

**Maho Pradeshiya Sabha**

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**Kurunegala District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 29 March 2016 while Financial Statements relating to the preceding year had been submitted on 15 June 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 15 August 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 Maho 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 Deficiencies in Preparation of Accounts**

Following deficiencies are observed.

- (a) Out of Capital Grants balance in arrears amounting to Rs. 94,835,651 as at 31 December 2014, a sum of Rs. 17,195,852 had been written off against the Accumulated Fund through the Journal Entry No. 46, without proper approval.
- (b) Out of Creditors balance in arrears as at 31 December 2014, a total sum of Rs. 2,271,684 as Work Creditors amounting to Rs. 1,422,633 and a sum of Rs. 849,051 as General Supply Creditors had been written off against the Accumulated Fund through the Journal Entries No. 44 and 41 without proper approval.

### 1.3.2 Accounting Deficiencies

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Following accounting deficiencies are observed.

- (a) Value of Salary Reimbursements Receivable amounting to Rs. 11,003,107 as at the end of the year under review relevant to employees recruited during November 2014 had been accounted as Rs.10,775,484. Due to that; Debtors had been understated in a sum of Rs. 227,623.
- (b) While salaries of 16 Pre-school Matrons confirmed in service with effect from November 2014, relevant to the period from January to November 2015 had not been paid during the year under review, that amount had not been identifies as Creditors and accounted. . Due to that; expenditure for the year and Creditors had been understated at the rate of Rs. 5,398,952.
- (c) Stamp Fees receivable at the end of the year under review had not been identified and accounted.
- (d) Rates Revenue for the ensuing year amounting to Rs. 321,269 received during the year under review had not been accounted as Rates paid in advance. Due to that; revenue for the year had been overstated to the extent of that amount.
- (e) Backhoe Machine Hire charges amounting to Rs. 875,000 received as direct remittances in December 2015 relevant to 05 months period from June to October 2015 had not been accounted as road compressing hire charges and Road Compressing Hire charges amounting to Rs. 350,000 relevant to November and December 2015 as Debtors had not been accounted. Due to that; revenue for the year in sum of Rs. 1,225,000 and Debtors in a sum of Rs. 350,000 had been understated in the accounts.
- (f) The balance of Water Revenue in arrears as at the end of the year under review in Maho Zone amounting to Rs. 85,565 had not been accounted as arrears of revenue. Due to that; revenue for the year and Debtors had been understated to that extent in the accounts.
- (g) Value of Machinery and Equipment amounting to Rs. 26,980,000 and value of Motor Vehicles amounting to Rs. 10,900,000 received as donations during the year under review had not been accounted as Capital Revenue and Capital

Expenditure. Due to that; revenue and expenditure for the year had been understated at the rate of Rs. 37,880,000.

- (h) Although the contribution to the Local Government Pension Fund relevant to the year under review was Rs. 97,660, a sum of Rs. 5,107 had been shown as expenditure for the year. Due to that; expenditure for the year had been understated in a sum of Rs. 32,553.

### **1.3.3 Non-reconciled Control Accounts**

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Non-reconciliations in a sum of Rs.682,003 were observed between the balances of 04 items of accounts existed at the end of the year under review and the balances existed in the subsidiary registers relevant to those.

### **1.3.4 Accounts Receivable**

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- (i) While the value of Accounts Receivable balances as at 31 December 2015 was Rs.72,294,745, information were submitted only for a sum of Rs. 60,967,343. Out of that amount, a sum of Rs. 64,424 had been balances outstanding for more than 03 years.
- (ii) A balance of Advances amounting to Rs. 6,098,770 existing since a long period and t for which information was not submitted, a balance of General Advances amounting to Rs.569,208 existing during the period from the year 2000 to the year 2014 and a balance existing amounting to Rs. 761,854 under the name Central Environment authority was included in the Accounts Receivable.

### **1.3.5 Accounts Payable**

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- (i) The value of Accounts Payable balances as at 31 December 2015 was Rs.72,693,577. Out of the sum of Rs. 61,436,156 for which Information were submitted, a sum of Rs. 54,857 had been balances outstanding for more than 03 years.

- (ii) There was sum of Rs. 3,930,686 payable to the Local Government Pension Fund existing since a long period in the Accounts Payable.

### **1.3.6 Lack of Evidence for Audit**

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Following matters are observed.

- (a) Schedules indicting the makeup relevant to 03 items of accounts valued at Rs. 63,672,,279 were not submitted to audit and therefore a detailed examination could not be made with regard to those items.
- (b) While the balance of Staff Loans due to be recovered at the end of the year under review according to the financial statements was Rs. 6,195,327, schedules showing the makeup of that were not submitted to audit.

## **02 Financial Review**

### **2.1 Financial Results**

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According to the Financial Statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 had been Rs 14,563,744 as against the excess of recurrent expenditure over revenue for the preceding year amounted to Rs.1,208,661 indicating an improvement of Rs. 15,772,405 in the financial result. After adjustment of the Capital Grant amounting Rs. 3,695,101 and Capital Expenditure amounting to Rs. 13,533,537 to this **financial** result, financial result relevant to the year under review had become a surplus of Rs. 4,725,308.

### **2.2 Analytical Financial Review**

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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
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	Rs.000	Rs.000	Rs.000		Rs.000	Rs.000	Rs.000
(i) Generated Revenue	19,579	17,,948	1,631	Personal Emoluments	55,034	41,087	13,947
(ii) Others	<u>70,415</u>	<u>45,618</u>	<u>24,797</u>	Others	<u>20,396</u>	<u>23,688</u>	<u>(3,292)</u>
Sub total	89,994	63,566	26,428	Sub total	75,,430	64,775	10,655
(iii) Capital Grant	3,695	98,159	( 94.464)	Capital Expenditure	<u>13,534</u>	<u>90,751</u>	(77,217)
Grand Total	93,689	161,725	(68,036)	Grand Total	88,964	155,526	(66,562)
Financial Result	14,564	(1,209)	15,773	Surplus	4,725	6,199	( 1,474)

- (b) While the total Recurrent Revenue of the Sabha relevant to the year under review was Rs. 89,994,302, out of that a sum of Rs.70,,415,640 or 78 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. 3,695,101, 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. 75,430,558 relevant to the year under review, a sum of Rs. 55,034,159 or approximately 73 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 53,107,343 or approximately 96 per cent had been received from the Commissioner of Local Government as salary reimbursements.
- (d) Out of the capital expenditure of Rs. 13,533,537, a sum of Rs. 5,249,416 or 39 percent had been spent out of the Sabha Fund, while the balance sum of Rs. 8,284,121 or 61 percent were consist of development activities on the basis provisions of other institutions such as sources from strengthening Pradeshiya Sabha and Provincial 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.

Item of Revenue	Estimated	Actual	2015		2014	
			Estimated	Actual	Accumulated Arrears as at 31 December	Accumulated Arrears as at 31 December
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(i) Rates and Taxes	5,830	4,977	2,801	5,467	3,958	2,118
(ii) Lease Rent	8,575	9,809	333	7,613	8,436	338
(iii) License Fees	771	503	--	650	656	--
(iv) Other Revenue	79,433	74,705	14,776	54,504	50,514	17,339
<b>Total</b>	<b>94,609</b>	<b>89,994</b>	<b>17,910</b>	<b>68,234</b>	<b>63,564</b>	<b>19,795</b>

### 2.3.2 Revenue Billed and Arrears of Revenue

Particulars are shown below.

Item of Revenue	Item of Revenue			Collection of Revenue			Balance of Arrears 31/12/2015		
	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	2,118	4,977	7,095	625	3,669	4,294	1,493	1,308	2,801
Lease Rent	338	9,809	10,147	11	9,803	9,814	327	6	333
License Fees	--	502	502	--	502	502	--	--	--
Others	17,339	74,705	92,044	25,609*	60,691	86,300	762	14,014	14,776
<b>Total</b>	<b>19,795</b>	<b>89,993</b>	<b>109,788</b>	<b>26,245</b>	<b>74,665</b>	<b>100,910</b>	<b>2,582</b>	<b>15,328</b>	<b>17,910</b>

Stamp Fees amounting Rs. 9,032,000 received during the year 2014 had been accounted as Stamp Fees Receivable as at 31 December 2014. Due to that, receipts out of arrears had been increased.

### **2.3.3 Rates**

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While Rates in arrears at the end of the year under review was Rs. 2,797,993, it was approximately about 114 percent of the annual billings amounted to Rs. 2,451,538. The process of preparation of list of arrears on quarterly basis, seizing properties after issue of notices and recovery of Rates in arrears in terms of Pradeshiya Sabha (Financial and Administrative) Rules 32 to 42 of 1988 had not been initiated.

### **2.3.4 Lease Rent**

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Following matters are observed.

- (a) While the balance of Lease Rent in arrears at the end of the year under review was Rs. 289,926, a sum of Rs. 284,481 alone were balances that had been outstanding since prior to the year 2013. A proper course of action had not been taken for the recovery of those arrears.
- (b) While a sum of Rs. 42,918 to be recovered with regard to long terms leasing had been old for more than 05 years, a proper course of action had not been taken for the recovery of those arrears as well.

### **2.3.5 License Fees**

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Following matters were observed.

- (a) A survey had not been carried out to identify the establishments liable to obtain Trade Licenses and register those establishments during the year under review. Due to that; although Trade License revenue of Rs. 250,065 was obtained after carrying out a survey during the year 2015 it had come down to Rs. 206,550 during the year 2014 indicating a decline of Rs. 43,515.

- (b) Although by-laws had been enforced to recover one percent of the total turnover of the hotels registered under Tourist Board Act during the preceding year, financial statements or any confirmation had not been obtained to establish the total turnover of those businesses in recovery of that one percent tax.

### **2.3.6 Court Fines and Stamp Fees**

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While the Court Fines Receivable from the Chief Secretary to the Provincial Council as at the end of the year under review was Rs. 2,752,575, the amount of Stamp Fees Receivable had not been identified and accounted.

## **03. Operating Review**

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### **3.1 Management Inefficiencies**

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Following observations are made.

- (a) 141 Plastic chairs valued at Rs. 78,255 purchased having spent Sabha Funds on the basis of Members resolutions 2012, were with the Sabha without being distributed among the welfare societies.
- (b) 300 Wire Posts of 6 feet and 500 Wire Posts of 5 ½ feet had been purchased having spent about Rs. 471,000 out of Sabha Fund for construction of fences in the burial grounds in the area of authority of the Sabha. These Wire Posts had not been issued for construction of fences at least in one of the burial grounds even up to the end of the year under review. While 195 Wire Posts of 6 feet and 74 Wire Posts of 5 ½ feet had been utilized for other works deviating from the relevant objective, about 531 Wire Posts had been stacked in the Sabha premises without being utilized for the relevant work.

### **3.2 Distribution of Mango Plants**

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Following observations are made.

- (a) While 1250 mango plants had been purchased having paid a sum of Rs. 177,500 on 01 April 2015 for implementation of the scheme of distribution of mango plants under the Program “Let us Grow – Let us Build the Country” dated



23 January 2015, 1100 plants valued at Rs. 156,200 had been distributed as 200 plants to the Chairman 100 plants to one Member and at the rate of 50 plants to the other 16 Members. However, the basis of distribution in that manner and written evidence to support that those plants were provided to the regional beneficiaries were not submitted to audit.

- (b) While there had been a balance of 150 plants valued at Rs. 21,300 due to non-implementation of this program according to a proper plan, 70 plants valued at Rs. 9,940 had been provided to the Siyodagama Solid Wastes Management Center during the month of February 2015. While 24 plants valued at Rs. 3,408 out of the mango plants so provided had not been planted even as at the date of audit, 11 plants valued at Rs. 1,562 had been dead. Out of 46 plants planted, in April 2015. 30 plants valued at Rs. 4,260 alone had got destroyed due to severe drought and planting in unsuitable ground. The balance 80 mango plants valued at Rs. 11,360 had been distributed among the Sabha employees on 28 April 2015.

### **3.3 Operational Inefficiencies**

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Following matters are observed.

- (a) Although a sum of Rs. 3,147,174 had been paid to the Water Supply and Drainage Board for the years 2014 and 2015, it was not possible to identify in audit whether the water obtained had been properly utilized.
- (b) Although the Balalla Sunday Weekly Fair, Maho Saturday Weekly Fair, Nagollagama Friday Weekly Fair and Ambanpola Monday Weekly Fair belong to the Sabha had been leased out for the year 2015 at annual rents for Rs. 386,500, Rs. 4,302,000, Rs. 1,903,400 and Rs. 2,009,000 respectively, agreements had not been prepared including instructions or guidelines as to the manner in which charges to be levied by the lessee. Supervision had not been exercised to ascertain whether the lessee is levies charges abnormally as well.

### **3.4 Improper Transactions**

Although 80 diaries valued a Rs. 52,500 had been purchased having called for quotations from 04 establishments, a tender board decision or a General Sabha decision had not been taken for that. The bill for the purchase of diaries too was not submitted with the voucher.

### **3.5 Contracts Administration**

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Following matters are observed.

#### **(a) Construction of Nagollagama Public Library Building , Stage III**

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An agreement had been entered into for a sum of Rs. 975,000 on 31 August 2015 with the contractor for Construction of Nagollagama Public Library Building Stage III. Although payments of Rs. 73,229 had been made for supply and fixing Color Bond Zink Aluminum Fasciae, Barge Board and Gutters to a length of 77.8 meters under items 04 and 05 of the final payment report, at the physical inspection carried out on 18 February 2016 it was observed that out of the 4 corners where gutters and fascia meet with each other aluminum sheet in 2 corners were broken. In one corner, gutters and fascia coming from the two sides had not been joined together and therefore a space of about 05 inches had been created. Although a further sum at the rate of Rs. 1,788 per cubic meter totaling Rs.96,552 had been paid under item 10 in the final payment report for supply, filling around the foundation and the building and compressing 54.0 cubic meters of gravel as per instructions, it was revealed that earth filling and compressing had not been made around the building.

#### **(b) Motor Grading and Spreading Gravel - Walaswewa Mid Village Road**

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An agreement had been entered into for contract value of Rs. 250,000. by the Moonamalegama Community Board on 25 September 2015 to complete the above work within three months on 30 April 2015. However the agreement had been signed for contract work without taking into consideration the financial stability of the Community Board. Although 05 months had elapsed as at the date of audit on 18 February 2016, motor grading of the relevant road only had been

performed. Although motor grading had been performed, motor graded drains had been cut again for laying water pipes by the Water Supply Board and the gravel removed had been filed on the two sides of the road. Legal action had not been taken against the contractor after forfeiture of the performance bond with regard to non-performance of work according to the agreement as work had been stopped as at the date of audit.

**(c) Non- settlement of Advances**  
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Although an advance could be granted subject to a maximum of 20 percent of the contract value on an acceptable security in terms of Clause 5:4:4 of the Government Procurement Guidelines, advances amounting to Rs. 9,739,751 had been paid to contractors for 75 Works during the year 2014 by the Sabha without any security. Advances amounting to Rs. 1,362,910 granted to 10 contractors had not been settled by the contractors even up to the end of the year under review.

**3.6. Solid Wastes Management**  
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Although action had been taken for management of about 3 tons of garbage collected daily by engaging 06 employees through the Sabha in a land in extent of 02 acres, a shed had not been made for the place of sorting out garbage. It was revealed at the physical inspection carried out on 18 February 2016 that the concrete slab existing at present for deposit of daily collected garbage was not adequate and due to that heaps of garbage had been dumped in the i land in disorderly manner.

**3.7 Environmental Problems**  
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Although the Water Refinery Center constructed by the North Western Province Water Supply and Environment Sanitary Unit had been handed over to the Sabha on 02 September 2015, the activities of the Center had been commenced after 04 months by

the Sabha during January 2016. However, waste water from that had been improperly released to a tank situated nearby causing ill effect to the environment. Similarly, a cover had not been constructed for the tanks used to store the water refined in the Water Refinery Unit.

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

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##### **4.1 Budgetary Control**

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While the estimated revenue under 02 items of generated revenue of the Saba was Rs. 8,844,000, actual revenue had been Rs. 4,792,000.

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

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While the Audit and Management Committee had not been met relevant to the year under review, an adequate internal audit had not taken place from the Internal Audit Unit established.

#### **05. Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Contracts Control