

Buttala Pradeshiya Sabha

Monaragala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been submitted to Audit on 27 February 2018 while the Auditor General's Report relating to those financial statements has been sent to the Chairman on 20 June 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Buttala 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 Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) A sum of Rs.812,105 spent for concreting the Mahagodayaya Compost Yard during the year under review had not been capitalized.
- (b) Computers and office equipment valued at Rs.4,160,975 received by the Buttala Public Library under the North East Local Authority Services Improvement Project during the year under review had not been brought to account.
- (c) Since the transmission tower revenue amounting to Rs.72,000 received in the year under review pertaining to the preceding years had been brought to account as a revenue of the year under review, surplus of the year had been overstated by that amount.
- (d) Transmission tower revenue of Rs.141,000 receivable for the year under review and the preceding years had not been brought to account.
- (e) The charges for the hoardings amounting to Rs.410,900 remained receivable as at 31 December of the year under review had not been brought to account.
- (f) Since the expenditure amounting to Rs.171,620 payable as at 31 December of the year under review had not been brought to account, expenditure and the surplus of the year under review had been understated and overstated by that amount respectively.

1.3.2 Accounts Receivable and Payable

(a) Accounts Receivable

- (i) Lease rental in arrears amounting to Rs.1,235,279 brought forward since year 1988 relating to 6 properties had not been recovered during the year under review.
- (ii) A sum of Rs.2,770,542 remained receivable to the Sabha for hiring machinery of the Sabha during the period from 2010 to 2016, whereas action had not been taken to recover that amount during the year under review.
- (iii) Arrears of trade stall rents totaling Rs.196,054 receivable relating to the trade stalls of the Sabha which had been demolished in the years 2008 and 2011 had not been recovered even by the end of the year under review.

(b) Accounts Payable

Loan installments and interests totaling Rs.3,205,224 payable relating to the loan totalling Rs.25,563,562 obtained by the Sabha from the Domestic Loan Development Fund during the years 2011 and 2012 had not been paid even by the end of the year under review.

1.3.4 Lack of Evidence for Audit

Since the necessary information had not been made available, 03 items of accounts totaling Rs.438,989,914 could not be satisfactorily verified in audit.

1.3.5 Non-compliance

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

Instances of non-compliance with laws, rules, regulations and management decisions are specified below.

<u>Reference to laws, rules, regulations and management decisions</u>	<u>Value</u>	<u>Non-compliance</u>
(a) Section 152 of the Pradeshiya Sabha Act No.15 of 1987	Rs. 141,000	An annual tax receivable from 03 transmission towers erected by various companies within the area of authority of the Sabha had not been recovered even by the end of the year under review.
(b) Pradeshiya Sabha (Finance and Administration) Rules of 1988		
(i) Rule No.67	-	A survey on the business enterprises maintained within the area of authority of Sabha had not been carried out and those had not been listed.

(i) Rules No.193	-	Excesses / shortages under each item of revenue and expenditure and the explanations thereon had not been furnished to the Auditor General.
(c) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u> Regulation 571	248,353	Action had not been taken to credit to the Revenue the unreleased cash in hand relating to 06 works carried out during the period from 2010 to 2015.
(d) Paragraph 3.1 of the Public Administration Circular No.30/2016 dated 29 December 2016.	-	Fuel consumption tests had not been carried out relating to 21 vehicles belonging to the Sabha.
(e) Extraordinary Gazette No.1597/8 dated 17 April 2009 of the Democratic Socialist Republic of Sri Lanka. Schedule V	-	Publicity had not been given on the recovery of processing charges, service charges and the charges for granting covering approval.
(f) Extraordinary Gazette No.1816/43 dated 28 June 2013 of the Chief Minister of the Uva Province and the Minister in charge of the subject of Local Government.	-	The Sabha had not taken action to monitor the unauthorized trade stalls and mobile trading, control and issue a licence for that purpose and regularize and prohibit the same.
(g) Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government of Uva Province	-	Action had not been taken to assess rental of the trade stalls of the Sabha after the year 2006.

02 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 2017 had been Rs.6,022,021 as compared with the corresponding excess of revenue over recurrent expenditure of Rs.10,466,116 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue in Arrears

Details on the estimated revenue, billed revenue, collected revenue and revenue in arrears relating to the year under review and the preceding year are given below.

<u>Source of Revenue</u>	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	2,283,220	2,187,505	1,476,668	2,601,219	2,257,070	2,262,302	1,382,368	2,944,404
(ii) Rents	5,860,800	5,709,700	4,660,975	2,291,490	5,394,100	5,611,376	5,475,793	1,994,573
(iii) Licence Fees	1,174,000	1,174,559	1,174,459	-	1,246,500	1,086,839	1,086,839	-
(iv) Other Revenue	18,840,640	22,584,463	23,272,464	9,553,476	57,888,760	27,799,668	18,470,084	10,585,983
Total	28,158,660	31,656,227	30,584,566	14,446,185	66,786,430	36,760,185	26,415,084	15,524,960

2.2.2 Performance in Collecting Revenue

The total billed revenue as at 31 December 2017 amounted to Rs.31.7 million and the revenue collected during the year amounted to Rs.30.5 million. However, revenue of Rs.14.4 million further remained recoverable even by the end of the year under review and the revenue in arrears had decreased by 7 per cent as compared with the preceding year.

2.2.3 Rates and Taxes

- Although properties should be assessed once in 5 years for the recovery of Rates, properties had not been assessed for Rates after the year 2006.
- The Rates in arrears relating to the preceding year amounted to Rs.2,944,405 and a sum of Rs.1,014,881 of those Rates in arrears had been collected by the end of the year under review, thus indicating the recovery of revenue in arrears as a lower percentage as 34 per cent.
- Water charges of Rs.561,663 relating to the year under review had not been recovered even by the end of the year.

2.2.4 Rents

- Even though bids had been invited for leasing out 04 properties owned by the Sabha, since the tax payers had not presented, it had not been possible to lease out those properties from the year 2013 up to the year under review.

- (b) Relating to the year under review, a sum of Rs.173,060 remained recoverable for leasing out of trade stalls belonging to the Sabha.

2.2.5 Other Revenue

- (a) In terms of the Gazette No.1995 dated 25 November 2016, although notification had been published relating to recovering charges for parking of motor vehicles within the parking places established in the area of authority of the Sabha, action had not been taken to recover those charges even by the end of the year under review.
- (b) A sum of Rs.2,733,514 that remained recoverable relating to the year under review for hiring machinery of the Sabha had not been recovered even by the end of the year.

2.2.6 Court Fines and Stamp Fees

A sum of Rs.2,869,713 and Rs.1,168,598 had remained receivable from the Chief Secretary and other officers as court fines and stamp fees respectively as at 31 December 2017.

2.3 Surcharge

A sum of Rs.733,241 remained recoverable as at 31 December 2017 in respect of surcharges imposed by me according to the provisions of the Pradeshiya Sabha Act against the persons who should held responsible.

03. Operating Review

3.1 Performance

Maters revealed in the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people in terms of Section 3 of the Pradeshiya Sabha Act, are as follows.

(a) **By-laws**

By-laws should have been made under Section 126 of the Pradeshiya Sabha Act to carry out 30 main activities. Nevertheless, By-laws had been made only for 11 activities by 31 December 2017.

(b) **Action Plan**

Even though the activities that should be carried out by the Sabha as per the By-laws imposed had been determined, an Annual Action Plan had not been prepared.

(c) Solid Waste Management

Although action had been taken to comply with the by-law of Uva Provincial Council published in the Gazette No.1816/43 of the Democratic Socialist Republic of Sri Lanka, dated 28 June 2013, expenditure incurred during the year under review on waste management had not been settled by imposing garbage tax in terms of Section 02 of Part 13 of the said by-law.

(d) Environmental Issues

- (i) A reservation that should be existed for the block of land depicting the canal according to the Plan No2816 dated 10 June 2001 approved by the Sabha in terms of the Order No.64(1) published in the Extraordinary Gazette No.1597/8 dated 17 April 2009 of the Democratic Socialist Republic of Sri Lanka was not indicated in the subdivision. Further, a building had been constructed along the canal in the reservation area of 05 meters allocated for the canal reservation.
- (ii) The canal depicting in the East of the plan of a land of which a building plan had been approved by the Sabha in the year 2016 had been filled up to 252 square feet and action in terms of Section 28 of the Urban Development Authority Act, No.41 of 1978 had not been taken regarding this matter.
- (iii) It had been stated that a distance of 50 feet from the middle of the main road had been allocated for the road reservation in a building plan approved by the Sabha for a commercial purpose in the year 2015, whereas only 39 feet had been allocated for the road reservation.

(e) Sustainable Development Goals

As the Sabha had not been aware of the 2030 Agenda for Sustainable Development Goals, the long-term plans to uplift the living standard and health of the people of the area of authority of the Sabha through the Global indicators relating to those goals, had not been formulated even up to 25 May 2018.

3.2 Management Inefficiencies

- (a) Development permits in terms of Section 8 (a) (1) of the Urban Development Authority Act, No.04 of 1982 had not been issued in respect of 59 building plans and subdivisions approved by the Sabha during the period 2014-2017.
- (b) Action had not been taken to issue Certificate of Conformity for 26 building plans approved by the Sabha during the period 2014-2016 as required by Circular No.08/1/38 dated 20 March 1985 of the Director General of the Urban Development Authority. Further, penalty for delays had not been recovered from the constructions for which Certificate of Conformity had not been obtained in terms of the Gazette No.1597/8 dated 17 April 2009 of the Democratic Socialist Republic of Sri Lanka.
- (c) A survey had not been carried out on the unauthorized constructions existed in the area of authority of the Sabha.

- (d) In regard to 14 unauthorized constructions carried out within the area of authority of the Sabha, either covering approval had not been granted or legal action had not been instituted according to Section 28 of the Urban Development Authority Act, as specified in the Gazette No.392/9 dated 10 March 1986 of the Democratic Socialist Republic of Sri Lanka and the Circular No.08/01/38 dated 20 March 1985 of the Director General of the Urban Development Authority.

3.3 Human Resources Management

Employees loan amounting to Rs.249,876 brought forward over a number of years had not been recovered even by the end of the year under review.

3.4 Operating Inefficiencies

Rates had not been recovered by carrying out new assessments on the changes done for the properties so as to be effective to the annual value in terms of Sections 140 and 143 (i) of the Pradeshiya Sabha Act, No.15 of 1987.

3.5 Transactions of Contentious Nature

Water charges of Rs.140,362 relevant to Buttala Weekly Fair leased in the years 2016 and 2017 had been paid from the funds of the Sabha.

3.6 Assets Management

3.6.1 Assets not taken over

Action had not been taken to take over the ownership of 03 motor vehicles and motor grader machine received by the Pradeshiya Sabha from the Government institutions.

3.6.2 Idle/Under Utilized Assets

A concrete mixture machine and a small tractor received by the Sabha from 02 Government institutions in the year 2003 and 2012 had remained idle without being utilized for any purpose.

3.7 Uneconomic Transactions

Without being repaired the Beko Loder which had become inoperative since July 2017, a Beko Loder of a private institution had been used for a work carried out by the Sabha and a sum of Rs.192,500 had been paid therefor.

3.8 Identified Losses

- (a) Contributions of the Employees Provident Fund of the casual employees served in the Sabha relevant to the period from October 2012 to October 2015 had not been remitted on the due date and therefore, a surcharge of Rs.57,814 had been paid.

(b) As the revenue licences of 10 motor vehicles belonging to the Sabha had not been obtained on the due date, penalty of Rs.20,335 had been paid relating to the period from 2015 to 2018.

3.9 Procurement

3.9.1 Procurement Plan

The Pradeshiya Sabha had not prepared an Annual Procurement Plan for the year under review.

04 Accountability and Good Governance

4.1 Budgetary Control

As significant variances were observed between the budgeted revenue and expenditure, and the actuals of the Pradeshiya Sabha relating to the year under review, the budget had not been made use of as an effective instrument of management control.

4.2 Audit and Management Committee

Action had not been taken to adequately conduct the Audit and Management Committees of the Sabha relating to the year under review.

05. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Pradeshiya Sabha from time to time. Special attention is needed in respect of the following areas of control.

System	Deficiencies of the System
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(a) Accounting	(i) The lands which had been brought to account had not been properly assessed. Fixed assets purchased during the year under review had not been brought to account. Accrued expenditure had not been brought to account.
	(ii) Receivable revenue had not been brought to account.
(b) Assets	(i) Failure in entering the assets in the registers. (ii) Failure in taking action to take over the lands.