Chairman's of Pradeshiya Sabha, a sum of Rs. 262,053 had been spent to provide fuel by assigning a vehicle to the Vice Chairman.

2. 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 2015 amounted to Rs. 112,105,283 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 62,949,775. Accordingly, an improvement in a sum of Rs. 49,155,408 was observed in the financial results.

2.2 Analytical Financial Review

A decline of Rs. 16,089,325 was observed in overall surplus of the year under review as compared with the overall surplus of the previous year, and decrease in 04 revenue items and increase in 02 expenditure items had been the main reason for this decline.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Estimated Revenue, Actual Revenue and Arrears of Revenue presented with relating to the year under review is shown below.

Item of Revenue	as at 01.01.2015		Year 2015			Receipt of 2015			Arrears as at 31.12.2015
	Arrears Balance	Receipt in Advance	Billing	Surcharges	Discount Given/ Write Off	Receipt in Advance	Receipt from Arrears	Receipt from Billings	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	8,214,097	369,281	7,514,256	474,465	299,153	510,266	2,711,245	4,321,219	7,991,653
Lease Rent	187,902	--	564,000	5,700	--	--	187,407	428,700	141,495
License Fees	--	2,854,699	--	--	--	--	--	2,854,699	--
Other Revenue	119,649,926	--	45,092,884	--	227,006	25,200	83,030,349	8,708,827	72,506,668
Total									80,639,816

The total revenue balance of Rs. 80,639,816 was in arrears as at 31 December of the year under review.

2.3.2 Rates

While the rates balance in arrears at the beginning of the year under review amounted to Rs. 8,199,083, billing for the year was Rs. 7,512,286. The percentage of recovery during the year out of arrears had been 33 per cent and billing 57 per cent. Rates in arrears as at 31 December 2015 were Rs. 7,975,099, and out of that, the balance over 01 year was amounting to Rs. 5,487,839. Accordingly, it was observed the rate recovery was in poor level. The secretary

had informed me from the letter dated 27 July 2016 that, out of this arrears, further outstanding of Rs. 6,358,828 had been remained as at 31 December 2015.

2.3.3 Court Fines and Stamp Fees

Stamp Fees amounting to Rs. 62,143,620 and Court Fines amounting to Rs. 690,918 were receivable as at 31 December 2015, out of that balance the amount in arrears that had exceeded a period of more than 01 year was Rs. 36,220,448.

3. Operating Review

3.1 Management Inefficiencies

Following matters were observed.

- (a) According to the 05.02 of Audit report No. CPC/CS/05/14/01/18 of Provincial Audit Director dated 21 October 2015, no remedies had been taken with regarding 538 diesel liters taken for Rs. 51,110 by exceeding the fuel capacity of the Foton lorry No WP – LL – 6401
- (b) Actions had not been taken to settle advances of Rs. 20,000 even as at 03 November 2015 which had been given in 03 instances for officers of Kandy Municipal Council in the years 2007 and 2009.
- (c) Actions had not been taken to settle the balance of contributory retirement fund payable amount of Rs. 3,803,483 even as at 31 December 2015 which was continuing before the year 2005.
- (d) Building constructed in privet properties of No. 59 and 41 at Hirassagala Green Hills land had been constructed without considering the road lines, and Sabha had not taken any actions in this regard.
- (e) Actions had not been taken to recover 18 arrears staff loan balances of Rs. 274,238 continuing before the year 2000.
- (f) Nine hundred ninety one building applications had been received during the period 2013, 2014 and 28 October 2015 and the approved amount was 677. Out of the approved applications, 127 Certificate of Conformity had been issued. Therefore, system of procedures had not been implementing to issue of Certificate of Conformity with regard to 550 approved development license.

3.2 Uneconomical Expenditure

Study Workshop in China

A sum of Rs. 1,280,000 had been spent from Sabha fund to participate 08 members including the Sabha Chairman for a work shop in China. As per the calling letter of Guwanshu Municipal Council in China, though the invitation was made for two days work shop in 18 and 19 March 2015, the tour had been organized by a institute in Gurudeniya in Kandy for the dates from 17 to 29 March 2015. However, it was observed that, 07 days tour had been performed from 28 March to 03 April 2015, and the report to utilize the knowledge gathered from the participating in the work shop had not been presented.

3.3 Lease of Lands belong to Sabha

While selling the lands in the area of authority of Sabha by sub partitioning, lands given to Sabha with 47.5 perches from Hirassagala Green Hills land for 05 years at Rs. 10,000 annual lease amount and 54 perches and 53 perches of 02 land lots in Hanthana Daslin Renge land for 05 years at Rs. 12,000 annual lease amount, had been lease out to two adjoining land owners. Following matters are reveled in this regard.

- (a) These lands had been lease out without getting the approval of relevant Minister in terms of Paragraph 22(1) of Urban Development Authority Act No. 41 of 1978 (Published in the Extra Ordinary Gazette Notification(Amended) No. 935/6 dated 06 August 1996) and Paragraphs 19(1)(X) and (Xii) of Pradeshiya Sabha act No. 15 of 1987.
- (b) The said lands had been leased out from an agreement sign by the Chairman of the Sabha without getting proper valuation and contrary to the tender procedure.
- (c) As per the condition 05 of the relevant lease agreement, though any permanent building should not be constructed within the land, the lessee of the Hirrasagala Green Hills had been constructed a part of his hotel combining the leased out land, and boundary wall had been constructed in the land.

3.4 Vehicle Control

Vice Chairman who attached to Kandy District as Divinaguma Development officer had sign and confirm the running charts of the cab No. CPPD – 6533 of the Sabha that he had used the vehicle for Pradeshiya Sabha activities in every days of the year 2015 other than 05 days of leave taken. Accordingly, the vehicle of the Sabha had been used for many travelling during the period of service as Divinaguma development Officer. Accordingly, Sabha had spent a sum of Rs. 772,718 for fuel vehicle maintenance, salary of the Driver, allowances and travelling expenses for the period from 15 December 2014 to 31 December 2015. The evidence of the activities performed by using the vehicle during that time period had not been available in the Sabha and the activity performed by using the vehicle had not been mentioned in running charts.

3.5 Improper Transactions

Following matters were observed.

- (a) Office equipment, Computer accessories, air conditioners and chairs valued at Rs. 2,853,200 had been procured without following proper tender procedures contrary to terms 177 and 178 of Pradeshiya Sabha (Financial and Administrative) rules 1988.
- (b) While procuring chairs, relevant goods had not been examined through a Technical Evaluation Committee. However, without considering the written notice of work Superintendent that the standard of goods could not be satisfied in hundred per cent, payment had been made for the chairs valued at Rs. 805,800.

3.6 Contract Administration

3.6.1 Development of Drain of Gurudeniya Pichchamalwatta Road river side- Rs. 100,000

Though the concreting of drain footer of this contract should be 4 inches thickness and 1:2:4 (19 mm) cement, sand and metal mixture, the footer thickness was 2 and 2 ½ inches at the time of

inspection made in many places on 06 November 2015 and a sum of Rs. 100,000 had been spent for the construction without the standard with concrete easily breakable poor level.

3.6.2 Development of Initial Stage of Gurudeniya Pichchamalwatta Drain- Rs. 250,000

- (i) Though the concreting of drain footer of this contract should be 4 inches thickness and 1:2:4 (19 mm) cement, sand and metal mixture, the footer thickness was 2 inches at the time of inspection made in many places and the concrete was in easily breakable poor level.
- (ii) Water had been gathered in the drain footer due to the constructing of drain footer from 100-150 feet in the last end of the drain with a little higher and parallel to the floor. Accordingly, a sum of Rs. 250,000 had been spent on construction without the standard.

3.6.3 Development Drain System of Udathanna Road- Rs. 200,000

Though the estimate had been made to construct the drain footer of this contract with a thickness of 4 inches and same amount had been paid, the footer thickness was 2 inches at the time of inspection made in many places on 06 November 2015. Though the drain footer should be concreted with 1:2:4 (19 mm) cement, sand and metal mixture, the concrete was poor level with easily breakable at the time of inspection made in many places and accordingly, a sum of Rs. 200,000 had been spent on construction without the standard.

3.6.4 Development of Thekkawatta Road – Rs. 400,000

- (i) Though it was estimated and paid for laying of concrete with 4 inches thickness in 275 feet for this contract, the footer thickness was 3 ½ inches at the time of inspection made in many places on 06 November 2015.
- (ii) Though it was estimated and paid to construct this road by using 1:2:4 (19 mm) cement, sand and metal mixture, the concrete was in easily breakable level at the time of inspection of the road. In overall evaluation, a sum of Rs. 399,203 for constructing without the relevant standard.

3.6.5 Construction of Side Wall near the Thennekubura Temple to Inside Road and Construction of Road near the Thennekubura Mr. Gamini's Residence - Phase 02- Rs. 200,000

- (i) Though estimate had been prepared as 02 projects and maintained separate files, and engaged with a contractual society in separate agreements, one side wall had been constructed in a place by spending the total allocation of two projects
- (ii) The width of the Stating point of this road from the main road was 5½ ' and 7 ½ ' feet, and buildings and walls had been constructed of the two sides of road boundary. Therefore, amount spent had been fruitless expenditure due to inability to construct the road for vehicle travelling.

3.6.6 Construction of the Upper Floor of Pradeshiya Sabaha New Building

A loss of Rs. 1,351,777 had been occurred to the Sabha from awarding tender to the contractor nominated at second by the finance committee instead of granting tender to the contractor recommended by the technical evaluation committee which was appointed for the activities of construction of the upper floor of Pradeshiya Sabha new building.

3.6.7 Development of Thalwattha Hitinagahawattha Road – Rs. 240,131

A sum of Rs. 240,131 had been paid at the completion of work based on an estimate of Rs. 250,000 under Provincial Development Specified Grant for development of Thalwattha Hitinagahawattha road. It was observed in audit carried out on 06 November 2015 that, a part of this road had been removed after completion of laying the concrete, and actions had not been taken to take legal proceedings or conduct disciplinary inquiry.

3.7 Solid Waste Management

Actions had not been taken to implement procedure in purchasing crumble waste gathering in the area of authority of Sabha.

4. Accountability and Good Governance

4.1 Budgetary Control

- (a) Though the budget should be prepared from the proper estimate values taken from the technical officers for the projects to be implemented in the upcoming year from the priority preparation for the development proposals given in the previous year, without doing so, the budget estimates had been prepared and approved by considering the gross amounts of 207 constructions of Rs. 6,500,000 from Sabha fund to implement of development proposals.
- (b) Out of the provision of Rs. 4,813,264 provided for 47 expenditure votes had been remained saving the entire provision without doing any expenditure.
- (c) No income had been earned from the estimated amount of Rs. 2,429,000 for 13 income Votes.
- (d) It was observed according to the budget prepared for the year under review, that the budget had not been made use of as an effective tool of management as there were variations from 22 per cent to 136.8 percent in 31 items of revenue and variations from 17 per cent to 99 per cent in 43 items of expenditure, when the estimated revenue and expenditure are compared with the actual revenue and expenditure.

4.2 Annual Procurements Plan

An Annual Procurement Plan had not been prepared for the year under review.

4.3 Corporate Plan and Action Plan

A Corporate Plan covering the year under review and Action Plan for the year under review had not been prepared.

4.4 Internal Audit

Sufficient and independent internal audit could not be carried out within the Institute due to assigning of duties in other subject to the Internal Auditor.

4.5 Assets Management

Idle and Under-utilized Assets

Following matters were observed.

- (i) Two vehicles of the Sabha had been parked and under-utilized in Sabha premises for more than one year
- (ii) Two vehicles valued at Rs. 1,625,000 had been kept idle in Sabha premises for more than one year.
- (iii) Lands entrusted to Sabha for common amenities in sub partition lands had been allowed in grown weed without doing any development and fencing.

5. Systems and Controls

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

- (a) Revenue Administration
- (b) Creditors /Debtors Control
- (c) Assets management
- (d) Contract Administration