

Galgamuwa Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been presented to Audit on 24 March 2017 while Financial Statements relating to the preceding year had been presented on 15 March 2016. The Auditor General's Report relating to the year under review had been sent to the Secretary of the Sabha on 04 August 2017.

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 Galgamuwa Pradeshiya Sabha as at 31 December 2016 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 matters are observed.

- (a) The value of bobcat machine of Rs.4,000,000 had not been brought to account under fixed assets.
- (b) The sum of Rs.1,390,345 payable to the Domestic Loan Development Fund for the year under review had been shown under long term liabilities.
- (c) Interests on loans obtained for the Road Development Project of the Domestic Loan Development Fund, Libraries and Health Centres, amounting to Rs.365,584 for the preceding year had been shown as interests of the current year in the financial statements whereas the interest of Rs.526,351 relating to the year under review had not been indicated in the financial statements.
- (d) The interest on loans obtained from the Domestic Loan Development Fund for the construction of crematorium, amounting to Rs.584,234 of the current year had been shown as Rs.586,123 in the financial statements.
- (e) Balances amounting to Rs.217,913 and Rs.249,056 receivable by renting out JCB machines and Motor Grader machines respectively had not been shown in the financial statements.
- (f) Provisions for audit fees relating to the year under review had not been made in the financial statements.
- (g) Rates amounting to Rs.36,750 received in advance for the ensuing year and rates of Rs.239,806 receivable, had been adjusted and shown in the statement of financial position instead of disclosing them separately as current liabilities/assets.

- (h) According to information obtained from the Revenue Division, the revenue from hoardings of the year under review amounted to Rs.308,950. However, it had been shown as Rs.130,430 in the Income and Expenditure Account and arrears of revenue amounting to Rs.103,950 recoverable as at the end of the year under review had not been shown under current assets.
- (i) Arrears of stall rents amounting to Rs.838,349 and stall rents received in advance amounting to Rs.35,654 had not been disclosed separately in the statement of financial position.
- (j) Revenue from transmission towers amounting to Rs.54,000 receivable as at the end of the year under review had not been brought to account.
- (k) The values of 20 and 13 cemeteries vested in the Sabha by the institutions such as the Divisional Secretariat and the Mahaweli Authority and the value of Galajjagama Rukaththanayagama land had not been assessed and shown under fixed assets.
- (l) Values of 03 motor vehicles owned by the Sabha had not been assessed and brought to account.
- (m) The electric water pump motor purchased at a cost of Rs.115,000 in the year 2016 had been recorded as Rs.1,015,000 in the financial statements.
- (n) Arrears of electricity charges amounting to Rs.205,635 recoverable from stalls owners relating to stalls of the Galgamuwa super market and bus station, had not been shown in the financial statements under current assets.

1.3.2

Unreconciled Control Accounts

The following matters are observed.

- (a) A difference of Rs.177,148 was observed between the Debtors Register of Motor Graders and the Schedule submitted along with financial statements.
- (b) In the comparison of the value of billing of lease rent of the year under review with the Register of Arrears of Lease Rent as at 31 December of the year, a difference of Rs.12,808 was observed.
- (c) In the comparison of balances of sundry deposits, sundry creditors and general supplies shown in the financial statements with schedules, a difference of Rs.2,112,870 was observed.
- (d) Even though the expenditure on repairs and maintenance of capital assets for health services had been Rs.335,245 according to the ledger, it was Rs.3,352,245 in the Income and Expenditure Account.
- (e) Salaries amounting to Rs.17,264,399 that should be reimbursed as at the end of the year under review, had been shown in the financial statements as Rs.17,154,043. Even though the salaries which should be reimbursed for the current year had been Rs.52,332,675 according to the relevant Register, it was Rs.50,454,794 according to the Income and Expenditure Account.

- (f) According to the Ledger, warrant charges and fines shown under welfare services amounted to Rs.23,154 and according to the financial Statements, it was Rs.231,154.
- (g) According to the financial statements, water service charges had been Rs.47,038 and according to the Ledger Accounts, that balance amounted to Rs.67,038.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

(a) Accounts Receivable

Out of the debtors balance amounting to Rs.70,779,071 as at the end of the year under review, a sum of Rs.13,575,585 had remained unrecovered for a period between 1 and 5 years and over 5 years. Further, an age analysis as well had not been prepared for debtors balances amounting to Rs.57,203,486 out of the said amount.

(b) Accounts Payable

- i. The value of balances of accounts payable as at 31 December 2016 amounted to Rs.87,354,339 and age analysis had not been presented for Rs.79,741,206 out of the said amount.
- ii. The value of 265 balances deposited within a period ranging from the year 2005 to the year 2015 had been Rs.2,862,974 as at the end of the year under review and action had not been taken to identify the refundable deposits out of the said amount and to repay or take into revenue.
- iii. Action had not been taken to pay completely the sum of Rs.2,112,420 payable to the Local Government Pensions Fund for over a long period.

1.3.4 Lack of Evidence for Audit

Registers and Reports on Survey relating to 06 Items of Accounts valued at Rs.20,499,766 had not been made available to Audit. As such, a comprehensive examination could not be carried out in respect of those items.

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

The following instances of non-compliance are observed.

Reference to Laws, Rules, and Regulations	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 371(2)	Adhoc-Sub-Imprestts totalling Rs.74,000 had been settled after delays ranging between 01 and 05 months.
(b) Circular No. IAI/2002/02 of 28 November 2002 of the Secretary to the Treasury	A separate Register of Fixed Assets on Computer Accessories and Software had not been maintained.

02 Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 had been Rs.30,022,434 as compared with the corresponding excess of revenue over recurrent expenditure of Rs.15,557,272 for the preceding year, thus indicating an improvement of Rs.14,465,162 in the financial result.

2.2 Analytical Financial Review

The increase in the rents, warrant charges and fines and other revenue by Rs.8,906,070, Rs.4,772,060 and Rs.8,934,883 respectively had been the main reason for the improvement of the above financial result.

2.3 Revenue Administration

2.3.1 Performance in Collection of Revenue

Even though revenue amounting to Rs.140 million had been estimated to be collected in the year under review, only a sum of Rs.105 million had been collected. The arrears of revenue amounting to Rs.9 million as at 31 December of the preceding year had increased to Rs.26 million by the end of the year under review.

2.3.2 Rates and Taxes

The arrears of rates and taxes as at 31 December of the year under review amounted to Rs.203,057 and action in terms of Rules 32-42 of the Pradeshiya Sabha (Financial and Administrative) Rules – 1988 had not been taken for the recovery of these arrears of rates and taxes.

2.3.3 Lease Rent

The following matters are observed.

- (a) The arrears of balance of lease rent as at the end of the year under review amounted to Rs.957,773 and out of that, a sum of Rs.464,143 had been relevant for the period from the year 2009 to the year 2014.
- (b) Even though summons had been called for on 14 January 2015 to pay a sum of Rs.205,786 at a rate of Rs.5,000 per month by the lessee, recoverable from Galgamuwa Weekly fair relating to the year 2011, a sum of Rs.183,786 had remained in arrears even by 31 December 2016 due to failure in making payments properly.
- (c) Even though the lessee had been ordered by a judgement to pay the arrears of lease rent amounting to Rs.30,805 of the year 2011 of the Mahananneriya weekly fair at a rate of Rs.6,000 per month from September 2015, only a sum of Rs.6,000 had been recovered by September 2016. As such, a sum of Rs.24,805 had been in arrears and necessary measures had not been taken therefor.
- (d) The prepaid sum of Rs.4,744,614 recoverable by the end of the year under review from 22 stalls of the Galgamuwa town had remained in arrears during a period of 04 years and necessary measures had not been taken for the recovery of that money.
- (e) Tenders had been called for in July 2015 for 05 stalls constructed by using **sheets** in front of the Galgamuwa, super market and those stalls had been leased out. However, **tender money** amounting to Rs.126,600 for 03 stalls out of them had not been recovered even by the end of the year under review.

2.3.4 Other Revenue

The following observations are made.

- (a) Charges recoverable for cutouts and banners observed at the physical verification carried out on 18 October 2016 in the Kurunegala – Anuradhapura Route and within the area of the Sabha had been computed as Rs.103,950 and action had not been taken to recover that

amount and to identify other such hoardings within the area of the Sabha and to recover money from them.

- (b) Even though 21 transmission towers had been reported within the area of the Sabha, action had not been taken to recover **processing charges** of Rs.3,600,000 for 18 towers at a rate of Rs.200,000 per tower in the construction of these towers and to recover the annual revenue from transmission towers amounting to Rs.54,000 receivable as at 31 December 2016.
- (c) The stall rent receivable from stalls belonging to the Sabha had not been recovered on due date and as such, the arrears of accumulated stall rent by 31 December 2016 amounted to Rs.802,695 and the Sabha had not taken action in terms of Section 159(1) of the Pradeshiya Sabha Act, No.15 of 1987 to recover those amounts.

03. Operating Review

3.1 Management Inefficiencies

The following matters are observed.

- (a) While the recovery of fees from the Galgamuwa Bus Station was being carried out by a person based on a commission of 40 per cent in the years 2013 and 2014, tender had been called for the year 2015 and it had been awarded to the same person for Rs.1,605,750. Moreover, the revenue received by the Sabha in the years 2013 and 2014 had been Rs.689,010 and Rs.660,000 respectively, thus observing that a large amount of revenue had been deprived of during that period. Further, in calling for tenders for the year 2016, it had been awarded for Rs.1,300,575 and the minimum bid for the year 2016 had been decided without considering the tender money of the year 2015. As such, a less amount had been received for the year 2016.
- (b) Action had not been taken to repay the surety and interest thereon totalling Rs.13,582 deposited by two officers who had served in the Sabha and retired / transferred.
- (c) Adequate measures had not been taken to recover the employees loan balance of Rs.23,558, not recovered due to reasons such as transfer and the vacation of service.
- (d) A distress loan amounting to Rs.150,000 had been paid on 28 December 2015 to a Health Labourer who is in the service at present and steps had not been taken even by the end of October 2016 to recover loan installments of Rs.42,207 and interest thereon amounting to Rs.4,642 relating to the period from January to October 2016 from the monthly salary of the debtor.
- (e) Even though the monthly electricity bills had been paid by the Sabha on the basis of recovery of values of electricity bills relating to stalls of the Galgamuwa Super Market and the Bus Station from stall owners, action had not been taken to recover the value of electricity bills totalling Rs.205,635 relating to 23 stalls from stall owners.

3.2 Operating Inefficiencies

The following matters are observed.

- (a) The building in which the Galgamuwa Public fair is located, had been divided into 442 partitions of 8x6 and 7x5 square feet in extent and several stalls had been maintained temporarily therein so as to cover portion thereof. As such, several partitions located right side of the entrance of the fair could not be used, thus indicating a loss of revenue that can be obtained therefrom.
- (b) Even though revenue amounting to at least Rs.88,400 at a rate of Rs.200 per partition out of 442 partitions located in the building of the Galgamuwa Public Fair should be received per day of a fair, it was observed in audit test checks carried out on 18 October 2016 that only revenue of Rs.60,140 had been collected from partitions inside the building.

3.3 Idle and Underutilized Assets

The following matters are observed.

- (a) Four motor vehicles owned by the Sabha had remained idle over a period from 1 year to 5 years.
- (b) Eight stalls of the Galgamuwa Super Market had not been leased or rented out on an appropriate basis for the year 2016. As such, no revenue whatsoever had been received by the Sabha from those properties even by April 2017.

3.4 Contract Administration

Following matters are observed.

- (a) Five works of the Sabha, valued at Rs.1,950,000 proposed according to the Budget of the year under review had not been **implemented**.
- (b) Three road development works were being implemented at an estimated cost of Rs.4,003,286 by October 2017 and the following matters were revealed during the inspection thereon.
 - i. Quotations had not been invited for these three works and quotations had been obtained from contractors by informing them over the telephone. Even though a reasonable period should be given to bidders in inviting for quotations, only 03 days had been given. As such, the opportunity for competition had been deprived of and quotations for three works had been obtained only from one bidder and relevant contracts had been awarded.
 - ii. In the preparation of estimates for works, provisions of Rs.292,186 had been allocated for concrete of curbs. However, a sum of Rs.335,988 had been estimated for formwork of curbs. Even though estimate had been prepared on the basis of formwork of curbs of the whole route at once and using relevant planks only once, it was observed at the physical verification carried out on 20 October

2016 that only a portion of route of 20 to 30 meters in extent had been curbed and the same planks had been used several times by the contractors.

3.5 Solid Waste Management

An expenditure amounting to Rs.13,408,147 had been incurred for the solid waste management in the year 2016 and 3,600 Tons of organic fertilizer had been manufactured and a sum of Rs.256,544 had been earned from the sale of those fertilizer. Further, the award named “Haritha Sammana – 2015” had been received by the Sabha in the year 2015 in respect of ecofriendly activities including the waste management.

04. Accountability and Good Governance

4.1 Budgetary Control

Material variances ranging from 21 per cent to 84 per cent were observed between the budgeted and actual values of 04 items of revenue and 8 items of expenditure respectively of the year under review and provisions of Rs.679,000 had been made for pensions, pensions benefits and gratuity and a sum of Rs.3,139,445 had been spent thus, indicating that the budget had not been made use of as an effective instrument of management control.

4.2 Annual Procurement Plan

A Procurement Plan in terms of provisions of the Procurement Guidelines had not been prepared for the year 2016.

05. Systems and Controls

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

System	Observations
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(a) Accounting	Erroneous accounting of fixed assets.
	Erroneous accounting of domestic loans development funds and interest thereon.
	Errors in recording.
	Understatement of current liabilities in accounts.
	Erroneous disclosures.

	<p>Understatement of current assets in accounts. Erroneous accounting of revenue. Differences between Registers and Schedules. Failure in maintaining Registers.</p>
(b) Revenue Administration	<p>Failure in taking action for the recovery of arrears of balances receivable.</p>
(c) Fixed Assets Control	<p>Inefficiencies in using assets and existence of idle and underutilized assets.</p>
(d) Implementation of projects	<p>Errors in adopting of the procurement process and in the preparation of estimates for works.</p>