

Horowpathana Pradeshiya Sabha
Anuradhapura District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial statements for the year 2017 was presented for the audit on 29 March 2018 and the financial statements relating to the Auditor General's Report was presented to the chairman on 21 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of the view of the Financial Statements give a true and fair view of the Financial Position of the Horowpathana Pradeshiya Sabha as at 31 December 2017 and it's Financial Performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting polices

Although it was stated that the accounting principles set out in the council had prepared accounts on an accrual basis, the court fines, stamp charge and employee loan interest had been accounted outside the accrual basis.

1.3.2 Accounting Deficiencies

The followings facts were observed.

- (a) The total value of items worth Rs.44,245,009 of Building constructed under the puraneguma Project which was used by the council from the year 2016 the computers and other equipments provided had not been included in the financial statements.
- (b) Due to the 203 galvanized flag posts worth Rs.224,750 provided by the Divineguma development Department to the council during the year 2014, not being accounted, the fixed Assets and the accounts that contribute to the revenue from capital had been understated.
- (c) Although the total lease value in accordance with the agreement entered in to lease property in 17 places of the council was Rs.4,554,740 it had been accounted in the financial statements as Rs.4,502,507 therefore the surplus and the receivable lease rental was understated by Rs.52,233.
- (d) The expenses and the current liabilities had been understated due to the accrued expenses worth Rs.103,202 for the year under review not being recorded.

- (e) Due to the Rs.85,000 belonging to 3 projects paid during the year 2018 not being recorded and capital expenditure had been under stated.
- (f) Due to the 2 Fixed Asset items purchased worth Rs.25,255 during the year under review not being accounted Fixed Assets and the revenue accounts that contribute to capital had been understated.
- (g) Revenue incurred from the deep wells for the year under review was not accounted and shown in the financial statements.
- (h) A sum of Rs.37,450 over stated has not been withdrawn although the Provincial Revenue Commissioner had agreed to grand Rs.122,250 for the 2013 accounted as Rs.135,750 and Rs.155,000 for the year 2014 accounted as Rs.178,950 for the stamp charges.
- (i) Action had not been taken by the council to calculate the revenue on stamp charges for the year 2016 and 2017.
- (j) The 3 water purification systems in Morawewa, Wagollakada and Samagigama maintained under the council have not been documented and their value had not been revealed in financial statements.

1.3.3 Non – reconciled accounts

The following facts were revealed.

- (a) A difference of Rs.1,003,904 was identified between the balance in the income and expenditure account in the financial statements and the balance in the revenue account of Municipal Council No.04.
- (b) Although the value of library books mention under the Fixed Assets According to the financial statements as at 31 December 2017 was Rs.2,035,095 the value mentioned in the library Assistant Document was Rs.1,727,450 and it resulted in an unreconciled balance of Rs.307,645.

1.3.4 Receivable and Payable Accounts

Action had not taken to recover the total worth of Rs.83,385 brought forwarded amount over many year belonging to 2 stock balance and to settle Rs.534,443 that had to settle belonging to 5 balance during the year under review.

1.3.5 Lack written evidence for the audit.

The total amount of transactions which costs Rs.9,632,455 couldn't successfully due to the non presentation of relevant information relating to 5 subjects.

1.3.6 Non compliance

1.3.6.1 Non – Compliance with Laws, Rules and Regulations.

The followings reveals the situations of non compliance with the rules, regulations and management decisions.

<u>Reference to Laws, Rules and Regulations</u>	<u>No-Compliance</u>
(a) Muncipal Council Act No.15 of 1987 section 177	By laws were not established as asheme for paying gratuity payments to casual and temporary employees in the council.
(b) Financial and Administrative rules of the Muncipal Council 1988	
(i) Rule 5.11	There was no insurance coverage taken for the money in transit and other valuable articles of the council.
(ii) Rule 33	A document had not been prepared at the end of every quarter for the customers who neglect assessment tax payments and property prohibition warrants.
(iii) Rules 217 and 218	A property register was not maintained in accordance with the format PS 46 relating to the council's Land and building and no action had been taken to examine all the lands and buildings once a year.
(iv) Rule 261.2	Although an interim advance of Rs.50,000 had been provided to an officer on 20 February 2017, he had not settled the advances as at 20 April 2018.
(c) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 571,572	The total amount of Rs.690,173 exceeding two years according to the common deposit documents of the council was not taken necessary action in accordance with the Financial regulations in respect of 34 payable deposits.

(d) Authority 203, Motor vehicle Act Section 2(1)

A hand tractor, 2 trailers and a water browser received to the council during the year 2005 was not registered even by 20 April 2018.

(e) Treasury Circular No.
IAI/2062/02 of 28 November 2002

No Separate document was maintained for the Computers and computer software used by the council.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, during 31 December 2017 the revenue exceeding recurrent expenditure was Rs.3,397,859 and corresponding to the previous years revenue exceeding recurrent expenditure was Rs.3,164,830.

2.2 Revenue Administration.

2.2.1 Estimated Revenue, Actual Revenue and Accrued Revenue

(a) Information submitted regarding the billed revenue, collected revenue and arrears revenue relating to the year under review is shown below.

	The balance brought forwarded as at 01 January 2017	The billed revenue for the year 2017	Revenue collection 2017		The value of arrears as at 31 December 2017
	Amount	Amount	Arrears at 01.01.2017	The Billed amount during 2017	Amount
	Rs.	Rs.	Rs.	Rs.	Rs.
Rates in Arrears	129,152	56,129	20,894	27,715	136,672
Garbage tax	910,100	321,600	136,900	172,700	922,100
Shop rent in arrears	1,747,030	444,000	320,300	111,100	1,759,630
Rent in arrears	3,712,093	4,502,507	28,236	3,198,693	4,987,671
Licence fee	1,033,300	55,500	-	55,500	1,033,300
Court Fines	734,465	787,551	-	-	1,522,016

Stamp fees	1,291,950	300,000	-	-	1,591,950
Deep wells charges	375,900	800	8,000	800	367,900
Total	<u>9,933,990</u>	<u>6,468,087</u>	<u>514,330</u>	<u>3,566,508</u>	<u>12,321,239</u>

2.2.2 The performance of revenue collection

The following will be observed.

- (a) Since the documents relevant to revenue were not maintained properly the council failed to account for the No.of units of revenue arrears and the No.of units of Billed revenue.
- (b) Although the billed revenue for the year was Rs.6,468,087 the revenue arrears as at 31 December 2017 was Rs.12,321,239 the revenue arrears were 190 percent of the billed revenue.
- (c) Out of the total balance of revenue arrears at the beginning of the year under review Rs.9,933,990, only Rs.514,330 was recovered during the year, which was only 5.17 percent of the total.
- (d) Although the total billed revenue for the year under review was Rs.6,468,086, it had been recorded in the income and expenditure account as Rs.9,755, 194 and value is unreconciled by Rs.3,287,108.

2.2.3 Assessment Rates and taxes

The following facts were identified.

- (a) Although the billed Assessment tax was Rs.55,752, at the end of the year under review, Assessment tax arrears were amounted to Rs.136,672 and therefore it was 245 percent higher than the annually billed value. The council had not taken necessary action to recover the arrears according to section 158 of the Municipal Council Act.
- (b) The Municipal Council had not taken action to assess the property for the assessment tax in the council area after the year 1994, While according to section 134, No 15 of 1987 of the Municipal Council Act assessment taxes had not been collected from the developed areas where it should be collected.

2.2.4 Rentals and license revenue.

The following facts were identified.

- (a) The rent arrears for 2 terms to 151 as at 31 December was totaled Rs.6,747,301 while according to section 159(i), No 15 of 1987 Municipal Act rent arrears had not been recovered.
- (b) No Action was taken to recover the outstanding trade license worth Rs.1,033,300 during the year under review.

- (c) Although the council decided to cut off a sum of Rs.83,735 due to the closure of the places of cattle due to the cattles being down with diseases, the apporaval of the commissioner of local government had not been obtained.

2.2.5 Other revenue.

- (a) Wastage Taxes

The wastage charges arrears at the beginning of the year was Rs.910,100 and at the end of the year it was Rs.922,100 a proper program was not prepared to recover the deficit.

- (b) Charges of Deep wells.

The Deep Wells charges of 169 pipes receivable at the end of the year under review as Rs.367,900. The information regarding the number of active water pipes were unavailable and no proper procedure was arranged in order to collect the arrears.

2.2.6 Court fines and stamp charges.

- (a) Court Fines

The court fines receivable from the provincial Treasury amounted to Rs.1,522,016 as at 31 December 2017.

- (b) Stamp charges

Rs.1,291,950 worth stamp charge arrears were recorded in the stamp charges register as Rs.634,375 and there was no information regarding the difference of Rs.657,575.

3. Operational review

3.1 Performance

The following reveals the matters fulfilled by the council under the section 3 of the Muncipal Council Act. Regulating and controlling matters relating to Public Health, Common Utility services, regulation and control of issues relating to public roads for the convenience and prosperity of the people.

- (a) By laws.

Although by laws should have been imposed for 28 items in terms of Section 126 of the Muncipal Council Act.By laws had not been enacted even by 31 December 2017.

(b) Action Plan

According to the Ministry of Finance and Planning in terms of the Public Finance Circular No.01/2014 of 17 February 2014, Although the council had prepared an action plan for the year under review, it did not act accordingly.

(c) Not obtaining the anticipated benefits

The following facts were observed.

- (i) Although Rs.3,544,028 was spend for the Wahalkada National Water Supply Scheme which was started under the National Saviya management programme in 2011. However the necessary steps have not been taken to complete the water requirements of the people of the area until the end of the year under review.
- (ii) Although the Pilisaru Project cost Rs.3,945,583 was completed in the year 2017, due to electricity and water services not being supplied the project was unavailable for the public even during April 2018.

(d) Delay in performing tasks

5 projects worth Rs.875,000 approved to be fulfilled were not completed as at 31 December during the year under review.

Environmental issues

Due to the 2 tonns of garbage disposed in government owned land in Motagonnewa are a in the vicinity of the Horowpothana vavniya road the people around the area faced various health problems and it was observed that the council had not provided permanent solutions for them.

3.2 Management Inefficiencies

The following facts were observed.

- (a) Action had not been taken to estimate the borders of the lands and to evaluate value of such lands in order to obtain the deeds and plans of the 8 Lands and Building maintained by the Council according to the Circular No.3 of the local Government Reforms.

3.3 Human Resources Management

Action had not been taken to recover Rs.88,149 from 15 employees who left retired and dead before long time ago as per section 4 of the paragraph XXIV of the establishment code.

3.4 Management inefficiencies

The following facts were observed.

- (a) Although the government lands had been allocated for 70 grave yards in the area of authority it had not followed the proposals and recommendations of No.PL/07/01/53 of the local Government Reformation Circular No.09 dated 14 November 2006.
- (b) Although the council issued 15 development licenses during the year under review, it had not issued relevant Certificates of compliance, The council had no method of testing unlawful construction and it was observed that unauthorized structures would arouse environmental problems.
- (c) Although the Lessee who leased the Cow Meat Stall in the Horowpathana city informed through a letter that he will not be able to continue the business on 25 January 2017 but the council had not taken action to lease the property to another party.
- (d) Approval of the Department of the Local Government had not been obtained to deal with the dues amounting to Rs.1,256,440 of Tax arrears in 5 leased business places that had been notified that they cannot conduct businesses.

3.5 Inactive and underutilized Assets

08 Vehicles and accessories belonging to the council had been parked without repairing and utilizing it or if impossible to use or at least to dispose them.

4. Good Governance and Accountability

4.1 Budget Control

Due to the budget estimates being prepared without a proper Forecast there was a variance of 44 percent to 62 percent between the budgeted revenue and actual revenue of 3 revenue subjects. While there was a variance of 14 percent and 70 percent between the budgeted expenditure and the actual expenditure of 6 expenditure subjects therefore it was identified that the budget had not been used as an effective management tool.

4.2 Internal Audit

Although an internal audit officer was appointed in accordance with the Circular No.6 of 18 March 2015 of the North Central Provincial Commissioner's Department audit reports had not been published.

4.3 Audit and Management Committees

The Audit and management Committees for the year 2017 were not established according to the circular issued by the Department of Management and Audit dated 9 June 2009 No.DMA/2009(1).

5. Systems and Controls

The Shortcomings observed during the have been brought to the attention of the sabha and special attention should be paid for the following management fields.

<u>Systems</u>	<u>Deficiencies</u>
(a) Revenue Collection	(i) No revenue estimates were prepared. (ii) Inefficient collection of revenue arrears. (iii) Properties not being valued.
(b) Planning	Corporate and procurement plans not being prepared.
(c) Fixed Assets	(i) Not documenting the assets. (ii) Not obtaining the ownership of the properties used by the council. (iii) Availability of unutilized assets.
(d) Internal Audit	Internal audits not being prepared and report submitted.