

Bingiriyaya Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 28 March 2014 and the financial statements for the preceding year had been presented on 29 April 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 28 November 2014.

1.2. Opinion

In view of the significant matters pointed out in paragraphs 1.3.3 and 1.3.5 of this report, I was unable to obtain appropriate and sufficient audit evidence, to provide a basis for audit opinion. Therefore I do not express an opinion on these financial statements.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following accounting deficiencies were observed.

- a) The court fines and stamp fees amounting to Rs.2,878,090 received during the year under review in respect to the preceding year, had been credited to court fines and stamp fees debtors account, instead of crediting to the accumulated fund. Therefore the balance in the said account had been understated by Rs.2,878,090.
- b) Since the salary reimbursements receivable for the month of December of the year under review, amounting to Rs.1,443,052 had not been brought to account as debtors, the revenue and the revenue debtors for the year had been understated by a similar amount. Similarly the sum of Rs.2,107,951 relevant to 04 works carried out in the year 2012, but received in the year under review had been brought to account as revenue of the year. Therefore, revenue of the year had been overstated by a similar amount.

- c) During the adjustments of work debtors as at end of the year under review, a sum of Rs.9,152,744 which should have been brought to account as capital aid, had been credited to capital expenditure account through Journal Entry 59. Therefore the revenue and capital expenditure of the year had been understated by a similar amount.
- d) According to the consolidated expenditure summary (P.S.14), a sum of Rs.1,348,362, which had been paid to the creditors with respect to the month of February 2013, had been credited to the creditors ledger account, instead of debiting to the same account. Therefore the creditors as at end of the year had been overstated by Rs.2,696,724. Similarly, according to the ledger accounts, the expenditure on supplies and equipment for the year under review had been Rs.1,467,923, but this had been shown in the revenue and expenditure account as Rs.467,923. Therefore the expenditure for the year had been understated by Rs.1,000,000.
- e) The contributions to the Local Government Pension Fund, for the year 2013 amounting to Rs.173,314, had not been brought to the account as an expenditure of the year, but had been brought to account as revenue debtors. Therefore the expenditure for the year had been understated by Rs.173,314, and the revenue debtors had been overstated by a similar amount.
- f) Though the Local Government Pension Fund, had recovered Rs.210,123 out of the arrears payable to the fund, the relevant adjustments in the accounts had not been carried out. The total balance payable to the Local Government Pension Fund as at 31 December 2013, had been brought to the account under creditors as Rs.4,031,914. Therefore, creditors had been overstated by Rs.210,123.
- g) The recoveries of employees loans for the month of May 2013, amounting to Rs.135,173 had been debited to the employees loans ledger account, instead of crediting the same account. Therefore the balance of employees loans as at end of the year under review had been overstated by Rs.270,346.
- h) The salary reimbursements relevant to the preceding year amounting to Rs.2,054,173 received in the year under review, had been brought to account as revenue of the year

under review, instead of adjusting to the accumulated fund. Therefore the deficit of the year under review had been understated by a similar amount.

1.3.2. Unreconciled Control Accounts

There were differences amounting to Rs.11,354,048 between the accounts and the corresponding values in relevant registers in respect of 11 items of accounts, under the revenue in arrears, advance payments and the closing balance.

1.3.3. Suspense Accounts

The total of debit balances in the suspense accounts as at 31 December 2013, amounted to Rs.1,667,205.

1.3.4. Accounts Receivable and Payable

- a) The value of balances of accounts receivable as at 31 December 2013 amounted to Rs.50,848,192, and of this, age analysis relevant to Rs.41,643,874 had not been presented.
- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.46,715,467 and of this, age analysis relevant to Rs.43,780,075 had not been presented.

1.3.5. Lack of Evidence for Audit

Transactions totalling Rs.38,927,627 could not be examined in detail, due to non-submission of required information to 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. 10,120,509 as compared with the excess of revenue over recurrent expenditure amounting Rs.18,499,269 for the preceding year. Therefore the financial result had been deteriorated by Rs.8,378,760. When the capital aid of Rs.13,892,809 and capital expenditure of Rs.39,376,931 are adjusted to this financial result, the deficit for the year under review had been Rs.15,363,613.

2.2. Analytical Financial Review

The following observations are made.

- a) The total recurrent revenue of the Sabha for the year under review amounted to Rs.59,545,450, and of this, Rs.46,211,692 representing 77% consists of non-generated revenue, such as court fines, stamp fees, and salary reimbursements. Similarly the entire capital revenue amounted to Rs.13,892,809 had been received from other institutions for development work in the area under authority, through sources such as Gama Neguma and Maga Neguma.
- b) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.49,424,941 and of this, Rs.23,845,910 representing 48% was expenditure related to personal emoluments. Of this, 72% amounting to Rs.17,144,021 had been received from the Commissioner of Local Government in the form of salary reimbursements, and it had been brought to account under other revenue. Similarly the capital expenditure amounted to Rs.39,376,930 and 39% of this, amounting to Rs.15,475,000 had been spent from Sabha funds, and the balance 61% amounting to Rs.23,901,930 consists of development works carried out from provisions of other institutions, through sources such as Gama Neguma, and Maga Neguma.

2.3. Working Capital Management

Action had not been taken in accordance with the Financial Regulation 396 (d) of the Republic of Sri Lanka in respect of 43 cheques amounting to Rs.170,450 of a bank account of the Sabha, issued but not presented for payments for over periods from 06 months to 05 years.

2.4. Revenue Administration

2.4.1. Performance on Revenue Collection

Though the revenue collectors do not possess legitimate authority to collect revenue such as trade licences, stall rentals, lease rentals in field, the revenue collectors of the Sabha had collected such revenue in field through-out the year.

2.4.2. Lease Rentals

There was an arrears of Rs.19,881 at end of the year under review, with respect to 02 stalls in the Trade Complex of the Sabha. Similarly, 06 assets with the lowest bid value of Rs.87,547 under annual lease had not been leased during the year under review.

2.4.3. Court Fines and Stamp Fees

The court fines receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013 was Rs.1,108,916.

3. Operating Review

3.1. Performance Evaluation

The following observations are made.

- a) Out of the planned works in the year under review, the Sabha had not implemented work on 05 welfare works valued at Rs.450,000, and 06 works valued at 1,650,000.
- b) During the year under review, the political authority had proceeded on tour in China and Thailand from 14 to 22 October 2013 and a sum of Rs.413,028 had been utilized for the tour, from the Sabha funds, whilst an over payment of Rs.52,448 was also observed.

3.2. Management Inefficiencies

Though the related files had been handed over to the lawyer on 20 June 2013, to file a case in the courts on arrears of Rs.309,117 with respect to the lease of Weerapokuna Sathipola in 2012 and the arrears of Rs.285,750 with respect to the lease in 2013, only the letters of demand had been sent at end of the year under review.

3.3. Irregular Transactions

The Sabha had purchased preschool equipment through provision of Rs.500,000 provided by the Ministry of Local Government, and the specifications considered for this purchase could not be identified. Offer of quotations for children's cupboards, though quotations had not been called for, and the decision taken to purchase the same was questionable in audit.

4. Accountability and Good Governance

4.1. Budgetary Control

Though recurrent revenue of Rs.65,646,197 and capital revenue of Rs.56,000,000 had been estimated according to the budget for the year under review, only Rs.5,992,809 under capital revenue, representing 11% of the estimated amount had been achieved.

5. Systems and Control

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

- a) Accounting
- b) Financial Control
- c) Revenue Administration
- d) Assets Management
- e) Contract Administration