

**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 23 April 2014 and the financial statements for the preceding year had been presented on 27 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 11 December 2014.

**1.2 Opinion**

Because of significance of the matters described in paragraph 1.3.3, 1.3.5 and 1.3.6 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Therefore I do not express an opinion on these financial statements.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a.) According to the verification reports, the value of the balance of library books as at end of the year under review amounted to Rs.6,017,816; but it had been taken to the financial statements as Rs.10,640,537 overstating by Rs.4,622,721.
- (b.) Purchases and donations of library books amounting to Rs.145,560 for the year under review had not been accounted.
- (c.) The balance of works debtors amounting to Rs.18,286,108 relating to the year had not been brought to account and due to this, capital receipts and works debtors had been understated by a similar amount.
- (d.) The lease rent (5/23) billed as at end of the year under review amounted to Rs.6,747,440 and it had been shown in the financial statements as Rs.5,886,042 understating by Rs.881,398.

- (e.) The stall rent (5/22) billed relating to the year under review amounted to Rs.879,000 and it had been shown in the financial statements as Rs.1,143,698 overstating by Rs.264,698.
- (f.) Rates and taxes (1/11) billed relating to the year under review amounted to Rs.1,896,116 and it had been shown in the financial statements as Rs.3,558,915 overstating by Rs.1,662,799.
- (g.) The Acre Tax (1/12) billed relating to the year under review amounted to Rs.86,933 and it had been shown in the financial statements as Rs.251,814 overstating by Rs.164,881.
- (h.) The court fines (1/52) billed relating to the year amounted to Rs.2,414,205 and it had been shown in the financial statements as Rs.1,926,286 understating by Rs.487,919.
- (i.) Court fines in arrears as at end of the year under review amounted to Rs.437,916 and it had been shown in the financial statement as Rs.2,414,205 overstating by Rs.1,976,289.
- (j.) The balance of the court fines in arrears as at end of the year had been overstated by Rs.1,841,938 due to erroneous adjustments
- (k.) Stamp fees in arrears amounting to Rs.18,444,449 received during the year under review in respect of previous years had been credited to the income from stamp fees account of the year, without being credited to the accumulated fund and therefore, the income for the year had been overstated by a similar amount.
- (l.) Interest on property loans amounting to Rs.565,012 received in respect of preceding year had been credited to the relevant property loan interest account and debited to the stamp fees income account (1/64) through Journal Entry No.22. As, such the stamp fees income for the year under review had been understated by Rs.565,012.
- (m.) Income from salary reimbursements relating to the year under review amounted to Rs.28,278,419 whereas it had been shown in the financial statements as Rs.27,569,964 understating by Rs.708,455.

- (n.) Salary reimbursements in arrears as at end of the year under review amounted to Rs.116,500 and it had been shown in the financial statements as Rs.740,420 overstating by Rs.623,920.
- (o.) According to the works creditors schedule, the provision for works creditors for the year under review amounted to Rs.30,270,230. However, only a sum of Rs.25,868,172 had been provided as works creditors through journal Entry No.17 and 18. Therefore, the capital expenditure (309) relating to the year under review and the works creditors as at end of the year under review had been understated by a sum of Rs.4,402,058.
- (p.) The sum of Rs.5,441,225 payable in respect of the previous years according to the Register of Works had not been shown under works creditors as at end of the year under review.
- (q.) The stamp tax payable in respect of the fourth quarter of the year under review amounted to Rs.30,690 whereas it had been shown in the financial statements as Rs.355,802 overstating by Rs.325,112.
- (r.) Although a sum of Rs.80,080 and Rs.385,699 respectively had been paid as Nation Building Tax and Value Added Tax during the year under review these payments had not been taken to the financial statements.
- (s.) The value of installments paid and payable to the Local Loans and Development Fund relating to the year under review amounted to Rs.1,785,264. However, this had been shown in the financial statements as Rs.1,134,353 understating Rs.650,911.
- (t.) Contributions amounting to Rs.4,544,380 payable to the Local Government Pensions Fund as at end of the year had not been shown under creditors and the contributions relating to the year amounting to Rs.130,752 had not been accounted as expenditure for the year.
- (u.) The overprovision of Rs.1,487,278 made as salary reimbursements in arrears as at beginning of the year under review had been debited to salary reimbursements account through Journal Entry No.24, instead of being adjusted through the accumulated fund. Therefore, the income from salary reimbursements for the year under review had been understated by Rs.1,487,278.

- (v.) The value of a Tractor received as donations during the year under review had been shown in the register of fixed assets as Rs.1,463,200. However, it had been shown in the accounts as Rs.1,100,000 understating by Rs.363,200. Further, the said value had not been brought to account as capital aid and capital expenditure of the year under review.

### **1.3.2 Contingent Liabilities**

The contributions payable to the Local Government Pensions Fund in respect of the employees retired from the service of the Pradeshiya Sabha and liable to pay contributions to the said Fund had not been properly paid. As such, the balance payable to the above Fund as at end of the year under review was Rs.4,544,380.

### **1.3.3 Unreconciled Control Accounts**

Differences amounting to Rs.11,636,879 were revealed between the accounts and relevant registers in respect of 20 items of accounts under the opening balance, amount billed, receipts and the closing balance.

### **1.3.4 Accounts Receivable and Payable**

- (a.) The value of accounts receivable as at 31 December 2013 amounted to Rs.92,745,492 and correct age analysis of this was not made available.
- (b.) The value of accounts payable as at 31 December 2013 amounted to Rs.42,782,150 and correct age analysis of this was not made available.

### **1.3.5 Lack of Evidence for Audit**

Transactions totaling Rs.58,494,355 could not be examined in detail due to non-submission of required information to audit.

### **1.3.6 Transactions without Authority**

The following observations are made.

- (a.) Although an amount of Rs.12,485,360 had been adjusted to the accumulated fund at 11 instances, proper authority had not been obtained for this. Further, the make-up of the values adjusted had not been identified.
- (b.) Adjustments amounting to Rs.4,446,951 had been made to rectify the differences between the values as per accounts and the relevant subsidiary registers in respect of 06 items of accounts. However, the make-up of these balances had not been identified. Further, these adjustments had been made at 06 instances through Journal Entries without approval.

## **2. 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 2013 amounted to Rs.24,172,360 as compared with the excess of revenue over recurrent expenditure amounting to Rs.4,827,498 for the preceding year, thus, indicating an improvement in the financial result by Rs.19,344,862. The surplus for the year under review had been increased up to Rs.35,852,269; when the financial result was adjusted for capital aid amounting to Rs.59,294,493 and capital expenditure amounting to Rs.47,614,584.

### **2.2 Analytical Financial Review**

The following observations are made.

- (a.) The total recurrent revenue of the Sabha for the year under review amounted to Rs.95,350,965 and 81% of this amounting to Rs.77,725,444 consists of non-generated income such as court fines, stamp fees, salary reimbursements etc. The entire capital revenue of Rs.59,294,493 consists of money received for development works of the authoritative area from other institutions under sources such as Gama Neguma, maga Neguma Wayamba Pubuduwa.

(b.) The total recurrent expenditure for the year under review amounted to Rs.71,178,605 and 53% of this amounting to Rs.37,532,736 represents personal emoluments. Of this, 73% amounting to Rs.27,569,964 had been received from the Commissioner of Local Government as salary reimbursements and had been accounted under other revenue. The total capital expenditure amounted to Rs.47,614,584 and of this, only Rs.27,053,043 representing 57% spent from Sabha funds and the balance 43% amounting to Rs.20,561,541 consists of development activities carried out from provisions of other institutions such as Gama Neguma, Maga Neguma, Wayamba Pubuduwa.

## **2.3 Revenue Administration**

### **2.3.1 Performance of Revenue Collection**

Although there is no specific power for field collection of revenue such as trade licence, business tax, stall rent, lease rent, the Revenue Collectors of the Sabha had carried out field collection of rates and taxes and trade licence fees etc. throughout the year.

### **2.3.2 Rates and Taxes**

The rates and taxes in arrears as at end of the year under review amounted to Rs.3,972,784 and the annual billing amounted to Rs.1,896,116. According to the Rules 33-42 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988; quarterly lists of arrears should be prepared, retain the property after issuing the relevant notices and implement the procedure on recovery of rates and taxes in arrears. But, the Sabha had not taken action accordingly.

### **2.3.3 Stall Rent**

The following observations are made.

(a.) Seven pavement stalls owned by the Sabha that had been constructed by the Sabha within the area of the Kumbukgete Sub-office during 2007 and 2008 had been converted to permanent buildings by the lessees. The Sabha had not explored about the unauthorized constructions.

- (b.) A monthly rental of Rs.900 was being recovered from the 30 stalls constructed on the land titled “Koskele Thuru Sevana” within the area of authority of the Gokarella Sub-office. The annual rental of these stalls amounted to Rs.324,000. The Sub-offices of the Sabha had not billed the relevant rentals, instead only the rent recovered had been recorded. Therefore, it could not be examined the amount billed, recoveries and rent in arrears at a certain date. There were arrears amounting to Rs.221,000 and Rs.129,600 respectively for the years 2012 and 2013.

#### **2.3.4 Key-money**

Tenders had been called for at a minimum bid of Rs.8,565,263 on 08 April 2013 for lease on key-money basis the 04 stalls constructed and 03 stalls expected to be constructed at the Malsiripura Bus Stand. Although these 07 stalls had been tendered at a total value of Rs.8,565,859 only a sum of Rs.300,000 had been recovered in respect of stall No.07. As such, a sum of Rs.8,265,859 out of the tendered amount Rs.5,265,859 had been in arrears and the rent on 04 stalls already constructed had not been billed or the 03 stalls had not been constructed as expected. The Sabha had not taken proper action in respect of the defaulters not paying money in terms of the relevant tender conditions.

#### **2.3.5 Business Tax and Trade Licence Fees**

The Sabha had not carried out a survey within the area of authority of the Sabha and a list of industries and business entities had not been prepared and submitted to the Secretary. Further, it had not been informed the industry owners and business men to pay the tax levied by the Sabha within 07 days.

#### **2.3.6 Revenue from Water Charges**

The water project in operation within the area of the Hiripitiya Sub-office had supplied water to 122 water consumers and there were no water meters in order to identify the volume of water supplied to the water tanks and the volume of out-flow from the tanks. Therefore, the units of water distributed and the units of water billed could not be compared. The value of water billed was Rs.596,983 and the arrears as at 31 December

2013 amounted to Rs.116,488. The above arrears included a sum of Rs.72,642 in respect of water supplied to the hospital.

### **2.3.7 Court Fines and Stamp Fees**

Court fines receivable from the Chief Secretary of the Provincial Council as at 31 December 2013 amounted to Rs.501,958.

### **2.3.8 Charges on Telephone Transmission Towers**

There were 18 telephone transmission towers approved within the area of the Sabha and the charges amounting to Rs.228,500, Rs.227,715 and Rs.222,375 respectively due for the year 2011, 2012 and 2013 had not been recovered.

### **2.3.9 Beef Stall Taxes**

Tenders had been called for in respect of the beef stall and meat/ fish stalls of the Melsiripura Weekly Fair of which the lowest bid was Rs.451,100. As the above stalls are not up to the basic specifications, no tenders had been received since year 2011. Therefore, the Sabha had deprived of an income of Rs.1,353,300 approximately that could have been earned based on the lowest bid.

## **3. Operating Review**

### **3.1 Performance**

Five welfare activities valued at Rs.1,075,000 planned to be implemented by the Sabha during the year under review had not been adequately carried out, and 08 welfare activities planned to be implemented out of provisions amounting to Rs.1,800,000 ha not been commenced.

### **3.2 Management Inefficiencies**

The following observations are made.

- (a.) Although Sabha had approved 560 building applications during the period 2009 to 2011, only 29 conformity certificates had been issued. The Sabha had not taken action against non-obtaining of 5.31 conformity certificates or extension of time



period of building permits. An income of Rs.106,200 could have been earned from conformity certificates in terms of the by-laws of the Sabha; if all the buildings had been constructed and no provisions had been made in respect of charges for extension of time of building permits.

- (b.) Although it had been informed that action is being taken to vest a plot of land to the extent of 15 perches from the Ganewatta Uduwellapitiya land which had been block out and sold in year 2000; the Sabha had not taken action to obtain title deeds for this block of land. It was observed that an outside person had encroached this block of land presently.
- (c.) The tender for Rs.61,200 submitted for running a fish stall in Kumbukgete area had been accepted under lease rights for the year under review, and this had been informed to the lessee on 15 October 2012. But the Sabha had not entered into an agreement with the lessee. The relevant lease rent also had not been recovered. Although it had been revealed that a fish stall had been operated in 02 pavement stalls owned by the Sabha at Kumbukgete with a monthly rent of Rs.900; the Sabha had not taken any action with regard to this. Further, it had been decided by the Sabha Decision No.04(13)1 dated 09 April 2013 to not to tender the fish stall in Kumbukgete area and permission had been given to sell fish at pavement stall No.01 and 02.

### **3.3 Court Cases Filed by the Sabha**

- (a.) Although it had been recorded in the Register of Court Cases that a verdict had been given on Case No.2011/8/5/11858/M to retrain the property and to recover the arrears amounting to Rs.97,018 due in respect of the beef stall at Hiripitiya for the year 2008; it was not observed whether the above money has been recovered. Further, the file regarding this court case too was not submitted to audit.
- (b.) The court case No.2011/8/5/11803/M with regard to the recovery of arrears amounting to Rs.113,912 in respect of the fish stall at Hiripitiya for the year 2008 had not been settled even up to the end of the year under review and a specific reason for it could not be identified through the Register of Court Cases.

- (c.) Although it had been recorded in the Register of Court Cases that verdicts had been given on Case No.2010/9/27/10509/M and Case No.2010/9/27/10521 to restrain property and recover the arrears in respect of the Weekly Fair, Melsiripura for the year 2005 and 2006; it could not be ascertained whether recoveries had been made or action taken as per the verdicts given.

### **3.4 Irregular Transactions**

The following observations are made.

- (a.) While purchasing pre-school equipment under the provisions of Rs.1,000,000 made by the Ministry of Local Government and Provincial Councils, the Sabha had decided to reject the quotations made by the lowest tenderer and to purchase at a higher price offered by another institution, stating that their goods are in good quality. Therefore, the Sabha had to pay a sum of Rs.197,600 more than the lowest price.
- (b.) According to Section 4.3 of Chapter XIV of the Establishments Code of the Republic of Sri Lanka, combine allowances cannot be paid for travel within the limits of an urban authority. However, it had been allowed to pay combine allowances for 15 full days per month or for all 30 days at 1/2 allowances per day, based on a decision taken by the Sabha. Accordingly, 07 drivers of the Sabha had obtained half the combine allowance at Rs.175 for all 30 days of the month, though they worked within the area of the Pradeshiya Sabha. Combine allowances amounting to Rs.207,101 had been paid to the drivers by the Sabha during the year 2013 as above.

### **3.5 Implementation of Projects**

Although the hut for water meter and the towers for the tanks relating to the Mylamadama Water Project had been completed during the year 2011 at an expense of Rs.487,486; the rest of works of the Project had not been completed and the water had not been supplied to the people of the area.

### **3.6 Solid Waste Management**

The Sabha had not identified a plot of land needs to carry out constructions of a waste management project for the waste collected within the area of the Sabha and the Sabha is operating a waste burning system.

## **4. Accountability and Good Governance**

### **4.1 Budgetary Control**

There were excesses amounting to Rs.11,004,000 under 04 items of recurrent expenditure and a sum of Rs.3,296,000 had been spent exceeding the provisions under capital expenditure. Further, the estimated revenue under generated income of the Sabha amounted to Rs.19,025,000 whereas the actual revenue amounted to Rs.12,663,000.

## **5. Systems and Controls**

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management
- (d.) Financial Control
- (e.) Budgetary Control
- (f.) Contract Administration