

Narammala Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 28 March 2013 and the financial statements for the preceding year had been presented on 18 May 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 August 2013.

1.2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Narammala Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my report the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Narammala Pradeshiya Sabha as at 31 December 2012 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 observations are made.

- (a.) Although a sum of Rs.9,225,843 had been shown in the financial statements as stamp fees in arrears, the actual stamp fees receivable amounted to Rs.13,838,047 and therefore stamp fees receivable as at end of the year under review had been understated in the accounts by Rs.4,612,204.
- (b.) The loan balance payable to the Local Loans and Development Fund amounted to Rs.27,781,772 as per the confirmations of the said institution. But, it had been shown in the financial statements as Rs.25,783,457 thus, understating the loan

balance payable to the Local Loans and Development Fund as at end of the year under review by Rs.1,998,315.

- (c.) A sum of Rs.1,500,000 receivable from the Department of Local Government for the repairs of the Cab owned by the Sabha had not been brought to account as debtors or as a grant to the income and expenditure account for the year under review and instead it had been accounted under creditors.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.11,049,279 could not be satisfactorily vouched in audit due to non-submission of the required information to audit.

2. Financial and Operating 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 2012 amounted to Rs.12,181,622 as compared with the excess of revenue over recurrent expenditure amounting to Rs.71,551 for the preceding year.

2.2 Financial Control

A loan of Rs.28.6 million obtained by the Sabha during 2010-2011 under Asian Development Loan Project had been spent for the purchase of machinery and for the construction of a road and even though loan installments and interest amounting to Rs.4,400,000 and fuel and repairs for the machines amounting to Rs.3,914,259 and Rs.2,425,285 respectively had been spent; an income of Rs.3,160,104 only had been earned by hiring the machines during the year under review. Accordingly, the income earned was not adequate to pay the relevant loan installments and interest.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	4,375	3,736	1,310
(ii.) Lease Rent	15,820	15,820	-
(iii.) Licence Fees	1,690	1,690	-
(iv.) Other Revenue	39,486	39,486	-

2.3.2 Business Tax and Trade Licence Fees

According to Section 149 of the Pradeshiya Sabha Act No.15 of 1987, a fees of not more than 1% of the turnover of the hotel or eating house should be charged from the hotels within the area of the Sabha registered at the Tourist Board. Although there are 02 hotels within the area so identified only a business tax of Rs.3,000 had been charged from them.

2.3.3 Processing Charges for Telephone Transmission Towers

12 towers had been installed within the area of the Sabha. However, periodical surveys had not been carried out to identify the telephone transmission towers within the area and the relevant processing charges and licence fees had not been recovered.

2.3.4 Vehicle Parking Charges

Although by-laws had been passed relating to the three wheel parking within the area of the Sabha, a periodical survey had not been carried out with a view to register the three wheelers within the area and the parking areas had not been properly fixed. Only 22 three wheel parking locations had been identified and 65 three wheels had been registered as at end of the year 2011.

2.3.5 Court Fines and Stamp Fees

Court fines amounting to Rs.971,212 and stamp fees amounting to Rs.9,225,843 had been receivable as at 31 December 2012 from the Chief Secretary of the Provincial Council and other authorities.

2.4 Idle and Underutilized Physical Resources

- (a.) A Tractor valued at Rs.580,260 had been parked in the Sabha premises without being used for a specific purpose for about 05 years.
- (b.) The Sabha had purchased 02 cement blocks production machines at an expense of Rs.275,500 during the year 2011 and no production of blocks had been done since October 2011. Again, in December 2011; 02 cement blocks production machines had been purchased at Rs.135,000 and the production activities of these 02 machines too had been stopped since February 2012.

2.5 Operating Inefficiencies

The following observations are made.

- (a.) Although a sum of Rs.50,000 for Tree Planting Programme and Rs.50,000 for conducting clinics had been provided, these provisions had not been made use of. Further, it was expected to spend a sum of Rs.147,111,000 under 03 items of expenditure as per the budget and only a sum of Rs.62,866,000 of this representing 43% had been spent.
- (b.) There was a consolidated balance of rs.7,059,762 in the Pension Gratuity Fund as at 31 March 2011 when the then Alawwa Pradeshiya Sabha had been declared as two Pradeshiya Sabhas that is Alawwa and Narammala and the total value had been vested with the Alawwa Pradeshiya Sabha without being properly appropriated.
- (c.) A corporate plan for the Sabha had not been submitted and only 01 meeting of the Audit and Management Committee had been held during the year under review.
- (d.) Dambadeniya Volleyball Ground had been constructed and completed of a cost of Rs.1,570,476 by April 2012 from the provisions amounting to Rs.1,300,000 of the

Department of Sports Development and this had not been used for the intended purpose up to end of the year under review.

- (e.) Value Added Tax amounting to Rs.913,750 and Nation Building Tax amounting to Rs.196,607 had been payable to the Commissioner General of Inland Revenue by the Sabha and a sum of Rs.1,595,295 and Rs.284,347 respectively had been remitted to the Commissioner General of Inland Revenue thus paying additional tax amounting to Rs.769,285 from the Sabha funds relating to the year under review.
- (f.) Dambadeniya- Pothupitiya road had been constructed at a cost of Rs.46,307,441 during 2010-2012 under credit assistance of the Asian Development Bank and the Value Added Tax amounting to Rs.4,080,168 paid to the contractor while making payments relating to the said works had not been set-off under allowable deductions in computing the tax payable by the Sabha. Therefore, an additional tax amounting to Rs.4,080,168 had to be paid from the Sabha funds.

2.6 Solid Waste Management

Eliyadeniya land to the extent of about 02 Acres owned by the Sabha had been used to dispose of the waste collected within the area of authority of the Sabha and it had become messy due to the wild animals. Although a Solid Waste Management Center had been constructed at an expense of Rs.5,627,428 only 10 Metric tons of compost had been produced.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Financial Control
- (c.) Revenue Administration
- (d.) Assets Management