

Mahiyanganaya Pradeshiya Sabha
Badulla district

01. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2017 had been submitted for audit on 23 March 2018 and the report of the Auditor General had been sent to the Chairman on 24 July 2018.

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 Mahiyanganaya 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 Statement

- a) An amount of Rs.2,328,470 to be paid at 31 December in the year under review in respect of items purchase for donation was not accounted as creditors.
- b) An amount of Rs.1,507,680 was to be paid as at 31 December of the year under review for the supply of sand for Bathalayaya water project but provision had only been made for Rs. 1,389,380 as such the Creditors were understated by Rs.118,300.
- c) 149 Inventory items bought from the year 1988 to 2017 amounting to Rs.582,864 had not been capitalized.
- d) Although the Value Added Tax remitted to the Department of Inland Revenue as at 31 December for the year under review amounting to Rs.605,269 had been debited to the corresponding account correctly as a result of incorrectly credited to the Accumulated Fund Account, the Accumulated Fund was overstated by that amount.
- e) The unreconciled amount of Rs.50,804 continuing from preceding years in the motor vehicle and carts account had been erroneously written off from the revenue without the approval of the Council.
- f) Fixed assets purchased for an amount of Rs.425,440 in the year under review were accounted in the Fixed Assets Account and Revenue Contribution to Capital Outlay Account as such the said accounts were understated by the that amount.

g) Environmental Protection License Fees received for 3 years in advance amounting to Rs.31,748 in the preceding year had been accounted as receivable in the year under review.

1.3.2 Accounts Receivable and Payable

a) Accounts Receivable

At the end of the year under review, in the accounts receivable balances amounting to Rs.25,208,862 includes arrears of Rates due for 26 years amounting to Rs.2,177,423, arrears of Capital Donations due for 03 years amounting to Rs.14,861,318, arrears of Miscellaneous Revenue due for 17 years amounting to Rs.8,117,428 and Arrears of Advance due for 6 years amounting to Rs.52,693 had not been recovered.

b) Accounts Payable

At 31 December of the year under review, accounts payable balance amounting to Rs.31,424,626 includes Miscellaneous Expenditure Creditors due for 3 years amounting to Rs.6,438,852, and Work Creditors amounting to Rs.24,985,774 had not been settled.

1.3.3 Lack of written evidence for Audit

Due to the lack of evidence relating to 3 items of accounts amounting to Rs.8,764,548 could not be satisfactorily vouched in audit.

1.3.4 Non-compliance

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

Instances of non-compliance with Laws, Rules, Regulations and Management decisions were showed below.

References to the Laws, Rules, Regulations and Management Decisions -----	Value ----- Rs.	Non-Compliance -----
a. Pradeshiya Sabha Act No.15 of 1987 i. Section 49		Although 5 unauthorized constructions had been identified in the year 2017 by the Council, the necessary action had not been taken.

ii. Section 127		Details such as ownership and extent of 28 cemeterial lands within the Council territory had not been verified.
iii. Section 128		Ownership was not obtained for 18 Land and building of the Pradeshiya Sabha in extended 22 acres 3 roods and 37 perches used by the Sabha.
iv. Sections 158 and 159	5,250,922	Arrears of shop rent, rates and water bills had not been recovered.
b. Special Stamp Ordinary Act No.12 of 2006	82,500	Stamp duties from the year 2015 to 31 December 2017 had not been charged form the salary and sent to the Commissioner of the Inland Revenue.
c. Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
i. Financial regulation 104(3), (4)		A preliminary report and a complete report in respect of the accident of a Backhoe Loader on 04 October 2017 had not been submitted
ii. Financial regulation 571	668,144	Action had not been taken to refund two lapsed deposit renewed as at 31 December of the year under review.
iii. Financial regulation 756(1)		Inventory Verification reports for years 2015, 2016 and 2017 had not been submitted up to 06 March 2018.

02. Financial Review

2.1 Financial Results

According to the Financial Statements presented, surplus of renewal over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.13,062,705 as compared to the surplus over recurrent expenditure for the preceding year amounted to Rs.14,479,131.

2.2 Revenue Administration

2.2.1 Estimated Income, Billed Income, Collected Income, and Arrears of Income

The details of the Estimated Income, Billed Income, Collected Income and Arrears of Income for the year under review and the preceding year is stated below.

Source of Income	2017				2016			
	Estimated Income Rs	Billed Income Rs	Collected Income Rs	Arrears up as at 31 December Rs	Estimated Income Rs	Billed Income Rs	Collected Income Rs	Arrears up as at 31 December Rs
(i) Rates and Tax	5,231,235	3,031,235	2,172,598	858,637	5,181,235	3,031,235	1,846,531	1,184,704
(ii)Rent	14,235,562	2,228,450	1,922,950	305,500	12,024,582	2,336,200	1,944,600	391,600
(iii)Permit Fees	1,103,000	2,115,660	2,160,910	45,250	906,000	906,600	1,638,442	-
(iv)Other Income	21,409,500	5,399,332	2,825,263	2,574,069	15,055,850	4,662,494	3,605,894	1,056,600
Total	41,979,297	12,774,677	9,081,721	3,783,456	33,167,667	10,936,529	9,035,467	2,632,904

2.2.2 Performance in Revenue Collection

Total billed revenue as at 31 December 2017 was Rs.12.8 million while the total collected income was Rs. 9 million. However the end of the year the collected income was Rs.3.8 million and in comparison with the preceding year there was a deterioration of 44 per cent of the income collection.

2.2.3 Rates and Tax

According to the Rates Tax registered as at 31 December 2017, arrears of Rate and Tax revenue amounted to Rs.1,962,789 and it includes higher than Rs.5,000 and with an arrears more than 2 years of Rs.594,041 receivable from 21 rate units.

2.2.4 Rental

Although rental should be assessed in every five years as per the Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government rentals was collected as Rs.2,000 and 1,700 bases of the assessment of the year 2011 for 13 stores. Although new assessment reports were received to the Council by 23 January 2017, a loss of Rs.567,000 occurred as it was not implemented in the year under review.

2.2.5 License Fees

- a) Although Licenses should be obtained for business conducted in the area of authority of the Council according to Section 149 of the Pradeshiya Sabha Act No.15 of 1987, such licenses had not been obtained for 17 businesses conducting in a private shopping complex.

- b) Although environmental licenses should be obtained by businesses according to National Environmental Act No.47 of 1980 and Act No.56 of 1988 and Gazette No.1533/16 of Democratic Socialist Republic of Sri Lanka dated 23 January 2008, 09 businesses had not obtained permits for the current year as a result the Council had lost an income of Rs.80,010.

2.2.6 Court Fines and Stamp Duties

The Court Fines and Stamp Duties to be recovered from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017 was Rs.2,941,265 and Rs.1,500,000 respectively.

03. Operational Review

3.1 Performance

Facts observed relating to the execution of activities in accordance with the Section 3 of the Pradeshiya Sabha Act such as regulation of health of the general public, common utility services and public road facilities and maintenance of people's welfare, facilities and development are shown below.

a) By Laws

Although it was registered to recover a sum of Rs.100 per month for three wheelers parked within the authority area of the Council by laws had not been imposed to recover the fees.

b) Action Plan

An action plan for the year 2017 had not been prepared.

c) Solid Waste Management

Although a sum of Rs.13,665,854 had been spent in the year 2013 by the Council for the various tasks of solid waste management project the target of the project of disposing garbage had not commenced up to 06 March 2018.

d) Sustainable Development Goals

Due to the Council not being aware of 2030 agenda of the Sustainable Development Goals, long term plans for the global view of such purposes to enhance the living standards and health of the people living in the area of authority of Council had not been initiated up to 31 December 2017.

e) Not Achieve the Expected Benefits

- a. Although an amount of Rs. 4,106,149 had been spent by the Council in the year 2014 for construction of a new weekly fair and new buildings under the upliftment Regressive Local Authority Development Plan, it was unable to use that land on the area of the land was not sufficient and marshy. A SUM OF Rs.120,000 had been paid annually to conduct the weekly fair in a private land without been taken action to get that land to the usable position.
- b. The crematorium which was started to build in the year 2015 to a value of Rs.4,991,720 obtaining loan of Rs.10 million from the Local Loan Development Fund and Rs.6.5 million from Pradeshiya Sabha Fund was not completed and as a result the services of a crematorium had been lost to the public of the area.

3.2 Human Resource Management

There were 06 vacancies and 38 surpluses of cadre as at 31 December of the year under review.

3.3 Operational Inefficiency

Although the rental for each month should be paid before 31 of each month and a late fee of 10 per cent should be collected for each month according to the condition No. 05 of the Agreement entered on 17 November 2016 for renting out the vehicle parking places near Sorabora Reservoir for 2017 due to not paying the lease rent up to 31 December 2017 there was an arrears of Rs.407,993 as lease rent and fines to be collected.

3.4 Asset Management

3.4.1 Idle Assets

Although a three wheel and a tractor costing to Rs.2,147,854 belonging to the Council was idle for three to five years action had not been taken to repair and reuse or dispose them.

3.5 Procurement

3.5.1 Procurement Plan

A procurement plan had not been prepared for the year under review by the Pradeshiya Sabha.

04. Accountability and Good Governance

4.1 Budget Control

It was observed that there was a considerable variation in the budget revenue and expenditure for the year under review with the actual revenue and expenditure thus, the budget had not been used as an effective instrument of management control.

05. System and Control

Weaknesses observed in audit had been put forward in the Council time to time and the special attention is needed in the following areas of control.

	System -----	Weakness -----
A.	Stock Control	Stocks Registers not maintained properly.
B.	Revenue Management	<ul style="list-style-type: none">i. Revenue Registers not maintained.ii. Arrears revenue not collected.iii. Not maintaining a register relating to advertisement banners.iv. Not conducting annual verification of Advertisement Boards of the area.