

## **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 Audit on 18 April 2016 while Financial Statements relating to the preceding year had been submitted on 31 March 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 07 September 2016.

##### **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 Ibbagamuwa Pradeshiya Sabha as at 31 December 2015 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**

Following accounting deficiencies are observed.

- (a) Value of 02 Machines amounting to Rs. 42,577,845 to be accounted under Plant and Machinery had been accounted under Motor Vehicles and Carts.
- (b) According to information relating to allotments of land during the year under review, lands valued at Rs. 10,190,000 transferred to the Sabha through deeds had not been accounted as Fixed Assets.
- (c) The sum of Rs. 112,861 payable as contribution of the year to the Local Government Pension Fund had not been accounted as an expenditure of the year, understating the expenditure to the extent of that amount.
- (d) Interest amounting to Rs. 173,933 and loan installments amounting to Rs. 526,436 in respect of third and fourth quarters of the preceding year, paid to the Local Loans and Development Fund during the year under review had been accounted under Grants, Contributions and Subsidy Expenditure. Due to that; expenditure of the year in a sum of Rs. 700,369 and Long Term Liabilities in a sum of R. 526,436 had been overstated.

- (e) Interest amounting to Rs. 467,760 paid for the last 03 quarters of the year under review to the Local Loans and Development Fund had been debited to the Local Loans and Development Fund loan Account. Due to that; expenditure of the year and Creditors had been understated to the extent of that amount.
- (f) Court Fines in arrears amounting to Rs. 2,025,174 received during the year under review in respect of the year 2014 had been credited to the Court Fines balance of Rs. 1,637,165 at the beginning of the year under review. Due to that; Court Fines balance in arrears had been understated in a sum of Rs. 388,009.
- (g) Salary Reimbursements Receivable amounting to Rs. 8,387,131 on behalf of employees recruited in terms of Public Administration Circular No. 25/2014 dated 15 November 2014 had not been accounted as Salary Reimbursements Receivable in arrears. Due to that; revenue of the year under review and Revenue to Debtors had been understated to the extent of that amount.
- (h) Although the discount allowed for Rates amounting to Rs. 57,140 should be debited to the expenditure account, it had been debited to the Contribution through Grants to the Capital Outlay Account through the journal entry 46. Due to that; expenditure for the year had been understated to the extent of that amount.
- (i) In place of the Sundry Creditors balance of Rs. 1,806,106 at the beginning of the year under review, a sum of Rs. 4,304,106 had been recorded as payments in the account. Due to that; Creditors balance as at 31 December 2015 had been understated in a sum of Rs. 2,498,000.
- (j) The vehicle valued at Rs. 21,299,179 received as a donation during the year under review had not been accounted as Capital Grant and Capital Expenditure.
- (k) Work Creditors amounting to Rs. 11,286,212 relevant to the year under review, had been accounted as Rs. 10,448,241. Due to that; expenditure for the year and Creditors had been understated at the rate of Rs. 837,971.
- (l) Security Deposits of Rs. 375,005 set-off for lease rent installments in arrears during the year under review had been credited to the Accumulated Fund through the journal Entry 78. Due to that; Security Deposits had been overstated in a sum of Rs. 375,005.
- (m) One percent tax amounting to Rs. 897,966 receivable relevant to allotment of lands during the year under review had been accounted as Rs. 621,619. Due to that; revenue for the year and Debtors had been understated in a sum of Rs. 276,347.
- (n) The sum of Rs. 1,657,827 received as Stalls Pre-payment Money during the year under review had been shown as Miscellaneous Deposits. Due to that; revenue for the year had been understated to the extent of that amount.

- (o) The sum of Rs. 1,578,840 received as Pre-payment Money during the year 2014 had been shown under Contract Deposits.

### **1.3.2 Non-reconciled Control Accounts**

-----

Non-reconciliations in a sum of Rs. 45,236 were observed between the balance of advances at the end of the year under review and the balances in the corresponding subsidiary registers.

### **1.3.3 Accounts Receivable**

-----

- (i) While the value of Accounts Receivable as at 31 December 2015 was Rs. 53,509,450, balances amounting Rs. 5,695,162 out of that had been outstanding for a period exceeding 03 years.
- (ii) A balance of Lease Rent amounting to Rs. 4,379,757 remaining unsettled during a long period for which information were not made available, Work Debtors balance of Rs. 5,068,753 relevant to the year 2014 and Stamp Fees in arrears amounting to Rs. 25,286,306 were included in the Accounts Receivable.

### **1.3.4 Accounts Payable**

-----

- (i) While the value of Accounts Payable as at 31 December 2015 was Rs. 40,214,538, a sum of Rs. 697,905 out of that were balances not settled for more than 03 years.
- (ii) A balance of Rs.4,658,738 payable to the Local Government Pension Fund remaining unsettled during a long period, a balance of Rs. 555,488 payable as Value Added Tax existing since prior to the year 2014 and Work Creditors amounting to Rs.5,195,580 relevant to the years 2013 and 2014 were included in the Accounts Payable.

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

-----

Deposits Registers/ Schedules relevant to Sundry Deposits amounting to Rs. 3,086,417 were not submitted. Due to that, a satisfactory examination could not be carried out with regard to that item of accounts

## 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 2015 had been Rs 9,220,563 as against the excess of recurrent expenditure over revenue amounted to Rs.8,965,427 during the preceding year indicating an improvement of Rs. 18,185,990 in the financial result. After adjustment of the Capital Grant amounting Rs. 90,478,790 and Capital Expenditure amounting to Rs. 92,007,355 to this, **operational** result, financial result relevant to the year under review had become a surplus of Rs. 7,691,998.

### 2.2 Analytical Financial Review

Following matters are observed.

- (a) Actual revenue and expenditure relevant to the year under review and the preceding year and relevant variations are shown below.

Source of Revenue	Revenue			Expenditure Item	Expenditure		
	2015	2014	Variance		2015	2014	Variance
	Rs.000	Rs.000	Rs.000		Rs.000	Rs.000	Rs.000
(i) Generated Revenue	24,841	17,613	7,168	Personal Emoluments	70,356	52,762	17,594
(ii) Others	<u>95,983</u>	<u>60,990</u>	<u>34,993</u>	Others	<u>41,247</u>	<u>34,867</u>	6,380
Sub total	120,824	78,663	42,161	Sub total	111,603	87,629	23,974
(iii) Capital Grant	90,478	27,617	62,861	Capital	92,007	10,550	81,457

- (b) Out of the total Recurrent Revenue of Rs.120,824,008 relevant to the year under review, a sum of Rs. 95,982,383 or 79 per cent was revenue not falling under a nature generated in the Sabha and were receipts such as Court fines, Stamp Fees and Salary Reimbursements. Similarly, the entire capital revenue of Rs. 90,478,790, was consist of funds provided for development works in the area of authority of the Sabha through other institutions.

- (c) Out of the total Recurrent Expenditure of Rs. 111,603,445 relevant to the year under review, a sum of Rs. 70,355,855 or 63 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 57,152,519 or 81 per cent had been received from the Commissioner of Local Government as salary reimbursements while that value had been accounted under other Revenue.
- (d) Similarly, out of the capital expenditure of Rs. 92,007,354, a sum of Rs. 17,714,815 or 19 percent had been spent out of the Sabha Fund, while the balance sum of Rs. 74,292,539 or 81 percent were development activities performed from sources of other institutions such as 100 Days Program, Provincial Council Works and Provincial Council Investments.

## 2.3 Revenue Administration

### 2.3.1 Performance in Revenue Collection

Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review and the preceding year were as shown below

2014	2015					
	Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual
	000	000	000	000	000	000
(i) Rates and Taxes	4,500	6,005	5,218	3,000	3,244	4,514
(ii) Lease Rent	10,000	10,101	4,819	7,500	8,361	3,875
(iii) License Fees	2,050	1,993	--	1,400	1,818	--
(iv) Other Revenue	91,231	102,725	26,876	65,201	65,240	24,339
Total	107,781	120,824	36,913	77,101	78,663	32,728

### 2.3.2 Revenue Billed and Arrears of Revenue

Particulars are shown below.

Item of Revenue	Balance of Arrears			Collections of Revenue					
	Arrears as at 01.01.2015	Billings during the year	Total	Collection From arrears	Collection From billing	total	Out of Arrears as at 01.01.2015	Out of Billing	Total Arrears as at 31.12.2015
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs. 000	Rs.000	Rs.000
Rates and Taxes	4,514	6,005	10,519	1,078	4,223	5,301	3,436	1,782	5,218
Lease Rent	3,875	10,100	13,975	132	9,024	9,156	3,743	1,076	4,819
License Fees		1,992	1,992	--	1,992	1,992	--	--	--
Other revenue	24,339	102,723	127,062	24,658*	75,847	100,505	--	26,876	26,876*
	32,728	120,820	153,548	25,868	91,086	116,954	7179	29,734	36,913
<b>Total</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>

\* Balance of Court Fines in arrears as at 01 January 2015 had been understated. Due to that; a sum of Rs. 319,000 had been over received.

### 2.3.3 Stalls Rent

While 07 stalls in Melsiripura Bust Stand of which assessed value amounts to Rs. 8,565,263 had been given for a pre-paid sum of Rs. 8,566,859 on the method of pre-payment (Key-Money), following matters were revealed at the examination carried out in that connection.

- While the general file relevant to this had not been properly maintained, it was not possible to identify in audit with regard to the basis of allocation of stalls, payment method and other adequate information. Although there were separate files for each stall, adequate information had not been filed in those files. Any agreement had not been entered into with relevant parties.
- While stalls had not been numbered to make it possible to identify the stalls, information relating the lessees who got the stalls was not available in the Sabha although monies had been collected for 07 stalls through tenders.
- According to the conditions in the tenders called for up to 30 April 2013, it was required to pay fifty percent of the tender amount within 14 days and the balance 50 percent in installments within 06 months. However a sum of Rs. 5,330,191 receivable to the Sabha as pre-payment money had not been recovered.

- (d) While 04 stalls in extent of 153 square feet had been constructed in the Melsiripura Bus Stand in addition to the stalls mentioned above, any course of action had not been taken to assess those stalls and give on the basis of pre-payment method or to rent out although more than a period 15 months had elapsed after completion.

#### **2.3.4 Lease Rent**

-----

Following matters are observed.

- (a) According to the list of properties submitted for leasing out properties for the period from the year 2011 to 2015, there were five properties not given on lease since the year 2011, two properties not given on lease since the year 2012 and two properties not given on lease since the year 2014.
- (b) Although Trade Licenses relevant to the year under review had been obtained for sale centers of meat and fish, action had not been taken lease the right to sell in those assets of the Sabha.
- (c) Action had not been taken to recover installments in arrears amounting Rs. 340,299 and relevant fines amounting to Rs. 34,029 due to be recovered for 02 assets relevant to leasing out 02 assets during the year 2015.

#### **2.3.5 License Fees**

-----

Following matters are observed.

- (a) Although Development Permits should be obtained for the construction of telephone transmission towers and Certificates of Conformity should be obtained after construction, applications had not been made for obtaining Certificates of Conformity by any telephone company after the year 2013.
- (b) Charges to be recovered for towers established at the rate of Rs. 20,000 up to a height from 5 – 20 meters and Rs. 100 for each additional meter in terms of Gazette Notification No. 1597/8-2009 dated 17 placed in April 2009 of the Republic of Sri Lanka, had not been recovered. Similarly, Business Tax to be recovered annually for the towers or issue of Trade Licenses had not been made.

### **2.3.6 Publicity Advertisements Charges**

-----

Although advertisements boards and banners had been placed in Grama Niladhari Divisions in the area of authority of the Sabha, in spite of the possibility for levying a charge at the rate of Rs. 50 per square foot for publicity advertisements using a wall, a board or a banner using cloth or polythine in terms of Gazette Notification No. 1891 dated 28 November 2014, charges had been recovered for only 12 boards, although 38 boards established in the area of authority of the Sabha had been identified.

### **2.3.7 Court Fines and Stamp Fees**

-----

Court Fines amounting to Rs. 802,877 and Stamp Fees amounting to Rs. 25,286,306 were Receivable from the Chief Secretary to the Provincial Council as at the end of the year under review.

## **03. Operating Review**

-----

### **3.1 Sale of Lands by making Allotments**

-----

Following matters are observed.

- (a) While 1 percent tax recovered relevant to a stretch of land sub divided during the period from the year 2013 to year 2015 in the area of authority of the Sabha had not been mentioned, a part of tax money only had been recovered relevant to 03 stretches. Similarly, deed number and the extent had not been mentioned relevant to the land reserved for common amenities relevant to 02 Stretches of land.
- (b) In terms of Paragraph 10 (1) in the By-laws with regard to developments of housing properties and allotments of lands, published in the Provincial Council Gazette No. 1317 dated 28 November 2003, when the number of land allotments exceeds 20, width of the road should be 09 meters. However, 12 allotments plans of which the width the road had been only 06 meters had been approved during the years 2013 to 2015, although the number of land allotments had been more than 20.
- (c) It was not possible to identify the part of land reserved for common amenities in the Nindaella, Udawale Watta Land in extent of 03 Acres 02 Rude and 5.7 Perches. While the width of the road had been only 06 meters, it was observed at the inspection carried out on 22 October 2015 that water flows across the road as there was no drain system on the two sides of the road. Electricity and water supply too had not been made.
- (d) There were 49 allotments in the land named Pangolla, Gollan Pahuwa Estate of which allotment plan had been approved on 02 March 2015. While 01 Rude 38.5 Perches had



been reserved for the common amenities through allotment No. 42, there was no specific procedure for identification and avoid usage by others. While there were about 20 coconut trees, action had not been taken to lease the yield. While electricity had not been provided, actions had not been taken to lay water pipes and provide water facilities.

### **3.2 Operational Inefficiencies**

-----

While a large common land in extent of 3 acres belong to Sabha named Kapuhena Watta belongs to the Hiripitiya Sub-office had not been recorded in the Register of Fixed assets, at the physical inspection carried out on 22 October 2015 it was observed that permanent cultivation had been made by outside parties without permission. However, any step had not been taken by the Sabha in that connection.

### **3.3 Vehicles Control**

-----

Following matters are observed.

- (a) In terms of Financial Regulation 1645 (b) and (c) it is required to maintain daily running charts methodically and properly. However, running charts of the Cab Vehicle No.PD-1844 had not been written from 06 September 2012 to 20 October 2015, date of audit. While the number of kilo meters performed relevant to that period had been 149236, a total sum of Rs. 3,390,420 had been spent as fuel expenses amounting to Rs. 2,928,855 and maintenance expenses amounting to Rs. 461,565.
- (b) The driver of this vehicle had not established his attendance for duties from 01 November 2012 to 15 May 2015 through using the finger marks machine or attendance register in terms of Public Administration Circular No. 09/2009 dated 16 April 2009. A total sum of Rs. 900,052 as salaries and allowance amounting to Rs. 723,140, a sum of Rs. 87,662 as travelling and subsistence and a sum of Rs. 89,250 as overtime relevant to that period had been paid to him without establishing his attendance and duties performed.
- (c) Although fuel should be obtained in the presence of an officer having furnished a proper fuel order, 1466 liters of fuel valued at Rs. 176,225 had been obtained for the said vehicle from a private filling station without such supervision and approval during the period from 13 July 2013 to 04 September 2013.

### **3.4 Dairy Livestock Control**

-----

- (a) It had been mentioned that a 20 percent contribution should be obtained per a dairy cow in terms of clause 01 in annexure 02 in the letter of instructions called "North Western Province Live Stocks Control" under the Program for Minimizing Poverty in Provinces in the Budget Proposals - 2013 of the Commissioner of Local Government. But, the total expenditure of the relevant animals had been born by the Sabha without obtaining the

contributions amounting to Rs.57,000 to be obtained from the beneficiaries relevant to 05 milk cows provided by the Sabha, while 20 percent amount had been obtained only from 03 beneficiaries.

- (b) Although live stocks had been purchased for varying values from Rs. 55,000 to Rs. 100,000 by the Sabha, when insuring animals assessment of the insurance company had been in a range from 25,000 to Rs.65,000. Accordingly the value paid for the animals was questionable in audit. Dairy Cow No. 6130/0224/0069 purchased for Rs. 100,000 had died on 27 March 2015 and only a sum of Rs. 62,000 had been received as insurance claim due to undervaluation of animals purchased for a higher value.

### **3.5 Contracts administration**

-----

#### **3.5.1 Spreading Gravel on Roads**

-----

Out of 225 Works performed using general funds during the years 2014 and 2015, 198 or 88 percent were for spreading gravel while the amount spent for that had been Rs. 21,536,410. At the audit sample inspection carried out on 23 October 2015, with regard to 5 roads developed during the year under review, it was observed that the gravel had been washed off and there had been holes on the roads.

#### **3.5.2 Nabeta Water Project**

-----

A sum of Rs. 1,336,545 had been spent for making a tank for collection of water during the year 2013 for the Nabeta Water Project commenced work during the year 2012 and in operation at present. At the time of audit inspection carried out on 23 October 2015, water was leaking from the bottom of the tank. A sum of Rs. 29,970 had been paid at the rate of Rs. 662 per one foot length for 45 feet length for supply and fixing 4 inch GI Pipes under sub-item 04 of second part payment of balance work of the Nabeta Water Project during the year 2014.

#### **3.5.6 Construction of a Shed for Parking Vehicles in the Hiripitiya Sub-office – Rs. 164,816.33**

-----

While a sum of Rs. 22,874 had been paid for concreting the foundation of the post with 66 cubes of cement mixture of 1:2:4 ( $\frac{3}{4}$ ) under item 03 of the payment report relevant to the above mentioned work, concrete used was not up to proper standard and was breakable. While some of the G.I sheets of the roof had been unfastened and had fallen on the ground, sheets in the roof end and mid part had been torn due to wind and were hanging. Sheets used had been gauge 34 while it had not been mentioned with regard to thickness of the sheets in the payment report or the estimate. While wood preserve paint had not been applied twice on the coconut beams, coconut raters and sheathings, in places where sheets had got removed had become white and decayed.

### **3.6 Identified Losses**

-----

At the physical inspection carried out on 25 October 2015, with regard to the 600 G.I. Pipes received from the Ministry of Local Government and Provincial Councils on 10 November 2014, a shortage of 183 pipes was revealed.

## **04. Accountability and Good Governance**

-----

### **4.1 Budgetary Control**

-----

Following matters are observed.

- (a) Although the estimated expenditure according to the Budget relevant to the year under review for two items of expenditure was Rs. 10,970,000, actual expenditure had been Rs. 31,421,000 indicating budget excesses amounting to Rs. 20,451,000.
- (b) Three Welfare Functions valued at Rs. 200,000 planned to be performed during the year under review by the Sabha and for which provisions were made had not been fulfilled.

### **4.2 Internal Audit and Management Committees**

-----

While Internal Audit and Management Committee had not met relevant to the year under review, Internal audit Unit under that too had not functioned..

### **4.3 Assets Management**

-----

#### **4.3.1 Idle and Underutilized Assets**

-----

Following matters are observed.

- (a) A Colour Printer purchased having spent a sum of Rs. 31,500 by the Sabha during the year 2014 had not been used since the date of purchase.
- (b) While 12 tents had been provided to the Sabah during the year 2012 through the Ministry of Local Government and Provincial Councils, a sum of Rs. 90,000 had been spent out of the Sabha Fund during the year 2014 for the purchase of new tent clothes for those tents. While these clothes too had been stacked in the office premises, those had got decayed.

## **05. Systems and Controls**

-----

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contracts Control.