

**Mahawa Pradeshiya Sabha
Kurunegala District**

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been submitted to the audit on 23 August 2018 and the Auditor General's report on those financial statements had been sent to the Chairman on 15 November 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Mahawa 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 Commenta on Financial Statememnts

1.3.1 Accounting Deficiencies

The following matters were observed.

- (a) Value of 06 lands amounting to Rs. 105,000 had been accounted for twice.
- (a) Even though the value of the land in which the Mahawa Shopping Complex is located and the land in which the Sub-office of the Ambanpola Pradeshiya Sabha is situated amounted to Rs. 2,595,000 and Rs. 2,157,967 respectively, the total value thereof had been stated at Rs. 22,487,967.
- (c) Value of 44 lands owned by the Sabha had not been assessed and stated in the financial statements.
- (d) The value of a tractor owned by the Sabha amounting to Rs. 1,060,000 had been overstated by Rs.240,000 in the financial statements.
- (e) The value of Rs. 336,955 relating to 14 items of furniture and equipment had been understated by Rs. 73,781 in the financial statements.
- (f) Four pre-school items worth Rs. 493,062, assets valued at Rs. 486,305 in Sub-offices and books valued at Rs. 369,600 of the Mahawa Library had not been brought to account.

- (g) A sum of Rs. 82,077 payable to the Local Government Pension Fund had been understated in the financial statements.
- (h) The value of miscellaneous stock as at the end of the year under review understated by Rs.699,340 in the accounts.
- (i) The value of 14 water meters of Water Man brand amounting to Rs.18,200 had been stated as Rs.186,200 in the financial statements.
- (j) The fixed deposits of Rs. 3,337,411 as at the end of the year under review had been stated as Rs. 2,902,735 in the financial statements.
- (k) Fixed deposit interest income relating to the year under review had not been brought to account.
- (l) The stamp duty revenue of Rs. 2,500,000 relevant to the year 2015 had been stated as the revenue of the year under review.
- (m) The salary reimbursement of Rs. 54,237,684 relevant to the year under review and the salary reimbursement of Rs. 20,209,015 receivable as at 31 December 2017 had been shown as Rs. 55,960,877 and Rs. 10,632,875 respectively in the financial statements.
- (n) The salary reimbursement of Rs. 358,308 relevant to the preceding year had been shown as the revenue of the year under review.
- (o) The unsettled advances of Rs. 583,208 as at the end of the year had been shown as Rs. 518,908 in the financial statements.
- (p) The difference of Rs.22,908 of the money transferring account had been stated under the current assets.
- (q) Provisions for the audit fees had not been included in the financial statements of the year under review and audit fees of Rs. 99,084 paid for the preceding year had been brought to account as the expenditure of the year under review.
- (r) The balance of the Accumulated Fund amounting to Rs. 17,603,889 as at 31 December 2017 had been stated as Rs. 18,117,589 in the financial statements.
- (s) A sum of Rs. 80,608 not accounted for as receivable income of the preceding years had been credited to the Other Outstanding Account during the year under review.
- (t) The outstanding court fines of Rs. 4,183,750 receivable for the year under review had been stated as Rs. 1,295,000 in the financial statements.

1.3.2 Unreconciled Accounts

The following matters were observed.

- (a) There was a difference of Rs. 50,050,109 between the balances as per the financial statements and the schedules relating to 02 items of accounts as at the end of the year under review.

- (b) The deposits of Rs. 6,005,963 according to the deposit register as at the end of the year under review had been stated as Rs. 10,455,296 in the financial statements.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

The following matters were observed.

- i. Of the debtors balance of Rs. 54,355,842 as at the end of the year under review, age analysis had not been presented for Rs. 35,108,292.
- ii. An advance balance of Rs. 6,666,978 the details of which was not to be found and a sum of Rs. 761,854 receivable from an Authority remained unsettled over a long period.
- iii. A sum of Rs. 6,898,986 elapsed for more than a year as at 31 December 2017 remained further recoverable.

(b) Accounts Payable

The following matters were observed.

- i. Of account balance of Rs. 55,750,084 payable as at 31 December 2017, age analysis had not been furnished for Rs. 51,668,018.
- ii. A sum of Rs. 3,930,687 that had elapsed for three years had to be settled.
- iii. Action had not been taken to identify the payable deposits from the deposits of Rs. 10,455,295 as at the end of the year under review and pay or credit it to the revenue

1.3.4 Lack of Written Evidence for Audit

Failure to furnish information to Audit.

As necessary information had not been presented, 07 items of accounts worth Rs. 46,107,398 could not be satisfactorily verified in audit.

1.3.5 Non-compliance with laws, rules, regulations and management decisions

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

Reference to laws, rules, regulations and management decisions	Value	Non-compliance
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	Rs.	
(a) Pradeshiya Sabha (Financial and Administration) Rules 1986 Rule 218		Lands and buildings owned by the Sabha had not been surveyed once every year.
(b) Procurement Guidelines 2006.		
(i) Guideline 5.6.1 (a)	145,241	Purchases had been made without giving specifications.
(ii) Guideline 6.3.3 (b)	597,200	In calling for quotations, the date, time and place of opening bids had not been stated.
(c) Public Administration circular No.26/92 dated 09 August 1992.	-	The Government insignia had not been stencilled in 13 vehicles that remained usable condition.
(d) Treasury Circular No. IAI/2002/02 dated 28 November 2002.	-	No separate Fixed Assets Register had been maintained on computer, accessories and software.

02. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 7,884,906 for the year ended 31 December 2017 as against the expenditure in excess of the recurrent revenue amounting to Rs. 12,341,209 for the preceding year.

2.2 Financial Control

As the errors made in issuing cheques by the Sabha had not been corrected within each month, a value of Rs. 136,826 had been brought forward continuously in the bank reconciliation statements.

2.3 Revenue Administration

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

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

Source of Revenue	<u>2017</u>				<u>2016</u>			
	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.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000.	Rs.000..
(i) Rates and Taxes	4,990	5,772	5,070	3,036	5,290	5,502	5,773	2,334
(ii) Rents	12,875	11,068	11,304	134	11,725	11,517	11,510	370
(iii) Licence fees	846	919	919	-	746	901	901	-
(iv) Other Revenue	111,488	71,309	79,285	13,490	101,937	59,333	59,149	21,461
Total	130,199	89,068	96,578	16,660	119,698	77,253	77,333	24,165

Note

The revenue collected in the years 2016 and 2017 had included the receipts of outstandings relevant to the preceding years.

2.3.2 Performance in the Collection of Revenue

Even though revenue of Rs.130 million had been estimated for the year under review, billing of the year amounted to Rs.89 million. A sum of Rs.97 million had been raised together with the receipts of outstanding pertaining to the preceding years. The arrears of revenue amounting to Rs.24 million as at 31 December of the preceding year had declined up to Rs.17 million by the end of the year under review.

2.3.3 Rates and Taxes

The following matters were observed.

- (a) Assessments tax of Rs. 2,827,256 was due from 1556 assessment units of the area of authority of the Sabha as at 31 December of the year under review and action had not been taken to recover the outstanding assessments in terms of Rules 33-37 of the Pradeshiya Sabha (Financial and Administration) Rules, 1988.
- (b) Arrears of Rs.314,822 due from 210 water consumers had not been recovered as at the end of the year under review.
- (c) Tax of Rs. 152,040 and Rs. 16,500 remained recoverable from 83 business units and 17 industry units of the area of authority of the Sabha as at the end of the year under review respectively.

2.3.4 Rent

The following matters were observed.

- (a) A sum of Rs. 40,109 was due from 05 trade stalls as at 31 December of the year under review.
- (b) Arrears of rents amounting to Rs. 93,122 remained recoverable by the end of the year under review.

2.3.5 Court Fines and Stamp Duty

Courts Fines and Stamp Duty due from the Chief Secretary of the Provincial Council had not been separately identified and the total thereof that remained receivable as at 31 December 2017 amounted to Rs. 1,874,642.

03. Operating Review

3.1 Performance

Matters 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 to be performed by the Sabha in terms of Section 3 of the Pradeshiya Sabhas Act, are as follows.

(a) By-laws

Even though By-laws should be enacted to perform 30 main activities under the Section 126 of the Pradeshiya Sabha act, the Sabha had adopted the common by-laws enacted by the Minister.

(b) Abandoned Tasks

Two budgeted works valued at Rs. 3,340,522 had not been carried out during the year under review.

(c) Solid Waste Management

The following matters were observed.

(i) The garbage collected at Ambanpola town had been dumped in a land in Amunugama area and the people too had disposed of garbage into the land without permission and accordingly, glass pieces and waste from the fish stalls had been scattered over the land .

(ii) Out of the 490 tons of decaying garbage collected in the year 2017 for the Solid Waste Management Center, about 140 tons had been used for compost production and the rest had been dumped into open land.

(c) Environmental Issue

The following matters were observed.

(i) degradable matters such as polythene at the -The disposal and burning of non .Amunugama land could have caused environmental issues

(ii) The barbed wire fence at the Siyodagama Garbage Management Center had been damaged by elephants and no action had been taken to prevent the consuming waste in the Amunugama land by the wild animals. Environmental licences had not been obtained in respect of the garbage disposal sites.

(e) Sustainable Development Goals

Although the Sabha was unaware of the 2030 Agenda for Sustainable Development Goals, the Sabha had implemented programs such as cultivation of lemon grass, lime and orange, and the drinking water schemes in order to improve poverty alleviation,

3.2 Management Inefficiencies

The following matters were observed.

- (a) The stocks worth Rs. 541,322 of the construction of bustand that had been stated in the financial statements over a number of years had not been physically identified.
- (b) According to the Board of Survey of the year under review, the loss of Rs. .26,223 relating to 185 miaplced books had not been recovered.
- (c) spare parts removed in the vehicle repairs had not been documented and received by the Sabha.
- (d) The value of fixed asstes of the Sub-offices, libraries, water treatment units and pre-schools had not been assessed.

3.3 Human Resource Management

(a) Employees vacancies and excesses

There were vacancies of the sabha comprising one vacancy in the Tertary post, 10 vacancies in Secondary posts, 11 vacancies in primary posts and two excess in a secondary post and one in primary post of the Sabha as at the end of the year under review. Further, 19 Development Officers had been attached to the Sabha by the Department of Local Government, thus causing excess of 07 Development Officers.

- (i) Eighteen Preschool Assistants, 06 Library Assistants, 03 Office Assistants and 02 Watchers had been employed without obtaining approval.
- (ii) Only three employees had been employed in the Waste Management Center which required at least 10 workers per day.

(b) Employees Loan

Action had not been taken to recover the employees loan of Rs.352,466 that remained over a period from 01 year to 13 years due to the reasons such as transfers, vacation of the service, interdiction, and the death of the employe.

3.4 Operating Inefficiencies

The following matters were observed.

- (a) After assessing the property in 2013, no action had been taken to collect assessment tax from 125 properties that had been issued Certificates of Conformity from 2014 to December 2017.
- (b) Action had not been taken to tender and award 05 leased properties during the year under review the minimum bids of which totalled Rs. 1,086,104.
- (c) Nine trade stalls at the Ambanpola Bus Stand and a milk bar and 14 trade stalls at Mahawa Public Market had not been given on lease for more than a period of 03 years.

3.5 Assets Management

3.5.1 Failure to Document Assets

A register had not been maintained in Form P.S.45 to document the fixed assets of the Siyodagama Solid Waste Centre.

3.5.2 Failure to carry out maintenance and repairs

The Sabha had not addressed the request made in connection with the difficulties found in using Ambanpola Amunugama road which had been concreted about 10 years ago and detached concrete thereof over a 200 meters so as to surface the stones on the road.

3.5.3 Assets that had not been transferred

The following matters were observed.

- (a) Five vehicles and machinery used for the affairs of the Sabha had not been taken over.
- (b) The Government land in Amunugama to which the garbage of the Ambanpola town was disposed of had not been acquired by the Sabha.

3.5.4 Idle Assets

Seven vehicles worth Rs.771,700 owned by the Sabha had remained idle over a number of years.

3.6 Irregular Transactions

Despite being not specifically stated in the Provincial Committee on Public Accounts, outstanding rent of Rs.280,713 and outstanding trade stalls rent of Rs.7,333 had been written off against the Accumulated Fund.

3.7 Procurement

3.7.1 Procurement Plan

The procurement plan for the year under review had not been prepared by the Sabha in terms of Guideline 4.2.1 of the Government Procurement Guidelines 2006.

3.7.2 Supply and Services

The following matters were observed.

- (a) Without a recommendation of the Technical Evaluation Committee, the Procurement Committee had given decision to purchase 04 tyres to a Cab of the Sabha by paying Rs.80,000 in excess to the minimum price.
- (b) Without citing specific reasons, 23 chairs had been purchased by overpaying Rs.49,485 from another institution while rejecting the institution that had submitted the minimum prices.

3.7.3 Contract Administration

Without recommendations of a committee of three persons including two representatives nominated by the Head of the Department and the Divisional Secretary in terms of the Circular No.01/2012 dated 05 January 2012 and without being reviewed confirmations on experience and eligibility as per the documents in terms of Paragraph 3.2 of the said circular in awarding direct contracts to the community based organizations, 11 works valued at Rs. 8,654,738 had been awarded to community based organizations.

4 Accountability and Good Governance

4.1 Presentation of Financial Statements

The financial statements for the year under review had been presented for the audit on 23 August 2018 and the financial statements for the previous year on 09 May 2017.

4.2 Budgetary Control

The following matters were observed.

- (a) As variations ranging from 33 per cent to 282 per cent were observed between the budgeted and actual figures of 02 Revenue Objects and 06 Expenditure Objects in the year under review, the budget had not been made use of as an effective instrument in management control.
- (b) Sixteen unbudgeted works valued at Rs. 11,054,847 had been implemented during the year under review.

4.3 Internal Audit

No adequate internal audit system had been maintained in connection with the stores transactions as per the Provincial Council (Financial and administration) Rules, 1988.

5. Systems and Control

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

Systems	Deficiency
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(a) Accounting	(i) Failure to account for correct value of the Fixed Assets and existence of omissions in accounting. (ii) Failure to account for the interests of fixed assets. (iii) Revenue had been erroneously understated in the accounts. (iv) Not correcting un-reconciled accounts.. (v) Not maintaining books and registers and not updating the existing documents.
(b) Revenue Administration	(i) Failure to take action to recover the outstanding balances. (ii) Not preparing the age analysis
(d) Fixed assets control	(i) Not taking steps on the underutilized assets. (ii) Failure to take steps to take over the assets.
(d) Implementation of Projects	(i) Failure to follow the procurement procedure on the works. (ii) Failure to implement the budgeted project. (iii) Implementation of unbudgeted projects.

(e) Debtors/ Creditors control

- (i) Failure to maintain registers.
- (ii) Not preparing the age analysis.

(f) Budgetary control

Existing substantial differences between the estimated and actual income.