

Aranayaka Pradeshiya Sabha
Kegalle District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 24 April 2014 and the financial statements for the preceding year had been presented on 02 April 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 24 September 2014.

1.2 Opinion

In my opinion except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this 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 Aranayaka Pradeshiya Sabha as at 31 December 2013 and the financial results of its operations for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

According to Circular No.PED/54 dated 19 January 2010 of the Director General of the Department of Public Enterprises; the financial statements of all the Local Authorities should be prepared in accordance with the Sri Lanka Public Sector Accounting Standards with effect from 01 January 2011. But, the said Standards had not been followed.

1.3.2 Accounting Deficiencies

- (a.) A sum of Rs.550,000 paid during the year under review to the Public Service Pension Contribution Fund in respect of the preceding years had been brought to account as an expenditure of the year under review and therefore the excess had been understated by a similar amount and a total sum of Rs.92,412 payable to the Public Service Pension Contribution Fund as at end of the year under review had not been accounted under expenditure and creditors.
- (b.) A distress loan balance of Rs.149,290 of an officer came on transfer during 2013 had been omitted from the employees loans account.
- (c.) Income from stamp fees amounting to Rs.8,171,862 received during the year under review in respect of previous years had been accounted as income for the year under review.
- (d.) In computing fixed assets; 04 vehicles valued at Rs.3,048,000 that had been registered under the name of the Chief Secretary, Sabaragamuwa Province had been brought to account as fixed assets of the without vesting the ownership.

1.3.3 Contingent Liabilities

The details of contingent liabilities in respect of legal and other obligations relating to the assets and liabilities of the Sabha had not been disclosed in the financial statements.

1.3.4 Unreconciled Control Accounts

The total of the balances of 03 items of accounts as per financial statements amounted to Rs.9,037,042 and the total of the balances of accounts as per subsidiary registers/ records amounted to Rs.9,980,427 indicating a difference of Rs.1,096,485.

1.3.5 Suspense Accounts

The credit balances totaling Rs.672,333 in the suspense accounts carried forward since 2002 had not been settled even during the year under review.

1.3.6 Accounts Receivable

The value of advances remained unsettled as at 31 December 2013 amounted to Rs.2,705,295 and of this the total of the balances over 01 year amounted to Rs.139,904.

1.3.7 Lack of Evidence for Audit

Two items of accounts totaling Rs.5,952,345 included in the financial statements could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

1.3.8 Non-compliance with Laws, Rules and Regulations

Non-compliance with the following laws, rules, regulations and management decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Section 17(1),(2) and (3) of the Pradeshiya Sabha Act No.15 of 1987	- (i) 17 encroachers had constructed houses and business oriented buildings in 36 plots of lands owned by the Sabha and are being occupied those buildings for over a long period. But, no action had been taken to protect those properties. (ii) Two buildings of the Sabha near the Ussapitiya Trade Complex had been given for a cultural centre and a private pre-school free of charge. (iii) 34 plots of land of the Sabha situated within the town area of the Sabha had been given on annual lease for cultivation purposes and lease agreements had not been entered into after year 2001. The lessees of these plots of lands had constructed permanent houses, defaulted lease rent and had avoid entering into lease agreements. However, proper action had not been taken to protect these properties of the Sabha.

- (b.) Circular No.98/3 dated 10/12/1998 of the Commissioner of Local Government - It had been informed to use the lease agreement formats with effect from 1999 that had been newly introduced in order to minimize the defects of the agreement formats already in use. However, these instructions had not been followed and the fines had been computed separately for each month of delay in payment of monthly lease rent up to 31 December 2013. Therefore it was unable to recover fines for delay.
- (c.) Section 154 of the Pradeshiya Sabha Act No.15 of 1987 and the Circular No.2005/04 dated 01 June 2005 of the Commissioner of Local Government of Sabaragamuwa Province - Although advances at 1% on the temporary assessment of 3 blocks of 19 acres and 1 root can be obtained for public auction of land prior to the approval of block-out plans, action had not been taken accordingly. Agreements had not been entered into with the auctioneers. Action had not been taken to acquire 10% of lands sold.
- (d.) Pradeshiya Sabha Act No.15 of 1987 and the Gazette No.1788 of Sri Lanka dated 07 December 2012. - Legal action should be taken against the persons who had not paid licence fees before 30 April 2013 and the licence fees should be charged as fines. However licence fees amounting to Rs.13,350 had not been paid by 14 business entities as at 31 December 2013.
- (e.) Section 5.8 of the Pradeshiya Sabha (Financial and Administrative) Rules - 1988 - Assets valued at Rs.25,759,965 had not been supported by Board of Survey Reports.

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.10,686,135 as against the excess of recurrent expenditure over revenue amounting to Rs.1,078,050 for the preceding year, thus showing an improvement of Rs.11,764,185 in the financial result.

2.2 Analytical Financial Review

Increase of other revenue by 179% during the year under review as compared with the preceding year had been the main reason for the improvement of the financial result.

2.3 Revenue Administration

2.3.1 Performance of Collection 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 shown below.

Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	1,819	1,256	562
(ii.) Lease Rent	2,142	1,781	360
(iii.) Licence Fees	661	723	(62)
(iv.) Other Revenue	17,580	13,608	3,972

2.3.2 **Court Fines and Stamp Fees**

The value of court fines and stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013 amounted to Rs.6,071,268.

3. **Operating Review**

3.1 **Management Inefficiencies**

The following observations are made.

- (a.) Complaints submitted for removing trees in danger had been referred to the Technical Officer to examine and report to the Sabha. However, there were 20 complaints which had not been examined.
- (b.) The Procurement Board appointed to provide goods and services to the Sabha consist of peoples' representatives only and action had not been taken to get the participation of officers with a knowledge in technology and the subject relating to each task.

3.2 **Contract Administration**

According to the approved works estimate relating to concreting the Ganthuna- Bodiraja Mawatha under a provision of Rs.50,000; the concrete layer should be 06 inches thick, 08 feet wide and 28 feet long. But, the construction had been done in 2 and 3 inches thick, 8 feet wide and 80 feet long. This construction had been done deviating the standards mentioned in the approved estimate and therefore, this road could not be used for vehicle running.

4. **Accountability and Good Governance**

4.1 **Internal Audit**

An adequate internal audit had not been carried out in respect of finance and stores in terms of Rule 5(7) of the Pradeshiya Sabha (Financial and Administrative) Rules-1988.

5. **Systems and Controls**

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

- (a.) Accounting
- (b.) Control over Assets
- (c.) Stock Control