

Katharagama Pradeshiya Sabha
Monaragala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been presented to Audit on 13 March 2018 and the Report of the Auditor General on those financial statements had been sent to the Chairman on 20 June 2018.

1.2 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 1.3 of this report, financial statements do not give a true and fair view of the financial position of the Katharagama 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) The Loudspeaker valued at Rs.67,575 purchased in the year under review and constructions of buildings and fittings valued at Rs.4,662,890 had not been capitalized.
- (b) Even though security deposits amounting to Rs.3,190,902 recovered in tendering properties owned by the Sabha in the year under review and in the preceding year had been set off against the receivable revenue from rents, the relevant adjustments had not been made in accounts, thus overstating the Tender security deposits by Rs.3,190,902 and understating the surplus and Accumulated Fund by Rs.2,508,914 and Rs.681,988 respectively.
- (c) A sum of Rs.801,000 received from leasing out blocks of land temporarily during the Esala Festival season in the preceding year, had been credited to the Tender Deposit Account without crediting to the Head of Revenue from temporary stalls rents. As such, the Accumulated Fund had been understated and tender deposits had been overstated by the similar amount.
- (d) A sum of Rs.1,000,000 received in the preceding year under the Programme of Strengthening of Pradeshiya Sabha had been credited to the Deposit Account without crediting to the Capital Aid Account and as such, the Accumulated Fund had been understated and Deposits had been overstated by the similar amount.

- (e) A sum of Rs.3,027,069 paid for works in the year under review had been debited to the General Deposit Account without debiting to the Head of Expenditure on Construction of Capital Assets and as such, expenditure and general deposits of the year had been understated by the similar amount.
- (f) Even though the work creditors as at 31 December of the year under review had been Rs.8,350,990, it had been brought to account as Rs.6,218,528, thus understating by Rs.2,132,462. As such, expenditure and creditors of the year had been understated by the similar amount.
- (g) A sum of Rs.571,889 paid to work creditors in the year under review had been brought to account as expenditure creditors and as such, work creditors had been overstated and expenditure creditors had been understated by the similar amount.
- (h) A sum of Rs.52,900 paid to expenditure creditors in the year under review had been brought to account as payments for work creditors and as such, expenditure creditors had been overstated and work creditors had been understated by the similar amount.
- (i) Accounting of Rs.1,313,479 paid in the preceding year under the Programme of Strengthening of Pradeshiya Sabha, under work creditors as well had not been rectified in the year under review. As such, work creditors had been overstated and the Accumulated Fund had been understated by the similar amount.
- (j) Even though the balance of the Court Fines Account receivable had been Rs.2,941,554, it had been shown as Rs.2,706,609 and the difference had been adjusted to the arrears of other Revenue Account. As such, court fines receivable had been understated by Rs.234,945 and the arrears of other revenue had been overstated by Rs.234,945.
- (k) Even though the stamp fees receivable as at 31 December of the year under review had been Rs.995,986, it had been brought to account as Rs.895,986. As such, the stamp fees receivable and stamp revenue had been understated by Rs.100,000.
- (l) The stamp fees amounting to Rs.386,000 received for January of the year under review had been credited to the Receivable Stamp Fees Account. As such, the stamp revenue and stamp fees of the year receivable had been understated by the similar amount.
- (m) The three per cent administration fees of Rs.69,195 recovered from revenue from stamp fees in preceding years had not been adjusted in accounts.
- (n) The revenue of the year under review and the receipt of arrears of revenue relating to preceding years amounting to Rs.513,463 had been shown as sundry deposits in the Statement of Financial Position. As such, liabilities had been overstated by the similar amount and the surplus and the Accumulated Fund had been understated by Rs.33,100 and Rs.480,363 respectively.

- (o) Interests on fixed deposits amounting to Rs.172,349 receivable as at 31 December of the year under review had not been brought to account. As such, the surplus and the interest on fixed deposits receivable had been understated by the similar amount.
- (p) The interest revenue of Rs.116,817 received relating to the preceding year for two fixed deposits had been brought to account as revenue of the current year. As such, the revenue of the year had been overstated by the similar amount.
- (q) A sum of Rs.4,051,598 receivable by leasing out 13 properties owned by the Sabha in the year under review and the preceding year, had not been brought to account. As such, the surplus, Accumulated Fund and the receivable revenue from properties had been understated by Rs.3,980,765, Rs.70,833 and Rs.4,051,598 respectively.

1.3.2 Unreconciled Accounts

According to the financial statements, the balances relating to 05 items of accounts totalled Rs.27,014,541 and according to registers and schedules, the balance was Rs.26,628,696.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

- (i) Action had not been taken even in the year under review to recover rental from stalls amounting to Rs.6,351,392 remaining over a long period, of which the recoverable party was not identified.
- (ii) Action had not been taken even in the year under review to recover arrears of rentals from the supermarket and from stalls totalling Rs.2,541,124.

(b) Accounts Payable

Action had not been taken even in the year under review to remit the Value Added Tax of Rs.4,319,539 relating to the period from 2009 to 2013 and stamp duty of Rs.382,516 relating to the period from 2009 to 2016 to the Commissioner General of Inland Revenue.

1.3.4 Lack of Evidence for Audit

An item of asset valued at Rs.7,156,420 , 04 items of liabilities totalling Rs.16,419,462 and 04 items of revenue totalling Rs.9,618,337 could not be satisfactorily verified/vouched in audit due to failure to furnish necessary information.

1.3.5 Non-compliances

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

The following instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Value Rs.	Non-compliance
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(a) Pradeshiya Sabha Act, No.15 of 1987		

(i) Section 24	---	An inventory for roads and paths owned by the Sabha had not been maintained.
(ii) Sections 158, 161, 163 and 166	5,123,833	Action had not been taken in respect of arrears of rates and taxes as at 31 December of the year under review.
(iii) Section 159	4,051,598	Action had not been taken to recover rents due from properties leased out on Annual Tender Basis.
(b) Pradeshiya Sabha (Financial and Administrative) Rules -1988 Rule No.204	----	Necessary measures had not been taken in respect of 25 items of goods not made available for the Boards of Survey of the year 2015.
(c) Public Administration Circular No.30/2016 of 29 December 2016	----	The fuel consumption check had not been carried out relating to 03 motor vehicles owned by the Sabha.
(d) Gazette Extraordinary No.392/9 dated 10 March 1986 of the Democratic Socialist Republic of Sri Lanka and Circular No.08/01/38 of 20 March 1985 of the Director General of the Urban Development Authority		A survey had not been carried out in respect of buildings constructed without the approval of the Planning Committee of the area of Authority of the Sabha.

02. 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 2017 amounted to Rs.9,841,630 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.10,171,964 for the preceding year.

2.2 Revenue Administration

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

Information on the estimated revenue, billed revenue, collected revenue and the arrears of revenue presented relating to the year under review and the preceding year, is given below.

Source of Revenue	Estimated Revenue	2017			Total Arrears as at 31 December	2016			Total Arrears as at 31 December
		Billed Revenue	Collected Revenue	Rs.		Estimated Revenue	Billed Revenue	Collected Revenue	
(i) Rates and Taxes	2,194,000	2,194,000	17,755,120	2,416,902	8,119,400	8,119,400	5,519,014	5,123,833	
(ii) Lease Rents	8,878,400	8,878,400	13,222,570	9,394,519	14,440,900	14,440,900	3,871,766	8,892,516	
(iii) Licenses Fees	768,690	768,690	1,021,339	-	967,600	967,600	1,782,614	-	
(iv) Other Revenue	14,010,100	14,010,100	20,038,898	6,031,315	22,420,100	22,420,120	15,904,962	5,499,925	
Total	25,851,190	25,851,190	52,037,927	17,842,736	45,948,020	45,948,020	27,078,356	19,516,274	

2.2.2 Performance in Collection of Revenue

The revenue billed for the year under review had been Rs.25.8 million and out of that, a sum of Rs.52 million had been collected during the year. However, a sum of Rs.17.8 million had been in arrears by the end of the year.

2.2.3 Rates

- (a) Out of the revenue from rates of Rs.6,151,305 billed for the year under review, a sum of Rs.2,818,623 had been collected by the end of the year and it had been an amount as low as 46 per cent of the total billed value.

- (b) Out of the arrears of revenue from rates of Rs.2,414,575 remained at the beginning of the year under review, a sum of Rs.467,658 had been collected during the year. Accordingly, the percentage of recovery of arrears of rates had been an amount as low as 19 per cent.

2.2.4 Rents

- (a) Even though a Government Assessor had assessed rentals from stalls in the year 2013, action had not been taken to recover those new assessed rentals. As such, the revenue of Rs.17,727,600 had been deprived of.
- (c) The arrears of rentals recoverable from stalls owned by the Sabha had been Rs.918,500 by the end of the year under review.

2.2.5 Other Revenue

- (a) Even though recovery of charges for parking Three Wheelers in the area of authority of the Sabha had been declared through the Gazette Notification, action had not been taken to conduct a survey on Three Wheeler Parks and to recover the relevant charges therefor.
- (b) Even though recovery of an annual tax of 2 per cent of the capital ground value of undeveloped lands located in the area of authority of the Sabha had been declared through the Gazette Notification, action had not been taken to conduct a survey on undeveloped lands and to recover the relevant charges therefor.
- (c) Even though recovery of charges for hoardings relating to the year 2017 had been declared through a Notification published in the Gazette of the Democratic Socialist Republic of Sri Lanka, action had not been taken to recover a sum of Rs.181,950 from an insurance agency for hoardings.
- (d) Action had not been taken to recover a sum of Rs.480,000 from 07 mobile stalls temporarily maintained by 06 private institutions during the Esala Festival season.

2.2.6 Court Fines and Stamp Fees

Court fines and stamp fees receivable as at 31 December 2017 from the Chief Secretary of Provincial Council and from other authorities had been Rs..2,941,554 and Rs.609,986 respectively.

03. Operating Review

3.1 Performance

Matters revealed in respect of functions which should have been performed by the Sabha such as regulation and control of 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 given below.

(a) **By-Laws**

Even though by-laws should have been imposed for performing 30 main purposes under Section 126 of the Pradeshiya Sabha Act, by-laws had been imposed only for 18 purposes even by 31 December 2017.

(b) **Action Plan**

According to the by-laws imposed, the functions which should have been performed by the Sabha, had been decided. Nevertheless, an Annual Action Plan had not been prepared.

(c) **Solid Waste Management**

Even though action had been taken to accept Uva Provincial By-Laws declared by the Gazette No.1816/43 of 28 June 2013 of the Democratic Socialist Republic of Sri Lanka, action had not been taken to recover the expenditure on waste management incurred in the year under review by levying garbage tax in terms of Section 2 of the Part 13.

(d) **Sustainable Development Goals**

The Sabha was not aware of the 2030 Agenda on Sustainable Development Goals and as such, long term plans for the improvement of the living standards and health of the people of the area in authority of the Sabha through global indices for the said goals, had not been prepared even by 05 June 2018.

3.2 Management Inefficiencies

The following matters are observed.

- (a) Action had not been taken to examine 181 building plans approved by the Sabha in the years 2014, 2015 and 2016 and to issue Certificates of Conformity therefor.
- (b) The Motor Grader machine valued at Rs.24,928,666 received from the Ministry of Local Government on 06 July 2015, had not been used even by the end of the year.
- (c) Receipts valued at Rs.108,000 issued to 03 employees who were engaged on commission basis for collecting revenue from 03 vehicle parks in preceding years, had not been handed over to the Sabha and action had not been taken even for the recovery of relevant money.

3.3 Human Resources Management

The following matters are observed.

- (a) Sixty six Health Labourers on permanent and substitute basis and 13 Road Labourers had been recruited by the Sabha and out of them 22 persons had been assigned duties of other posts.

(b) Thirty five Health Labourers had been recruited on substitute basis exceeding the approved cadre of the post of Health Labourer and salaries and allowances of Rs.9,271,186 had been paid from the Sabha Fund by the end of the year under review.

3.4 Assets Management

Action had not been taken to vest 28 lands enjoyed by the Sabha.

3.5 Procurement

3.5.1 Procurement Plan

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

3.5.2 Contract Administration

Laying Concrete for the Compost Yard

In the examination of physical works with Bill of quantities and Measuring Notes, the height of the concrete layer had been laid less by 1 inch. As such, a sum of Rs.300,080 had been overpaid for 18.59 cubic meters of incomplete concrete layer .

04. Good Governance and Accountability

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure of the Pradeshiya Sabha relating to the year under review, thus indicating that the budget had not been made use of as an effective instrument of control.

4.2 Audit and Management Committee

The Sabha had not taken action to hold adequate audit and management committee meetings for the year under review.

05. Systems and Controls

Deficiencies observed during the course of Audit were brought to the notice of the Sabha from time to time and special attention is needed in the following areas of control.

System

- (a) Accounting
- (b) Human Resources Management
- (c) Projects
- (d) Revenue Administration
- (e) Assets Control

Deficiency

- Non-maintenance of books of Accounts and Registers in an updated manner.
- (i) Failure to obtain the approval for the staff.
 - (ii) Assignment of duties not relevant to the permanent post.
- Unavailability of an adequate supervision.
- Non-maintenance of registers in an updated manner.
- (i) Failure in entering values of buildings constructed in the year, in the books.
 - (ii) Failure in taking action to vest lands owned by the Sabha.