

Mawathagama 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 28 March 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 09 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 Mawathagama Pradeshiya Sabha as at 31 December 2013 and the financial result 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 capital expenditure for the year under review had been Rs.20,173,706, it had been shown as Rs.18,742,519 in the financial statements, understating the amount by Rs.1,431,187.
- b) Though the capital aid for the year under review had been Rs.12,706,426, it had been shown as Rs.17,586,806 in the financial statements, overstating the amount by Rs.4,880,380.

- c) Though the capital aid balance receivable as at the end of the year under review had been Rs.12,611,426, it had been shown as Rs.11,592,719 in the financial statements, understating the amount by Rs.1,018,707.
- d) Though the capital creditors balance as at the end of the year under review had been Rs. 12,611,426, it had been shown as Rs.15,155,358 in financial statements, overstating the amount by Rs.2,543,932.
- e) The land and buildings of the Sabha, valued at Rs.11,526,650 as at the end of the year under review, had not been brought to financial statements.
- f) The sum of Rs.2,266,274, spent for preparation of land and preparation of the plan of the new bus stand which should have been brought to account under capital expenditure, had been brought to account under recurrent expenditure on repair and maintenance of capital assets under Item of Expenditure-105.
- g) The waste management project valued at Rs.2,014,075 as at end of the year under review had not been brought to account under capital assets. Similarly a sum of Rs.1,061,276, receivable from “Jathika Pilisaru Project” and payable to the contracted institution at the end of the year under review, had not been brought to account.
- h) The salary reimbursements with respect to the preceding year, amounting to Rs.376,595, received in the year under review, had been brought to account as salary reimbursements received in the year under review.
- i) The balance of electrical goods and general stores at the end of the year under review amounted to Rs.459,157, and this had been shown in the financial statements as Rs.137,360, understating the amount by Rs.321,797.
- j) The adjustments related to the Value Added Taxes amounting to Rs.876,400 and Nation Building Taxes amounting Rs.144,738, recovered in the year under review had not been taken into consideration in calculating the tax liability payable as at the end of the year.

k) Though the value of library books at the end of the year under review was Rs.5,326,917, it had been brought to account in the financial statements as Rs.5,558,198, overstating the value of library books by Rs.231,281.

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, at the end of the year under review amounted to Rs.3,371,243.

1.3.3. Unreconciled Control Accounts

There were differences amounting to Rs.3,420,132 between the account balance and the corresponding values in relevant registers, at the end of the year under review, under 07 items of accounts.

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.39,621,260, and of this, Rs.3,457,650 represent balances for over 3 years.
- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.29,688,340, and out of this, Rs.5,153,340 represent balances for over 3 years.

1.3.5. Lack of Evidence for Audit

Transactions totalling Rs.12,537,204 could not be examined in detail, due to non-submission of required information to audit.

1.3.6. Transactions not Supported by Authority

Advances amounting to Rs.182,250 and the revenue debtors of Rs.1,372,582 of the concrete project, had been written-off against the accumulated fund through Journal Entries 37 and 38 respectively during the year under review, without proper identification and without proper authority.

2. **Financial Review**

2.1. **Financial Results**

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2013 amounted to Rs. 3,336,192, as against the excess of revenue over recurrent expenditure amounting Rs.761,466 for the preceding year. Therefore the financial result had been deteriorated by Rs.4,097,658. When the capital aid of Rs.18,348,731 and the capital expenditure of Rs.23,725,326 are adjusted to this financial result, the deficit for the year under review had been increased to Rs.8,712,787.

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.55,161,590, and of this, Rs.44,334,604 representing 80% consists of non-generated revenue, such as court fines, stamp fees, and salary reimbursements. Similarly the entire capital revenue amounting to Rs.18,348,731 had been received from other institutions for development work in the area under authority, through sources such as Gama Neguma and Maga Neguma.
- b) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.58,497,782 and of this, Rs.35,165,205 representing 60% was expenditure related to personal emoluments. Of this, 57% amounting to Rs.20,163,541 had been received from the Commissioner of Local Government in the form of salary reimbursements, and it had been brought to account under other revenue. Similarly the capital expenditure amounted to Rs.23,725,326 and 31% of this, amounting to Rs.7,467,280 had been spent from Sabha funds, and the balance 69% amounting to Rs.16,258,046 consists of development works carried out from provisions of other institutions, through sources such as Gama Neguma, and Maga Neguma.

2.3. **Working Capital Management**

The Sabha had not sent contributions to Employees Trust Fund from the year 2010 to 2013 and for this reason the Sabha had paid a surcharge of Rs.21,370 to the said fund during the year 2013.

2.4. Revenue Administration

2.4.1. Performance on Revenue Collection

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

2.4.2. Rates and Taxes

The rates and taxes in arrears as at the end of the year under review had been Rs.3,536,503 and the annual amount billed was Rs.1,605,700. Though, the relevant list of arrears had been prepared, final notices had been issued only for 60 units, relevant to a sum of Rs. 323,162, and these units had not been selected covering the entire area of authority for rates and taxes. Out of this, only 23% amounting to Rs.74,347 had been recovered. Similarly, by the end of the year under review, there were rates and taxes in arrears amounting to Rs.277,343 from 4 government institutions.

2.4.3. Stall Rentals

The following observations are made.

- a) The monthly rental within a range of 4-103 instalments, had been in arrears with respect to 14 stalls of the market complex, and the relevant total arrears amounts to Rs.329,708. Similarly there were long outstanding arrears of Rs. 1,144 with respect to 04 temporary stalls, and Rs.19,902 with respect to 02 pavement stalls. Further, there was also an arrears of Rs.1,055,045 with respect to another 04 stalls and of this, Rs.1,008,967 related to renting out a building for a cinema hall.
- b) 20 mobile pavement stalls had been constructed utilizing funds amounting to Rs.700,000 received under Asian Development Bank Loan aid in year 2009. These mobile stalls had been provided on the basis, of recovering at monthly instalments of Rs.1,004 within a period of 3 years, and a monthly rental of Rs.200. Though the repayment of loan instalments related to these stalls were scheduled to be completed by 31 August 2012, it was not possible to investigate whether outstanding loan payments exist, as a register had

not been maintained for loan instalment recoveries. According to the stall rental register maintained, and the information obtained during the audit, there were arrears of Rs.94,290 as at 31 December 2013, with respect to loan instalments and stall rental from 11 stalls.

2.4.4. Business Taxes and Trade Licence Fees

Though the Sabha had prepared a list of industries and trade institutions, and submitted the list to the Secretary, in accordance with the Articles 150 (1) and 152 (1) of the Pradeshiya Sabha Act No. 15 of 1987, the notice had not been issued to the relevant parties, in accordance with the Form P.S. 26B, informing them to pay the taxes indicated by the Sabha within 7 days of receiving the notice. Similarly action had not been taken to identify the persons who had not obtained the licences or to act according to the stipulated rules.

3. Operating Review

3.1. Management Inefficiencies

The following deficiencies were observed.

- a) The Sabha had approved 259 building applications during the period from year 2008 to 2011, and even as at end of the year under review, Certificates of Conformity had not been obtained with respect to 213 locations. If all those buildings had been constructed, Sabha would have earned revenue of Rs.159,750 from Certificates of Conformity, and Rs.370,500 from annual charges for extension of the period of building permits, as per the Bylaws of the Sabha.
- b) A court case had been filed on 10 June 2008 under Case No. 12144/19 to recover the arrears in lease rental for the beef stall in Mawathagama General Market for the year 2006, amounting to Rs.29,300. The notice issued by the courts had not been delivered to the accused, as the accused had not been traced. Due to this the court case had not been proceeded till 31 December 2013.
- c) The Sabha had paid an advance of Rs.199,640 to the contractor for concreting the Pilassa Ihalagama Road, and the contractor had abandoned the contract after completing a part of the contract amounting to Rs.79,120. The Sabha had filed a court case in the year 2008, to

recover the loss of Rs.120,520 caused to the Sabha, and courts had instructed to obtain measurement reports from an appropriate engineer and submit it to the courts. But, the Sabha had not taken action according to these instructions to date.

- d) The Sabha had operated the public library and a concrete worksite in an 80 perches land acquired by the Sabha by a transfer deed. Since the concrete worksite project had become nonoperational, the Sabha had kept the land idling for 15 years and, the owner of the land had sold the land to a third party. There had been a dispute between the relevant buyer and the Pradeshiya Sabha, regarding the ownership of the land and due to this the Sabha had filed a case in the Supreme Court in Colombo in the year 2008 and the judgement had been given by the courts in the year 2013 in favour of the Sabha. The accused party had filed an appeal against the judgement and the court case had not been settled till the end of the year under review. The Sabha had spent a sum of Rs.389,980 out of Sabha funds during the period from 2008 to December 2013, for the court case which arose due to keeping this land idling.
- e) During the period from 2010 to 2013; 38 cheques amounting to Rs.1,343,619 written in favour of Employees Provident Fund; 14 cheques amounting to Rs.487,755 written in favour of Pension Fund; 15 cheques amounting to Rs.123,900 written in favour of National Insurance Fund; 23 cheques amounting to Rs.113,950 written in favour of Employees Trust Fund; and 58 cheques amounting to Rs.162,219 written in favour of other institution with respect to salary deductions; had not been remitted to the relevant parties by the Sabha. Due to this, the Sabha had to bear a fine of Rs.21,370 for delayed payments, with respect to the Employees Provident Fund alone, out of the Sabha funds during the year under review. The funds unremitted to the relevant institutions since 2010 amounted to Rs.2,231,443, and according to the observations made during the audit, there was a risk of Sabha having to pay fines for this outstanding unremitted amount. Similarly, due to non-payment of instalments to National Insurance Fund, the insurance benefits to the officers had also been stopped at present.

3.2. Solid-waste Management

The Sabha had entered into an agreement with the Central Environmental Authority for the “Pilisaruru Solid-waste Management Project” on 04 January 2011 to complete the project in 03

months and Central Environmental Authority had agreed to provide Rs.6,070,158 for the project. The location for the collection and sorting of waste had not been selected till the end of the year under review, and obtaining of electricity and water supply connections, construction of security fence and gate, also had not been attended. Similarly the Central Environmental Authority had provided a compost fertilizer straining machine with accessories, used in producing compost fertilizer, to the Sabha on 05 September 2012, but action had not been taken to install this machine till the end of the year. Since this site is situated about 03 kms from the main road, the Sabha had faced a difficulty in obtaining the electricity supply to the site.

4. Accountability and Good Governance

4.1. Budgetary Control

Though the revenue excluding other income, had been estimated at Rs.16,380,000 according to the budget for the year under review, only 82% of this, amounting to Rs.13,354,000 had been reached. Similarly, though the capital revenue, had been estimated at Rs.61,000,000, only 30% of this, amounting to Rs.18,349,000 had been reached.

5. Systems and Control

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

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