

Galgamuwa Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented to audit on 03 April 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 28 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effects 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 Galgamuwa 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 Policies

According to the accounting policies, it was mentioned that accrual basis is being followed in preparation of accounts but the court fines and stamp fees had been brought to account on cash basis.

1.3.2 Accounting Deficiencies

The following matters were observed.

- (a) Nine items of Sports equipment amounting to Rs.907,684 purchased for the Urban Park in the year under review had not been brought to account under fixed assets.
- (b) The VIP hut Canvas Textile stock amounting to Rs.115,000 purchased in the year under review had been brought to account as Rs.155,000.
- (c) The value of the lands such as 32 cemeteries, 11 play grounds, Aahatuweva Weekly Fair Land, Galgamuwa Pradeshiya Sabha land and Ihalagama Water Project land belonging to the Sabha had not been assessed and shown under fixed assets.

- (d) The value of a tractor belonging to the Sabha had not been assessed and brought to account.
- (e) The lease rent revenue in the year under review had been overstated by Rs.920,594 in the accounts.
- (f) A trade stall in the public market had been taken back to the Sabha due to non-payment of advance money amounting to Rs.428,555 as such the current assets had been overstated by similar amount.
- (g) Twenty one balances totalling Rs.32,825 relating to 06 categories of deposits had been omitted from the financial statements.
- (h) The arrears of rates, trade stall rent, key money, lease rent amounting to Rs.6,898,973 and the receipts in advance amounting to Rs.78,635 relating to above items of revenue had not been disclosed separately in the financial statements as arrears and receipts in advance.
- (i) Even though, the balance of the accumulated fund account as at the end of the year under review amounted to Rs.452,012, it had been shown as Rs.356,713 in the financial statements.
- (j) The salary reimbursements of Rs.103,308 relating to the year under review had been overstated in the financial statements.
- (k) The total of the working debtor balance under the provisions Ministry of Provincial Councils 2016 had been understated by Rs.401,264.
- (l) The balance of the working creditors in the year under review had been overstated by Rs.1,439,878.
- (m) The receivable amount of Rs.916,635 from renting out of Motor Grader machine and the receivable amount of Rs.54,504 from renting out of JCB Machine had not been included in the financial statements.
- (n) Even though, a sum of Rs.1,220,827 received relating to leasing of 03 motor vehicles belonging to the Sabha, it had been further shown as debtors.
- (o) The total of 03 items of revenue relating to 03 programmes of the year under review amounting to Rs.5,450,373 had been understated in the accounts.
- (p) The arrears of electricity charges for trade stalls in the Galgamuwa Public Market and the Bus stand relating to the year under review amounting to Rs.84,320 had not been shown in the financial statements.

- (q) In transferring money between the accounts, a sum of Rs.250,000 to be recorded in the employees loan account had been brought to account under a revenue Head. As such a difference which should be rectified amounting to Rs.250,000 had been shown under current assets.

1.3.3 Unreconciled Accounts

The following matters were observed.

- (a) A difference of Rs.569,339 was observed between the Register of motor grader debtors and the schedule presented with the financial statements.
- (b) A difference of Rs.400,651 was observed between the Register of JCB debtors and the schedule presented with the financial statements.
- (c) A difference of Rs.79,542 was observed between the Register of road roller debtors and the schedule.

1.3.4 Accounts Receivable and Payable

(a) Accounts Receivable

The following matters were observed.

- (i) The age analysis had not been prepared for the debtor balances amounting to Rs.15,963,160 out of the debtor balances of Rs.79,892,236 as at the end of the year under review.
- (ii) The Sabha had not taken adequate action to recover receivable money totalling Rs.43,484,484 which outstanding over one year or over a period more than that as at 31 December 2017.

(b) Accounts Payable

The following matters were observed.

- (i) Out of the payable balances of accounts amounting to Rs. 69,305,719 as at 31 December 2017, the age analysis in respect of Rs.1,268,225 had not been furnished to audit. The Sabha had not taken action to settle the balances totalling Rs.5,364,382 remained over one year and a period more than that.
- (ii) Action had not been taken to identify the deposits payable and either to refund or to take in to the Sabha revenue, out of 293 balances totalling Rs.3,585,614 deposited during the period ranging from the year 2005 to the year 2016.

1.3.5 Lack of written Evidence for Audit

The following matters were observed.

- (a) Ten items of accounts totalling Rs.16,995,688 could not be satisfactory verified in audit due to non-submission of required evidence for audit.
- (b) The information relating to the debit of the accumulated fund made through the journal entries No.14 and 15 amounting to Rs.238,271 and Rs.245,567 respectively had not been furnished.

1.3.6 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) 1988 Pradeshiya Sabha (Financial and Administration) Rules		
(i) Rule 193	-	A statement relating to excesses and savings of each item of revenue and expenditure had not been prepared.
(ii) Rule 218	-	All lands and buildings belonging to the Sabha had not been investigated once in a year.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 571(2)	2,289,646	Action had not been taken on 224 deposits older than a period of 2 years.
(c) Government Procurement Guidelines 2006		
(i) Guideline 3.4.2 (a)	-	The activities such as motor vehicle repairs, making gates and purchase of a barrel of Greece had been carried out without following the procurement process properly.

(ii)	Guideline 6.3.1 (b) and 7.8.4 (d)	979,500	The methodology to obtain bids had not been published and some of the bids had not been duly signed by a person/ persons authorized.
(iii)	Guideline 3.9.1	33,000,000	The contracts had been awarded to 09 community based organizations without being satisfied relating to the capacity of the society for execution of the works.
(iv)	Guideline 6.3.3 (b)	1,120,500	The date and the time of the bid opening had not been mentioned in the Tender advertisements.
(v)	Guideline 8.7.1 (b)	229,900	Even though, the quotations in respect of the supply had been accepted, the letters had not been sent mentioning the dates to be completed the respective work/ supply.

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 2017 amounted to Rs.8,467,230 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.30,022,434.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue

The information with regard to the estimated revenue, billed revenue, collected revenue and the arrears of revenue furnished for the year under review and for the preceding year appears below.

Source of Revenue	2017				2016			
	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	3,380	4,290	3,349	1,050	1,170	1,127	1,192	203
(ii) Lease Rent	22,121	19,038	16,646	2,075	28,281	21,489	14,898	1,760
(iii) Licence Fees	3,340	2,367	2,361	06	2,850	3,438	3,428	-
(iv) Other Revenue	90,667	64,063	66,769	22,107	107,843	79,400	63,646	24,719
Total	119,508	89,758	89,125	25,238	140,144	105,454	83,174	26,682

Note :

The information to identify separately the revenue recovered from the arrears as at 01 January of the year under review and the revenue recovered from the billed revenue in the year under review had not been furnished to audit.

2.2.2 Performance in Collection of Revenue

Even though, it was estimated to collect a revenue amounting to Rs.119 million in the year under review, a sum of Rs.89 million including the receipts of arrears of revenue relating to the preceding years only had been collected. The arrears of revenue amounting to Rs.26 million as at 31 December of the preceding year had been Rs.25 million by the end of the year under review.

2.2.3 Rates and Taxes

The following matters were observed.

- (a) Action in terms of Pradeshiya Sabha Rules had not been taken to recover rates and taxes recoverable from 652 properties of the authoritative area of the Sabha as at 31 December of the year under review.
- (b) After the assessment of the properties made in the year 2015 the building plans had been approved to construct 26 buildings in extent totalling about 19,991 square feet during the period of August 2015 to September 2017. Nevertheless, the action had not been taken to obtain temporary assessments for that new constructions and to recover rates and taxes.

2.2.4 Lease Rent

The following matters were observed.

- (a) Action had not been taken to recover lease rent amounting to Rs.446,946 recoverable during the period from the year 2011 to 2016.

- (b) Nine leasing properties of which minimum bid price totalling Rs.224,488 could not be tendered in the year under review and as such above revenue had been deprived by the Sabha.
- (c) Out of the lease rent of Rs.649,773 remained to be recovered as at 31 December of the year under review, a sum of Rs.142,539 had to be further recovered even by July 2018.
- (d) An advance payment amount of Rs.124,000 to be recovered by the end of the year 2013 relating to 03 trade stalls in the bus stand had not been recovered even by the end of the year under review.
- (e) An advance payment amount totalling Rs.2,231,065 to be recovered by March 2014 relating to 06 trade stalls had not been recovered even during the year under review.

2.2.5 Licence Fees

 According to the Extra-ordinary Gazette Notification No.1597/8 of the Democratic Socialist Republic of Sri Lanka dated 17 April 2009, the fees should be paid at the rate of Rs.2,000 for the height of 05 metres to 20 metres of the telephone/ telecommunication towers and Rs.100 per meter for the height more than that, but the fees had not been paid for 20 towers and the compliance certificates had not been obtained. As such at least Rs.68,000 had been deprived by the Sabha.

2.2.6 Other Revenue

 The following matters were observed.

- (a) Action had not been taken to recover Rs.1,214,344 remained in arrear for over a period of one year, out of the arrears of rent amounting to Rs.1,431,227 recoverable from the renting of road roller as at 31 December 2017.
- (b) The arrears of rent of the motor grader machine as at the end of the year under review amounted to Rs.4,218,691 and action had not been taken to recover all money with Rs.3,148,982 remained in arrear for over a period of one year.
- (c) Action had not been taken to recover all money with Rs.1,725,556 remained in arrear for over a period of one year in the receivable arrears of rent from JCB machine amounting to Rs.2,850,953 as at the end of the year under review.

3. Operating Review

3.1 Performance

 The matters revealed in respect of execution of activities that should be executed under Section 3 of the Pradeshiya Sabha Act such as regularize and control over the matters of public health,

public utility services and public roads and the comfort, facilities and wellbeing of the people are given below.

(a) **By-laws**

According to Section 126 of the Pradeshiya Sabha Act, the Sabha had embraced the by-laws imposed by the Extra-ordinary Gazette No.520/7 of the Democratic Socialist Republic of Sri Lanka dated 23 August 1988 in respect of 33 matters by 31 December 2017.

(b) **Non-execution of Activities**

Eight works of which estimated expenditure amounting to Rs.12,000,000 in the year under review had not been executed.

(c) **Execution of Activities not Budgeted**

Fifteen works amounting to Rs.10,124,323 which had not been budgeted in the year under review had been executed.

(d) **Solid Waste Management**

The following matters were observed.

(i) In view of the amount of waste collected and the production of fertilizer in the year under review and in the preceding year, the amount of collected waste had decreased by 30 per cent and the production of fertilizer had decreased by 42 per cent.

(ii) The electric fence erected to prevent the entrance of the wild elephants to the Solid Waste Management Centre had remained inactive for a period about one year.

(e) **Sustainable Development Goals**

The Sabha had aware in respect of “2030 Agenda of Sustainable Development” through documents and training programmes, and it was proposed to prepare plans in future and action to be taken accordingly. The programmes such as providing pop-corn machines, implementation of milking-cow projects, providing aids for lavatories and providing scholarships for the poor families had been implemented by the Sabha with the objective to get rid of poverty.

3.2 **Management Inefficiencies**

A water motor for a sum of Rs.345,000 had been fixed to a water bowser belonging to the Sabha in July 2017 deviating from the procedure of Procurement Guidelines. The motor had become to a non-operative condition from the date of purchase and as such that machine had been returned to the supplier on 12 January 2018 but a new motor had not been obtained even by May 2018.

3.3 Human Resources Management

Vacancies and Excesses of Staff

The vacancies of 29 posts and an excess of 01 post had existed in the Sabha as at the end of the year under review and 04 employees had been deployed in service as casual/ contract basis.

3.4 Assets Management

3.4.1 Assets not Vested

The following matters were observed.

- (a) Action had not been taken for vesting the ownership with the Sabha of 08 motor vehicles utilized by the Sabha.
- (b) Action had not been taken for vesting of 108 cemeteries which maintained by the Sabha.

3.4.2 Idle Assets

Three motor vehicles amounting to Rs.6,279,450 belonging to the Sabha had remained idle for a period ranging from 04 months to 06 years without being utilized for any purpose.

3.5 Procurements

3.5.1 Supplies and Services

The following matters were observed.

- (a) The date of the letter of inviting quotations and the closing date for the quotations for fixing of name boards for 06 play grounds had not been mentioned while the date and the month included by the suppliers in all 3 quotations received had been altered. Further, it was established that the quotations had not been opened in same day as the date stamps of the Sabha sealed on the quotations were different of each other.
- (b) The calling bids for designing of Environment Friendly Boards by spending Rs.141,000 had been limited to 05 days, considering as an urgent procurement. But the confirmations for that as an urgent procurement had not been made available for audit.
- (c) A Greece barrel valued at Rs.210,000 had been purchased for the vehicles belonging to the Sabha without calling quotations in terms of Guideline 3.4.2 (a) of the Procurement Guidelines.

- (d) Despite that, the opportunity was available to carry out repairs of the vehicles in terms of Circular No.30/2016 dated 29 December 2016, the quotations had been prepared under false letter heads and selected an institution as per the quotations mentioned thereon and a sum of Rs.69,000 had been incurred to repair the air-conditioned system of a cab vehicle.

3.5.2 Contract Administration

The following matters were observed.

- (a) Even though, a payment of Rs.979,500 had been made for stage I and II of the fixing of a hand railing of the platform of the Galgamuwa new bus stand on 10 October 2017 and 10 November 2017, four hand railings had not been fixed even by 15 March 2018.
- (b) The agreements had not been entered into with the Community based Organizations even by 07 September 2017 for the projects of development of 17 roads of the authoritative area of the Sabha which had to be completed before 18 October 2017 and the signature of the contractor had not been obtained by the Sabha for the agreement paper not completed and for the details of work and the price list.
- (c) In terms of Section 3.9.1 of the Procurement Guidelines Manual the total number of contracts executed by a society during any specific period should not be exceeded for 3 contracts and the total value of the balance portion of contracts already awarded and the value of proposed contracts should not be exceeded Rs.2 million. But 12 works amounting to Rs.23.5 million had been awarded to 04 Community Based Organizations.
- (d) Even though, the approval of the Divisional Secretary/ District Secretary should be obtained in engaging more than 03 contracts by a Community Based Organization in terms of paragraph 3.3 of Public Finance Circular No.01/2012 dated 05 January 2012, the contracts at the rate of 4 had been awarded to 02 farmer organizations without obtaining the respective approval. Further the recommendations of a committee of 3 persons comprising 2 representatives nominated by the Head of the Department and the Divisional Secretary had not been obtained as well in awarding direct contracts.

4. Accountability and Good Governance

4.1 Budgetary Control

A significant variances ranging from 13 per cent to 84 per cent were observed between the budgeted and the actual figures in respect of 07 items of revenue and 03 items of expenditure in the year under review and a sum of Rs.1,673,571 had been incurred exceeding the budgeted figures for the Object of repairs and maintenance of capital assets. As such the budget had not been made use of as an effective instrument of management control.

5. **Systems and Controls**

The 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 controls.

System	Deficiency
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(a) Accounting	(i) Failure to accounting of assets and incorrect accounting of assets. (ii) Incorrect accounting of revenue. (iii) Under statements/ over statements of current assets and liabilities. (iv) Omissions. (v) Overstatement of current liabilities. (vi) Differences in registers and sub-registers and failure to update the registers.
(b) Revenue Control	Action not taken to recovery of arrears of revenue.
(c) Fixed Assets Control	(i) Action not taken in respect of idle and under-utilized assets. (ii) Assets not assessed and accounted.
(d) Budgetary Control	Significant variances in estimated and actual revenue.
(e) Implementation of Projects	(i) Failure to follow procurement procedure. (ii) Non-implementation of budgeted projects.