

Udunuwara Pradeshiya Sabha**Kandy District****1. Financial Statements****1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 31 March 2014 and the financial statements for the preceding year had been presented on 30 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 Udunuwara Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations and cash flows for the year then ended.

1.3. Comments on Financial Statements**1.3.1. Accounting Deficiencies**

The following deficiencies are observed.

- (a) Expenditure on salaries and allowances had been incurred in respect of five programmes, and the relevant salary reimbursements received had been brought to account only under one programme.
- (b) A sundry deposit of Rs.550,983 had been received during the year under review, and instead of this amount, Rs.663,677 had been refunded. Therefore the Sabha had over paid Rs.72,694 from the Sabha funds.
- (c) Provisions had not been made for the year under review for audit fees.
- (d) A sum of Rs.1,026,210, payable to general supplies creditors, had been paid to works creditors erroneously, and to rectify this error, this amount had been credited to the accumulated fund account, instead of debiting to the general supplies creditors and crediting to the works creditors, through Journal Entry No. 54. Therefore the accumulated fund and the works creditors had been overstated by a similar amount.

- (e) 328 library books valued at Rs.302,846, received as donations in the previous year had not been brought to account.
- (f) The value of counterfeit currency notes amounting to Rs.1,000 in the bank account number 4070181 in the Gelioya branch of Bank of Ceylon, had continued to be shown in the bank reconciliations without taking corrective action.

1.3.2. Un-reconciled Control Accounts

The total balances in the control accounts in respect of 03 items of accounts had been Rs.155,115,865, whilst the total balances according to the relevant schedules had been Rs.142,784,218. Therefore a difference of Rs.12,331,647 was observed.

1.3.3. Accounts Receivable and Payable

a) Accounts Receivable

The value of total balances of account receivable as at 31 December 2013 amounted to Rs.36,223,792 and out of this, the total account balances exceeding 1 year, amounted to Rs.2,631,545. A sum of Rs.19,544,298 was further overdue as at 11 July 2014.

b) Accounts Payable

The value of total balances of account payable as at 31 December 2013 amounted to Rs.45,946,029 and out of this, the total account balances exceeding 01 year amounted to Rs.7,403,451. A sum of Rs.18,670,841 was further overdue as at 11 July 2014.

1.3.4. Lack of Evidence for Audit

Transactions totalling to Rs.9,718,555 could not be examined satisfactorily during the audit, due to non-submission of required information to the audit.

2. Financial 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 2013 amounted to Rs.6,751,738 as against the excess of recurrent expenditure over revenue amounting to Rs.571,361 for the preceding year. Therefore the financial result had been improved by Rs.7,323,099.

2.2. Analytical Financial Review

Though a sum of Rs.20,922,449 had been received as salary reimbursement for the year under review, Rs.25,756,180 had been paid as salaries and allowances. Therefore a sum of Rs.4,833,731 had been spent from the income of the Sabha, for the payment of salaries to the employees. This amount is 11% of the recurrent revenue of the Sabha, excluding the salary reimbursement.

2.3. Working Capital Management

The ratio between total current assets and current liabilities was 1.25:1, whilst the ratio of 1.17:1, in the preceding year was not in a superior level. Further, 63% of the total current assets amounting to Rs.36 million represent works and sundry debtors, whilst 96% of total current liabilities amounting to Rs.43 million represent works and sundry creditors.

2.4. Revenue Administration

2.4.1. Performance on Revenue Collection

The total income in arrears as at 31 December in the year under review was Rs.20,708,638.

2.4.2. Court Fines and Stamp Fees

The amount receivable, from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013, had been Rs.8,333,936. Out of this, a balance of Rs.5,740,796 was further due as at 10 October 2014.

3. Operating Review

3.1. Performance Evaluation

According to the details presented to the audit, Sabha had incurred an expenditure amounting to Rs.12,415,808, to achieve the objectives of 03 programmes. But the amount received from other revenue sources for the stated objective, had been Rs.2,403,706, and Sabha had not taken action to increase the revenue which should be earned from those sources.

3.2. Identified Losses

Action had not been taken to recover cost from the officers responsible for the damaged stocks amounting to Rs.516,437, which had been presented in accounts for many years, as assets of the Sabha.

4. Accountability and Good Governance

4.1. Corporate Plan

A corporate plan had not been prepared for the Sabha in the year under review.

4.2. Procurement Plan

Though capital expenditure of Rs.43,859,829 had been incurred by the Sabha, a procurement plan had not been prepared in the year under review.

4.3. Audit and Management Committees

Audit and Management Committees had not been established and committee meetings had not been held, during the year under review.

4.4. Internal Audit

Adequate internal audit had not been carried out by the Sabha during the year under review.

4.5. Budgetary Control

(a.) When the budget prepared for the year under review was compared with the actual values in the financial statements for the year, variances in the range of, 19% to 63% in respect of 06 items of income, and 22% to 44% in respect of 04 items of expenditure were observed.

(b.) Although the budgeted revenue of 07 sub items relevant to 05 revenue heads amounted to Rs.121,252,000 and any collection had not been received in this connection.

5. Systems and Controls

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

- a) Accounting
- b) Internal Control
- c) Revenue Administration
- d) Debtors and Creditors Control