

Katuwana Pradeshiya Sabha

Hambantota District

1. Financial Statements

1.1 Presentation of Financial Statements

While Financial Statements for the year 2017 had been submitted to Audit on 27 March 2018, the Auditor General's Report relating to the year under review was sent to the Chairman on 31 August 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 Katuwana 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

Following accounting deficiencies were observed in audit.

- (a) Crematorium Building valued at Rs.6,313,558 handedover to the Sabha during the preceding year had not been accounted.
- (b) Value of development work amounting to Rs. 1,877,727 performed using the motor grader machine of the Sabha during the year under review had not been accounted.
- (c) Provision for creditors had not been made for expenditure incurred amounting to Rs. 895,772 during the year 2018 in respect of the year under review.
- (d) Provision for debtors had not been made for amounts receivable totaling Rs. 500,000 under Southern Province Development Plan-2017 and Provincial Specific Development Grants.
- (e) Stalls Rent Revenue for the year under review had been understated in a sum of Rs. 415,594, while lump sum amount in arrears as at the end of the year under review had been overstated in a sum of Rs. 145,000.
- (f) Debtors provision had not been made for the sum of Rs. 267,107 receivable on account of retention money for the construction of the Hellala Wastes Management Centre.

### 1.3.2 Non-reconciled Accounts

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The total of disparities observed between balances shown in the financial statements and those in the relevant books and schedules amounted to Rs. 10,393,890

### 1.3.3 Accounts Receivable and Payable

#### (a) Accounts Receivable

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Action had not been taken to recover Work Grants due for the years 2013 to 2016 amounting to Rs. 3,640,501 and street lamps dues since the year 2006 which had increased to Rs. 565,242 as at 31 December 2017.

#### (b) Accounts Payable

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While the value of non-settled liabilities as at the end of the year under review was Rs. 17,477,684, out of that, there was balance of Rs. 3,543,997 payable for works done during the years 2013, 2014 and 2016.

### 1.3.4 Lack of necessary written Evidence for Audit

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Five items of accounts totaling Rs. 35,202,955 could not be satisfactorily vouched in audit due to non-submission of required information for audit.

### 1.3.5 Non-compliance with Laws Rules, Regulations and Management Decisions.

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

	Reference to laws, rules, regulations and Management decisions	Value Rs.	Non-compliance
(a)	1988 Pradeshiya Sabha (Financial and Administrative Rules Rule 185	13,665,436	Action had not been taken to invest surplus funds in four current accounts of the Sabha.
(b)	Financial Regulations of the Sri Lanka Democratic Socialist Republic. F.R. 571	730,355	Action had not been taken to clear 10 percent retention money relevant to two work which had elapsed two years

1.3.6

Transactions not covered by adequate authority  
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Action had not been taken in terms of provisions in Rules 14 (1) and 14 (2) of Pradeshiya Sabha (financial and Administrative) Rules of 1988, to cover capital expenditure amounting to Rs. 2,437,162 and recurrent expenditure amounting Rs. 169,874 incurred in excess of the budgeted provisions.

2.1 Financial Results  
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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2017 amounted to Rs. 21,428,629 as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 11,702,240

## 2.2. Revenue Administration

### 2.2.1 Performance in Revenue Collection

Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year as furnished are shown below

Source of Revenue	2017				2016			
	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue billed Rs.	Revenue Collected Rs.	Arrears as at 31 December Rs.
i Rates and Taxes	56,400	1,044,512	1,046,772	1,830	40,500	1,761,09	1,759,891	4,090
ii Rent	14,502,590	11,626,932	12,615,922	1,558,194	11,534,000	14,633,757	14,916,665	2,547,184
iii License Fees	1,528,200	1,517,396	1,577,896	49,650	1,468,500	1,805,784	1,695,634	110,150
iv Other revenue	16,144,800	28,989,608	20,042,419	32,753,972	18,354,000	22,206,529	19,909,198	12,133,008
Total	32,231,990	43,178,448	35,283,009	34,363,646	31,397,000	40,407,161	38,281,388	14,794,432

### 2.2.2 Performance in Revenue Collection

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While the Revenue Billed during the year under review amounted to Rs.43,178,448, a sum of Rs.35,283,009 had been collected. The arrears of revenue amounting to Rs.14,794,432 at the end of the preceding year had been increased to Rs. 34,363,646 at the end of the year under review.

### 2.2.3 Rates

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Although developed village areas had been declared vide Extra Ordinary Gazette Notification No.1346/9 dated 23 June 2004, action had not been taken to assess those properties and recover Rates in terms of Section 134 of the Pradeshiya Sabha Act No. 15 of 1987 even up to 19 February 2018, date of audit.

### 2.2.4 Stalls Rent

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Following matters were observed.

- (a) According to paragraph 05 in Circular No. SLG/CLG/2010/01 dated 27 December 2010, stalls agreement should be updated once in every three years. However, such action had not been taken with regard to three stalls.
- (b) Although it had stated that the assessments given during the years 2012 and 2014 are valid only for two years, assessed amounts had not been revised even up to 19 February 2018, date of audit.
- (c) Providing New Stalls of Kirama Market Complex on Rental Basis

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While trade stalls of the above mentioned market complex had been given on lease having entered into agreements, on 30 March 2017, the Finance and Policy Committee had decided to recover rent at the rate of Rs. 3,500 per month until the receipt of assessment reports.

Following observations are made in this connection.

- I. When leasing out the above mentioned 25 stalls tender procedure had not been followed in compliance with paragraph 01 of the Circular No. SLG/CLG/2010/01 dated 27 December 2010,
- II. According to paragraph 04 of the above mentioned circular, lump sum money should be recovered at once or within one year. Although one year period given for payment of lump sum money had elapsed without complying with the circular provisions, lump sum money amounting to Rs.3,268,700 was outstanding to be recovered even as at 31 May 2018.

- III. Although a sum of Rs. 107,800 was in arrears during a period between 01 and 06 months from 12 stalls as at 31 December 2017, out of stalls given on lease deviating from tender procedure, action in terms of the agreements or in terms of Section 159(1) of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken.
- (d) While rent in arrears amounting to Rs.103,175 relevant to stall No.13 of the Middeniya Super Market Complex had not been recovered even up to 31 May 2018, it was observed that only a sum of Rs.39,000 had been recovered as lump sum money.
- (e) Action in terms of agreements or Section 159(1) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken to recover stalls rent in arrears as at 31 December 2017 amounting to Rs.249,864 due from other stalls belong to the Sabha and lump sum money in arrears amounting to Rs. 1,456,667.
- (f) According to paragraph 11 of the circular referred to in (c)(i) above, lease ownership should not be transferred to another party at all. However, it was observed at the physical inspection carried out on 19 February 2018, that 14 Sabha stalls had been subleased at monthly rents ranging from Rs. 6,000 and Rs. 15,000.

#### 2.2.5 Fair Lease Rent

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Action had not been taken during the year under review to lease out the nine weekly fairs belong to the Sabha by calling for tenders.

#### 2.2.6 Machinery Equipment Revenue

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While a sum of Rs. 929,419 was in arrears on account of hiring out machinery and equipment of the Sabha as at the end of year under review, out of that value, the amount due relevant to the period from the year 2013 to 2016 was Rs. 825,585.

#### 2.2.7 Water Charges Revenue

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Effective course of action had not been taken to recover Water Charges Revenue in arrears amounting to Rs. 4,327,718 as at the end of the year under review.

#### 2.2.8 Court Fines and Stamp Fees Fair

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Court Fines amounting to Rs. 2,393,306 and Stamp Fees amounting to Rs.26,032,948 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017.

### 3. Operating Review

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#### 3.1 Performance

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Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public thoroughfares, generally with the protection and promotion of the comfort convenience and welfare of the people and amenities by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabha Act No. 15 of 1987 are shown below.

- (a) Sources of Capital Revenue had not been identified through the budget for the year under review, while the applicable capital development project of the estimated amount Rs.1,000,000 to had not been indicated.
- (b) Development proposals totaling Rs.2,015,000 proposed to perform out of Sabha Funds through the budget during the year under review had not been fulfilled.

#### (c) Works not performed

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Although a total sum of Rs.650,000 had been received during the year under review for construction and repairs of four roads and making a culvert, action had not been taken at least to enter into agreements for carrying out those works.

#### (d) Solid Waste Management

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Following matters are observed.

- (i) The environment permit had not been obtained for the waste disposal ground and the Compost Production Project even as as at 18 February 2018.
- (ii) Waste Management Plan had not been prepared so as to cover the entire area of authority.
- (iii) While a keeper or watcher had not been engaged for the compost yard, two substitute employees had been engaged from time to time.
- (iv) Various containers and tyres had been dumped haphazardly in the yard allowing water to stagnate. It was observed that it would result in growth of various insects such as mosquitoes spreading diseases.
- (v) While the building constructed for sorting out polythene had not been used even up to 19 February 2018, compost production had not been properly taken place. The Huller Machine remained idle.

(e) Sustainable Development Targets

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 Long term plans for up-lifting living condition and health of the people in the area of authority of the Sabha through global index agenda 2030, targeting sustainable development objectives, had not been prepared by the Sabha.

3.2 Management Inefficiencies

(a) Maintenance of Street Lamps

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 Action had not been taken in terms of provisions in Circular No. PE/01/01 dated 17 August 2010 of the Ministry of Power and Energy to get approval for the street lamps maintained by the Sabha. Due to that, charges had been reimbursed only for 217 street lamps out of 1018 street lamps maintained out of Sabha Funds.

(b) Changing colure of a cab vehicle of the Sabha.

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 In changing the colure of the body of the vehicle from silver to red, action in terms of Section 10.2 of the Motor Traffic Act (Chapter 203) had not been taken.

3.3 Human Resources Management

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 (a) There was an excess of 02 persons relevant to 02 posts and vacancies of 21 persons relevant to 12 posts in the approved cadre of the Sabha as at 31 December of the year under review.

(b) A female peon, 08 field laborers, a water laborer, a sanitary laborer and 02 library assistants serving in the Sabha had been assigned duties other than the duties relevant to their posts.

3.4 Operational Inefficiencies

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 Leasing out trade stalls Nos. 21 to 25 in the first floor and the second floor of the Middeniya Super Market Building for carrying out a Rest House.

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 (a) While agreement had been entered into on 23 October 2017 for leasing out the above property, according to paragraph 2.1 of the lease agreement, lessee had agreed to make improvements to the building within 04 months from the date of agreement. However, modifications to the building had not been completed even up to 04 May 2018 and lessee had not requested to grant an extension as well.



- (b) According to conditions 2.2 and 2.7 of the lease agreement, it had been allowed to set off the invested amount at the rate of Rs. 46,212 out of monthly billing amounting to Rs. 84,500. Any installment had not been paid from 23 October to 31 December 2017. Due to that, lease rent and fines amounting to Rs. 94,444 had been in arrears.
- (c) While lump sum money amounting to Rs. 8,450,000 had not been recovered even up to 13 June 2018, Sabha had not taken any course of action with regard to lump sum money and arrears of rent.

### 3.5 Assets Management

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#### 3.5.1 Assets not vested

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- (a) Work relevant to transfer of legal ownership of 13 buildings costing Rs. 2,447,025 six lands costing Rs. 245,750 and 03 vehicles used by the Sabha had not been finalized even as at 19 February 2018.

#### 3.5.2 Idle and under-utilized Assets

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While 08 vehicles belong to the Sabha had been kept idle without being used during a period from 01 to 06 years, in spite of the fact that there were 03 permanent machine operators, engaged in Sabha service, backhoe machine, motor grader and the compact roller had been underutilized during a period from 02 to 09 months.

#### 3.5.3 Non-implementation of Board of Survey Recommendations

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Recommendation given with regard to shortages of goods and vehicle repairs by the board of Survey for the year 2016 had not been implemented even as at 19 February 2018.

#### 3.5.4 Vehicles utilization

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- (a) Obtaining Revenue Licenses and insurance Certificates
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While revenue licenses for the year under review for 05 vehicles used by the Sabha had not been obtained; insurance certificates had not been obtained for a motor cycle and a hand tractor.

(b) Fuel Consumption Tests  
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Fuel Consumption in terms of Public Administration Circular No. 30/2016 dated 29 December 2016 had not been tested with regard to 11 vehicles belong to the Sabha.

3.6 Procurements  
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3.6.1 Annual Procurement Plan  
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A Procurement Plan for the year under review had not been prepared by the Sabha.

3.6.2 Contracts Administration  
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- (a) Although provision amounting Rs. 6,000,000 had been approved for the Sabha under the Development of 1000 kilo meters in Rural Areas Program 2017 of the Ministry of Provincial Councils and Local Government, action had not been taken to get approval for development proposals and implement those.
- (b) Roads constructed at a cost of Rs. 2,995,469 under Maga Neguma Rural Development Program relevant to the year 2013 were not up to the prescribed quality and due to that those provisions had not been received to the Sabha.

4. Accountability and Good Governance  
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4.1 Budgetary Control  
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Material variances between the budget for the year under review and the actual revenue and expenditure were observed as shown below.

- (a) The entire provision of Rs. . 1,132,000 made available through the budget for 04 items of expenditure items remained unutilized at the end of the year.
- (b) While the adverse varaince under 02 revenue items had been Rs.12,204,682 those values were in a range between 17 percent and 20 percent.
- (c) While adverse variance of 03 item of expenditure was Rs. . 2,607,036, those values were in a range from savings 09 percent to 33 percent.
- (d) While the total savings of 04 item of expenditure was Rs. 10,585,212, those values were in a range from 10 percent to 21 percent.

- (e) While revenue amounting to Rs.40,828,725 had been earned over and above the estimated revenue in five items of revenue, those values were in a range from 18 to 2700 percent

#### 4.2 Internal Audit

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Although an officer had been appointed for internal audit work of the Sabha according to Circular No. දපප/යන/01න dated 14 February 2014 of the Southern Province Commissioner of Local Government, an internal audit had not been carried out.

#### 4.3. Audit and Management Committees

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Although 04 meetings of the Audit and Management Committees at the rate of one meeting per quarter should be conducted annually in terms of Management Audit Circular No. DMA/2009(1) dated 09 June 2009, only 3 meetings had been conducted for the year under review.

#### 5. Systems and Control

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Deficiencies observed in audit were brought to the attention of the Sabha from time to time. Special attention should be made in respect of following areas of systems and controls.

System	Deficiency
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(A) Accounting	I. Instances of omission of account balances, under and over statements in accounting. II. Differences between values shown in the financial statements and values shown in subsidiary registers.
(B) Revenue Administration	I. Non-recovery of arrears of revenue II. Non-identification of new revenue generating sources
(c) Assets Control	I. Failure to take action for vesting ownership of lands, buildings and vehicles. II. Failure to carryout fuel consumption tests of Vehicles
(d) Budgetary Control	I. Existence of material variances between the budget and actual income and expenditure. II. Lack of evaluation and follow up action to Failure to take action to achieve budgeted targets.