

Galgamuwa Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 11 March 2014 and the financial statements for the preceding year had been presented on 01 April 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 10 December 2014.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Galgamuwa Pradeshiya Sabha as at 31 December 2013 and the financial results of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following accounting deficiencies were observed.

- a) Though the balance of stall rental in arrears as at end of the year under review had been Rs.882,766, it had been shown in the financial statements as Rs.496,993, understating the debtors by Rs.385,773.
- b) In the year 2012, stalls in Galgamuwa General Market had been leased out after calling tenders on payment-in-advance basis, and the lease rental in arrears with respect to 09 such stalls as at 31 December 2013 amounting to Rs.5,242,522 had not been brought to account as debtors. Similarly, though the payments-in-advance, which should be billed with respect to 08 stalls in the upper floor and 17 stalls in the ground floor of the Bus Stand Complex had been Rs.4,440,000 and Rs.2,312,915 respectively, it had been shown

in the financial statements as Rs.4,028,750 and Rs.4,868,165 respectively. Therefore the capital revenue relevant to the year had been overstated by Rs.2,144,000.

- c) The contributions payable to the Local Government Pension Fund, as at end of the year amounted to Rs.2,127,034, and it had not been brought to the account under debtors. The instalments payable for the year, amounting to Rs.92,356, had not been brought to account as expenditure. Similarly, the salary reimbursements received for the month of June, with respect to two employees, amounting to Rs.39,040 had been brought to account as salary reimbursements receivable as at end of the year.
- d) There had been a difference of Rs.376,156, between the balance payable for the Local Loans and Development Fund at the beginning of the year under review, and the corresponding values in the ledger accounts. Whilst correcting this difference, the said amount had been debited to the interest expenses account of the year, instead of debiting to accumulated fund. Therefore the expenditure for the year had been overstated by Rs.376,156.
- e) Though the interest expenses of the year, relevant to the Local Loans and Development Fund loans had been Rs.1,836,266, it had been brought under the revenue and expenditure account as Rs.1,166,181. Therefore the interest expenses of the year had been understated by Rs.670,085. The interest payable for the last quarter of the year, amounting to Rs.445,692, had not been brought to account as interest payable. Similarly, according to the confirmation of balances of the Local Loans and Development Fund, the loan balance payable as at 31 December 2013 amounted to Rs.20,210,723, and this had been shown in the financial statements as Rs.19,960,363. Therefore the creditors had been understated by Rs.250,360.
- f) The value of machine hire debtors for JCB for the year 2012 amounting to Rs.1,400,620 had not been brought to account in the year 2012, and this amount had been credited to the hire charges account in the year under review. Therefore the hire charges revenue for the year had been overstated by a similar amount. Similarly, the hire charges debtors of the JCB for the year under review, amounting to Rs. 2,440,862 had been credited to the

accumulated fund, and due to this, the revenue for the year had been understated by a similar amount.

- g) Though the debtors receivable for compacting rollers for the year under review amounted to Rs.226,038, when rectifying the over provision of debtors, a sum of Rs.1,829,126 had been credited to debtors account and debited to machine hire charges account, through the Journal Entry 39. Therefore the revenue for the year had been understated by Rs.1,603,088. Similarly, a sum of Rs.834,794, inclusive of an old balance of Rs. 202,465, relevant to compacting rollers debtors for the year under review, had been debited to debtors account and credited to machine hire charges account, through Journal Entry 38. Therefore the revenue for the year had been overstated by Rs.202,465.
- h) A sum of Rs.2,636,302, provided under the debtors in the preceding year, and not settled in the year under review as well, had not been brought to account under debtors, as at end of the year.
- i) There were 02 instances where a sum of Rs.12,817,239, which should have been shown as cash outflows, had been shown as cash inflows, and there was 01 instance where Rs.3,472,852, which should have been shown as cash inflow had been shown as cash outflow in the cash flow statement. Similarly a sum of Rs.8,878,337 which should have been shown as cash outflows at 02 instances and a sum of Rs. 11,058,378 which should have been shown as cash inflows at 02 instances had not been shown in the cash flow statement.
- j) The advances amounting to Rs.42,000 which should have been settled under 06 instances at the end of the year under review, had not been brought to account as unsettled advances.

1.3.2. Contingent Liabilities

The Sabha had not paid the contributions properly to the Local Government Pension Fund, with respect to the employees, who have served in the Pradeshiya Sabha and retired, and entitled for contributions towards the Local Government Pension Fund. Hence the balance payable to the Fund, as at end of the year under review amounted to Rs.2,127,034.

1.3.3. Unreconciled Control Accounts

There were differences amounting to Rs.1,666,746, between the accounts and the corresponding values in relevant registers, in respect of 10 items of accounts on billings for the year under review and the closing balances.

1.3.4. Accounts Receivable and Payable

The following observations are made.

- a) The value of balances of accounts receivable as at 31 December 2013 amounted to Rs.69,196,225, and of this, age analysis had not been presented for Rs.12,360,472.
- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.96,201,336, and out of this, age analysis had not been presented for Rs.69,624,604.

1.3.5. Lack of Evidence for Audit

Non-submission of Information to Audit

Transactions totalling Rs.11,005,975 could not be examined in detail, due to non-submission of required information to audit.

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. 7,715,293, as compared with the excess of revenue over recurrent expenditure amounting Rs.31,503,440 for the preceding year. Therefore the financial result had been deteriorated by Rs.23,788,147. When the capital revenue of Rs.42,728,377 and capital expenditure of Rs.41,956,864 are adjusted to this financial result, the surplus for the year under review had been increased to Rs.8,486,806.

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.57,898,238, and of this, Rs.29,044,309 representing 50% consists of non-generated revenue, such as court fines, stamp fees, and salary reimbursements. Similarly the entire capital revenue amounting to Rs.42,728,377 had been received from other institutions for development work in the area under authority, through sources such as Maga Neguma, Deyata Kirula and Wayamba Pubuduwa.
- b) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.50,182,945 and of this, Rs.25,301,194 representing 50% consist of expenditure related to personal emoluments. Of this, 90% amounting to Rs.22,889,979 had been received from the Commissioner of Local Government in the form of salary reimbursements, and it had been brought to account under revenue aid. Similarly the capital expenditure amounted to Rs.41,956,864 and 7% of this, amounting to Rs.3,100,000 had been spent from Sabha funds, and the balance 93% amounting to Rs.38,856,864 consists of development works carried out from provisions of other institutions, through sources such as Maga Neguma, Deyata Kirula and Wayamba Pubuduwa.

2.3. Working Capital Management

According to the bank reconciliation statement relevant to the General Account number 0003859214, for the month of December 2013, there had been a balance of Rs.149,970 carrying forward for a period of over one year and, this amount had been deducted from the cash book balance while preparation of the bank reconciliation statement. But it had not been settled even in the bank reconciliation statement of December 2013. Similarly, according to the bank reconciliation statement for December 2013, there had been 12 cheques amounting to Rs.32,788 which had been issued but not submitted for payment for over 06 months. But action had not been taken regarding these cheques, in accordance with Financial Regulations 396 (d) of the Republic of Sri Lanka.

2.4. Revenue Administration

2.4.1. Performance on Revenue Collection

Though the revenue collectors do not possess a clear authority to collect revenue such as trade licences, business taxes, stall rentals, lease rentals at field, the revenue collectors of the Sabha had collected revenue such as rates and taxes, and trade licences at field through-out the year.

2.4.2. Rates and Taxes

During the process of recovering the arrears in rates and taxes, final notices had been issued to 20 units, only for Rs.10,651 relating to Anamaduwa Road in October 2013, and necessary action had not been taken in the year under review to recover the remaining arrears in rates and taxes. Similarly, according to a sample check carried out in respect of 362 units, arrears of over one year amounting to Rs.88,124 were identified with respect to 35 units, situated in Nikawewa Road Left / Right and Anamaduwa Road.

2.4.3. Stall Rentals

The following observations are made.

- a) There had been arrears in lease rentals amounting to; Rs.48,715 relevant to the year 1994; Rs.16,755 relevant to the year 2009; Rs.414,866 relevant to the year 2011 and Rs.214,492 relevant to the year 2012, and the total arrears in lease rental amounted to Rs.694,828.
- b) 22 stalls in the General Market Complex had been leased out to previous tenants on payment in advance basis, and of this, the monthly rental in arrears, totalling Rs.472,800 within a range of 3-22 instalments, remained unsettled with respect to 21 stalls. Similarly there were unsettled arrears of stall rentals amounting to Rs.94,000 with respect to 13 stalls, in the ground floor of the Galgamuwa Bus Stand complex.

2.4.4. Business Taxes and Trade Licence Fees

The Pradeshiya Sabha (Finance and Administration) Rules 59-67 of 1988, stipulates the necessity of conducting a survey in the area under the authority, and Articles 150 (1) and 152 (1) of Pradeshiya Sabha Act No. 15 of 1987, stipulates the necessity of preparing and submitting a list to the secretary on industries and trade institutions. Similarly, the Sabha needs to take action to issue notices to the relevant parties through Form P.S. 26, informing

them to pay the taxes indicated by the Sabha within 7 days, but the Sabha had not taken such action.

2.4.5. Machine Hire

There had been an arrears of Rs.3,413,734 with respect to the hiring of Motor Grader of the Sabha during the period from 2009 to 2013. Similarly there had been an arrears of Rs.867,225 with respect to hire of Compacting Roller of the Sabha in 2012, and an arrears of Rs.632,329 relevant to the year under review, which accumulates to Rs.1,499,554. These arrears had not been recovered.

2.4.6. Payments in Advance

The following observations are made

- a) 22 stalls in Galgamuwa General Market had been leased out to previous tenants at the minimum valuation in the year 2012, on payment in advance basis. The system of payment in advance consisted of paying 50% of the assessment first and paying the balance amount in 24 equal monthly instalments. A proper register had not been maintained to record the recovery of lease rentals relevant to 22 stalls which had been given at a total value of Rs.16,500,262. Therefore it was not possible to specifically identify the outstanding arrears. But the information received for audit and investigations revealed, that there was an arrears of Rs.1,068,224 comprising the key-money of 50% of the value with respect to 04 stalls, and other arrears of Rs.4,653,657 comprising lease rental instalments within a range of 1-22 instalments with respect to 18 stalls.
- b) A proper register had not been maintained to record the recovery of lease rentals in respect of 12 stalls of Galgamuwa General Market which had been leased out in April 2012, at the tender value of Rs.9,614,664, on payment in advance basis. Therefore it was not possible to specifically identify the outstanding arrears. But based on the investigations and the information received for audit, an arrears of Rs.5,242,522 with respect to 09 stalls was identified and of this, Rs.4,630,918 represent the arrears of entire payment due from 05 stalls.
- c) The main file had not been properly maintained in respect of the 17 stalls in the ground floor of Galgamuwa Bus Stand which had been leased out at the minimum valuation at Rs.8,300,000, on payment in advance basis. The system of payment in advance consisted

of paying 50% of the value first and the balance amount in 24 equal monthly instalments. The basis adopted in allocating the stalls, due dates of payments, and other relevant and adequate information could not be identified during the audit. But audit investigations and the details of rental recoveries available in the Sabha revealed that, there had been arrears of Rs.500,000 relating to the first payment of 50% of the value with respect to 04 stalls, and further arrears of Rs.3,434,345 relating to the instalment payments with respect to 16 stalls.

3. Operating Review

3.1. Performance Evaluation

The following observations are made

- a) There had been 03 Telephone Transmitting Towers in the area under authority of the Sabha and a charge of Rs.227,360 had been recovered for one tower in the year under review. Similarly, 1704 street lamps had been fixed in the area under authority of the Sabha, incurring equipment expenditure amounting to Rs.900,000, and maintenance and labour charges amounting to Rs.32,400, and the total expenditure amounted to Rs.932,400.
- b) Out of the works planned for the year under review, the Sabha had not implemented work on 03 welfare works valued at Rs.195,000, and 06 capital works valued at 23,600,000.

3.2. Management Inefficiencies

The following matters were observed.

- a) Out of 12 stalls of Galgamuwa General Market, 9 stalls had been leased out in 2012, on payment in advance basis, but the relevant agreements had not been signed even as at end of the year under review. The billings of rentals with respect to these stalls had not been taken place and during the site audit inspections, on 25 February 2014, it was found that 04 of these stalls had been opened for business. Similarly 03 stalls at the total minimum bid value of Rs.13,544,235, had not been leased out, or utilised for any specific purpose even as at end of the year under review.

- b) In the year 2013, 11 stalls in the upper floor of Galgamuwa Bus Stand with the total minimum bid value of Rs.6,052,000, had been leased out at two occasions through tenders, on payment in advance basis. It was not possible to specifically identify whether 3 stalls in the same floor, with the total minimum bid value of Rs.1,641,000, had been leased out through tenders. Stall number 01 had been leased out for Rs.556,000 and there had been an arrears of Rs.356,000 related to this stall, even as at 31 December 2013. Agreements had been signed only for 3 stalls and agreements had not been signed for 5 stalls even at the date of the audit. According to the rent assessment reports, a monthly rental of Rs.1,100 for each stall, can be charged. But it was observed that stall rentals for the year 2013 had not been billed or recovered.
- c) The stalls situated in front of the Galgamuwa General Market, had been removed after the construction of the General Market, and there had been an arrears of stall rental amounting to Rs.18,933 with respect to 10 such stalls as at 31 December 2012. These arrears had been written-off from the stall rental register during the year 2013, without the approval of authorised officers. Similarly, 10 stalls at the Bus Stand (Old) had been written-off from the stall rental register during the year 2013, but the specific reasons for the writing-off could not be identified. Action had not been taken to recover the balance of arrears, amounting to Rs.34,480 as at 01 January 2013, due from these stalls.
- d) The Sabha had approved 233 building applications during the period from year 2009 to 2012, and even as at end of the year under review, Certificates of Conformity had not been obtained with respect to 213 permits. The Sabha had not promulgated by-laws relevant to the charges, for issuing Certificates of Conformity, and charges for delays.
- e) The arrears in lease rental for the beef stall in Galgamuwa for the year 2012, amounting to Rs.196,498 had not been recovered and action had been taken only to send the letter of demand, even by 27 December 2013; the date of audit examination.

3.3. Operating Inefficiencies

The Sabha had deployed 04 paddle boats in Galgamuwa Wewa, for exercising purposes spending Rs.637,975. Out of this amount Rs.500,000 had been spent from operations aid of the year 2013 and the balance amount from the Sabha funds. Due to the existence of moss and other

water-grown plants in the Wewa, the boats had been idling at the Solid-waste Management Centre premises for a period of over 5 months without utilising for the intended purpose. The physical audit inspection carried out on 25 January 2014 revealed that the roofs of these boats were being deteriorated.

4. Accountability and Good Governance

4.1. Budgetary Control

Though the recurrent revenue of Rs.69,774,000 and capital revenue of Rs.135,587,000 had been estimated according to the budget for the year under review, only 80% of recurrent revenue, amounting to Rs.56,414,000 and 9% of capital revenue, amounting to Rs.11,900,000 had been reached. Similarly, though the generated revenue, had been estimated at Rs.20,965,000, only Rs.11,138,000 had been collected.

5. Systems and Controls

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

- a) Accounting
- b) Budgetary Controls
- c) Financial Control
- d) Revenue Administration
- e) Assets Management