

**Ibbagamuwa Pradeshiya Sabha**  
**Kurunegala District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to the Audit on 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 23 April 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 25 August 2015.

**1.2 Opinion**

In view of the significant matters described in paragraphs 1.3.1 and 1.3.5 of this report, it was not possible for me to obtain adequate and appropriate evidence to base an audit opinion. Under those circumstances I do not express an opinion on these financial statements.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

Following accounting deficiencies are observed.

- (a) Expenditure incurred amounting to Rs. 636,976 in 6 instances during the year under review for ensuing years had been accounted as expenditure for the year without being accounted under Pre-payments.
- (b) Expenditure incurred amounting to Rs. 194,615 in 7 instances during the year 2015 in respect of the year 2014, had not been taken to the expenditure for the year under review and provision had not been made under Creditors.
- (c) Revenue amounting to Rs. 192,034 received during the year under review for ensuing years had not been accounted as Receipts in Advance.

- (d) Although adjustments had been made with regard to depositing Works Account Deposits in the General Bank Account amounting to Rs. 687,742 in 3 instances, according to the Bank Reconciliation Statement as at 31 December 2014 relevant to Works Bank Account, such adjustment had not been shown in the Bank Reconciliation Statement relevant to the General Bank Account.
- (e) A sum of Rs. 7,421,248 being 27 Creditors Balances had not been included in the final Creditors Balance as at the end of the year under review.
- (f) Capital Goods received valued at Rs. 177,973 received as donations had been credited to the Field Stores Account without being credited the Revenue Heads. Due to that, balance of Field Stores Account and the Revenue had been understated in a sum of Rs. 355,946.
- (g) The sum of Rs. 1,000,000 received for the Pradeshiya Sabha Strengthening Programme during the year under review had been accounted under Deposits instead of accounting under Capital Revenue.
- (h) The sum of Rs.4,658,734 payable to the Local Government Pension Fund as at the end of the year under review had not been accounted under Creditors.
- (i) The value of loan installments amounting to Rs.1,718,311 paid to the Local Loans and Development Fund during the year under review had not been debited to that account, but had been debited to the Staff Loan Interest Reimbursements Receivable Account.
- (j) Although the value of capital expenditure relevant to the year under review was Rs. 27,408,051 according to Works Payment Reports and Progress Reports, a sum of Rs. 10,550,519 had been shown as Capital Expenditure in the Revenue and Expenditure account, understating in a sum of Rs. 16,857,532.

- (k) Although the Salary Reimbursement Revenue relevant to the year under review was Rs. 45,167,895, it had been accounted as Rs. 45,640,619 overstating in a sum of Rs. 472,724.

### **1.3.2 Contingent Liabilities**

The Contributions Payable to the Pension Fund had not been made properly. Due to that, the balance payable to that Fund as at the end of the year under review had been Rs.4,658,734. Although a sum at the rate of Rs. 9,405 as monthly rate applicable to the Sabha was being recovered, Sabha was not aware of the particulars of the employees concerned with regard to such recovery.

### **1.3.3 Unreconciled Control Accounts**

Non-reconciliations in a sum of Rs. 3,852,657 were observed between the accounts and relevant registers relating to 10 items of accounts under final balances as at the end of the year under review.

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

- (a) While the value of Accounts Receivable as 31 December 2014 was Rs.27,662,417, out of that, a sum of Rs. 5,230,418 as 19%, were balances outstanding for more than 03 years. Similarly, an Entertainment Tax balance in arrears amounting to Rs. 59,215 un-settled over a number of years existed in the Revenue Debtors, while un-settled temporary pension balance of Rs 9,961 and Pension and Gratuity balance of Rs. 10,674 existed in the balance of Pre-payments balance. .
- (b) While the Value of Accounts Payable as 31 December 2014 was Rs. 11,558,440, out of that, a sum of Rs. 3,653,712 as 32% approximately, were balances outstanding for more than 03 years. Similarly, 60 Lapsed Deposits valued at Rs. 742,390 were included in the Refundable Deposits balance of Rs. 3,604,210.

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

Although amounts such as Rs.2,024,389 to the Accumulated Fund, relating to 13 items of Accounts, a Rs.10,474,454 to Current Liabilities and Rs.829,713 to Contribution from Revenue to Capital Outlay Account had been adjusted in 09 instance, relevant information or approvals were not submitted to audit.

## **2. Financial Review**

### **2.1 Financial Results**

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabah for the year ended 31 December 2014 had been Rs. 8,965,427 as against the excess of revenue over recurrent expenditure amounted to Rs. 24,172,360 in the preceding year indicating a decline of Rs. 33,137,787 in the financial result. When Capital Grants of Rs.27,616,743 and Capital Expenditure of Rs. 10,550,519 are adjusted to this financial result, financial result relevant to the year under review had become a surplus of Rs. 8,100,797.

### **2.2 Analytical Financial Review**

Following matters are observed.

- (a) Out of the total Recurrent Revenue of Rs.78,663,571 relevant to the year under review, a sum of Rs. 60,990,062 as 78% was consisting revenue not falling under a nature generated in the Sabha such as Court Fines, Stamp Fees and Salary Reimbursements. Similarly, the entire Capital Revenue of Rs. 27,616,743 was consisting funds provided for development activities of the area of authority through other institutions from sources such as Gama Neguma and Maga Neguma.
- (b) Out of the total Recurrent Expenditure of Rs. 87,628,998 relevant to the year under review, a sum of Rs. 52,762,302 as 60% approximately was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 45,640,619 as 86% approximately, had been provided by the Commissioner of Local Government as salary reimbursements. That value had been accounted under Other Revenue.

### **2.3 Revenue Administration**

#### **2.3.1 Rates**

While Rates in arrears as at the end of the year under review was Rs. 3,912,758, annual billings amounted to Rs. 1,696,313. The general procedure for collection of Rates in Arrears in terms of Pradeshiya Sabha (Financial and Administrative) Rules from 32 to 42 of 1988 to seize properties after issuing notices had not been implemented.

#### **2.3.2 Lease Rent**

While there was an arrears sum of Rs. 3,631,977 under Lease Rent at the end of the year under review that was being brought forward since a period prior to the year 2012, it was 48% of the annual billings.

### **3. Operating Review**

#### **3.2 Management Inefficiencies**

Following observations are made.

- (a) While a survey had not been carried out at the end of the year under review with regard to Land and Buildings, Machinery and Equipment and Vehicles belong to the Sabha, value of those assets according to the financial statements was Rs. 73,380,749.
- (b) A Register for Approval of Blocking Out Plans had not been maintained with regard to lands blocked out in the area of authority of the Sabha. Due to that, it was not possible to ascertain information with regard to blocking out lands and accuracy of 1 per cent tax relevant to those and parts of lands vested in the Sabha for public activities
- (c) Five vehicles used by the Sabha had been running without obtaining revenue licenses for the year 2014 and since about 06 years prior to that.

### **3.2 Budgetary Control**

Although a sum of Rs.70,649,364 had been estimated as Total Recurrent Expenditure, actual expenditure had been Rs.87,628,998 and a sum of Rs.16,979,634 had been spent exceeding the estimated expenditure.

### **4. Systems and Controls**

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

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