

Ibbagamuwa Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 27 March 2013 and the financial statements for the preceding year had been presented on 30 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 09 October 2013.

1.2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Ibbagamuwa Pradeshiya Sabha for the year ended 31 December 2012 presented to audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) The trial balance submitted along with the financial statements differed by Rs.1,085,924. Journal Entries had not been made available in respect of adjustments amounting to Rs.2,916,722 made to the capital expenditure account and explanations had not been made available for adjustments amounting to Rs.1,515,463 made by Journal Entries at 05 instances.
- (b.) Lease rent received amounting to Rs.819,392 in respect of the preceding year had been debited to the lease rent in arrears account and credited to the lease rent account by Journal Entries and therefore, lease rent income and the revenue debtors had been overstated by Rs.1,638,784.
- (c.) According to the register, salary reimbursements amounted to Rs.25,553,979 and it had been taken to the income and expenditure account as Rs.27,194,561 and as such the salary reimbursements for the year had been overstated by Rs.1,640,582.

- (d.) Capital expenditure amounting to Rs.87,828,172 shown in the income and expenditure account included a sum of Rs.60,868,876 paid in respect of the preceding year and therefore, capital expenditure had been overstated by Rs.60,868,876. Further, capital expenditure payable amounting to Rs.63,591,151 had not been taken into the financial statements.
- (e.) Capital aid amounting to Rs.89,241,820 shown in the income and expenditure account included a sum of Rs.45,712,557 received in respect of the preceding year and therefore capital revenue had been overstated by Rs.45,712,557. Further capital aid amounting to Rs.59,723,341 had not been taken to the financial statements.
- (f.) A provision of Rs.14,510,484 had been made as works debtors and a sum of Rs.45,212,557 had been received as works aid. Of this, the sum of Rs.14,510,484 provided for the preceding year had been debited to the works debtors account instead of crediting the said account and the sum of Rs.30,702,073 not provided had been accounted to the income and expenditure account instead of adjusting the accumulated fund.
- (g.) According to work file relating to the construction of the Sabha office, the actual expenditure of the said building amounted to Rs.12,769,382 and it had been shown in the financial statements as Rs.8,235,660 thus understating the value of land and buildings by Rs.4,533,722.
- (h.) Ibbagamuwa Public Library had been constructed at a cost of Rs.1,365,000 and it had not been taken into the financial statements under land and buildings. Therefore, the value of the land and buildings had been understated by Rs.1,365,000.

- (i.) Provision for creditors had not been made in the financial statements in respect of contributions amounting to Rs.4,413,625 payable to the Department of Pensions and the sum of Rs.129,636 relating to the year had not been accounted as an expenditure.

- (j.) Stamp fees relating to the year 2010 and 2012 had been billed as Rs.30,000,000 and after deducting the sum of Rs.1000,000 received, the stamp fees receivable amounted to Rs.29,000,000. However, It had been taken to the financial statements as Rs.18,822,248 and due to this stamp fees receivable had been understated by Rs.10,177,752.

- (k.) A sum of Rs.5,980,250 had been shown in the financial statements as court fines in arrears and according to the relevant registers the amount actually receivable amounted to Rs.2,151,219. Therefore, court fines receivable had been overstated by Rs.3,829,031 and the income from court fines for the year had been overstated by Rs.1,376,905.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.29,143,827 could not be satisfactorily vouched in audit due to non-submission of the required information for audit.

2. Financial and Operating 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 2012 amounted to Rs.4,827,498 as compared with the excess of revenue over recurrent expenditure amounting to Rs.9,321,780 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	1,749	163	111
(ii.) Lease Rent	6,816	6,575	240
(iii.) Licence Fees	1,255	886	368
(iv.) Other Revenue	52,924	53,408	484

2.2.2 Rates and Taxes

The balance of rates and taxes in arrears as at end of the year amounting to Rs.2,707,266 included rates amounting to Rs.127,629 due in respect of the building at Unit No.279 Dambulla Road- West billed at Rs.2,104 per quarter.

2.2.3 Lease Rent

According to the Register of Lease Rent there was a balance of arrears amounting to Rs.94,781 as at end of the year under review and according to the accounts the arrears amounted to Rs.2,891,477. The Sabha had not taken action to find out details about the arrears and to recover the arrears.

2.2.4 Entertainment Tax

The arrears of entertainment tax existed for over a number of years from a Cinema Hall at Melsiripura amounted to Rs.59,215 and the Sabha had not taken action to recover the above arrears.

2.2.5 Processing Charges for Telephone Transmission Towers

Eight telephone transmission towers had been identified within the area of the Sabha and a periodical survey had not been carried out about the towers installed within the area of the Sabha. Annual trade licence fees or business tax also had not been recovered.

2.2.6 Court Fines and Stamp Fees

Court fines amounting to Rs.3,934,856 and stamp fees amounting to Rs.8,150,628 had been receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2012.

2.3 Control over Vehicles

The following observations are made.

- (a.) Fuel expenses in respect of 08 vehicles owned by the Sabha amounted to Rs.2,683,672 for the year under review and of this Rs.769,040 equivalent to 28.6% had been spent on Cab bearing No.PD1844. Running Charts of this vehicle had not been written since June 2012. A sum of Rs.769,040 had been spent for 6783.3 liters of fuel during the year and it was between a range of Rs.18,110 to Rs.92,767 per month. Further a sum of Rs.431,110 had been a spent for 3,614 liters of fuel from January to May 2013 and it was between a range of Rs.43,776 to Rs.112,473 per month.
- (b.) The Secretary of the Sabha had detected a shortage of 36 liters of fuel valued at Rs.4,147 relating to the Mahendra Tractor bearing No.LE7443 owned by the Sabha; but, a formal investigation had not been done in this connection, and the Commissioner of local Government had directed the Sabha only to issue a letter of warning in this connection.

(c.) The Driver had not reported to the office about the accident occurred to the vehicle No.PD1844 of the Sabha on 11 February 2012 and entries had not been made in the relevant running chart and the log book about this incident. A primary investigation had not been done about the accident in terms of Financial Regulation 103 of the Republic of Sri Lanka and a sum of Rs.119,575 had been spent from the Sabha funds to re-fix the front wind screen damaged, without following a proper procurement procedure.

2.4 Idle and Underutilized Physical Resources

The Self-Employment Centre of the Sabha situated within the area of the Gokarella Sub-office had been closed down since prior to 10 years and there were assets to the value of Rs.313,032 and 08 Jukie Machines received as donations but not valued.

2.5 Assets Management

According to the financial statements the value of land and buildings amounted to Rs.21,381,172. All the land and buildings had not been assured by carrying out a survey and brought to account in terms of Rule 218 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988.

2.6 Legal Matters Initiated Against the Sabha

(a.) The Sabha had demolished the 12' Box culvert existed at the Daramitipola-Muwagama Road and constructed a 20' culvert in the year 2002 at an expense of Rs.41,750. The neighboring paddy field owner had filed a case against the Sabha for the damages suffered by him due to the above construction. According to the verdict of the said case, the Sabha had been ordered to pay a compensation of Rs.120,000 and case charges amounting to Rs.25,347 and to construct the said culvert as existed earlier. A sum of Rs.145,347 and Rs.210,000 respectively had been spent from the Sabha fund to pay the compensation and to construct the culvert as existed earlier.

- (b.) The Sabha had not maintained a proper Register of Court Cases. It was difficult to ascertain the information about the final verdicts of the cases filed for the recovery of stalls rent in arrears and about the implementation of the above verdicts.

2.7 Operating Inefficiencies

The following observations are made.

- (a.) Although it had been expected to incur an expenditure of Rs.5,106,000 under 03 items of expenditure, only a sum of Rs.1,930,892 equivalent to 38% had been spent from this.
- (b.) The Sabha had not duly paid the contributions to the Local Government Pension Fund and the balance payable to the said Fund as at end of the year under review amounted to Rs.4,413,625. The said Fund had recovered a monthly instalment of Rs.10,803 from the Sabha. But, the Sabha is not aware to which employees the above recoveries are related to.
- (c.) A sum of Rs.2,112,904 and Rs.1,874,471 respectively had been paid to the contractor during the years 2012 and 2013 for the construction of buildings of the Melsiripura Bus Stand. The Value Added Tax amounting to Rs.251,536 and Rs.200,836 respectively totaling Rs.452,372 relating to the above payments had not been deducted in computing tax payable by the Sabha.

2.8 Solid Waste Management

Three tractors had not been purchased at Rs.1,290,000 for the Waste Management Project during the year under review whereas a land had not been found to construct a building for the waste management. The Sabha follows a method of dumping waste collected into pits and burying.

3. Systems and Controls

Special attention of the Sabha is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Financial Control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Vehicle Utilization