

Lunugala Pradeshiya Sabha

Badulla District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 20 June 2014 and the financial statements for the preceding year had been presented on 13 June 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 23 September 2014.

1.2 Opinion

Because of the significant matters referred to in paragraph 1.3 of this report; I am of opinion that the financial statements do not give a true and fair view of the financial position of the Lunugala Pradeshiya Sabha as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Decrease in Net Assets

The decrease of net assets during the year under review was Rs.9,404,387 as compared with the preceding year.

1.3.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The financial statements relating to the year under review had not been prepared in accordance with the Sri Lanka Public Sector Accounting Standards.

1.3.3 Accounting Deficiencies

- (a) Although the value of the fixed assets of the Pradeshiya Sabha as at 31 December of the year under review and the balance of the revenue contribution to capital outlay account should be equivalent to each other, there was a difference of Rs.4,471,635 between these two accounts.
- (b) Provisions for audit fees for the year under review had not been made in the financial statements.
- (c) Rates and taxes amounting to Rs.14,659 received in advance as at 31 December of the year under review had been treated in the accounts as revenue for the year under review. Therefore, the deficit for the year and the balance of the revenue received in advance account as at 31 December 2013 had been understated by Rs.14,659 in the financial statements.

- (d) The value of works completed relating to 04 works amounted to Rs.7,943,446; but, provision for debtors had been made for the agreed amount of Rs.7,979,000 and provision for creditors had been made for Rs.7,179,000. Therefore, the deficit for the year under review had been understated by Rs.728,892, the balance of the debtors account as at 31 December 2013 had been overstated by Rs.35,554 and the balance of the creditors account had been understated in the financial statements by Rs.764,446.
- (e) Income from court fines relating to the year under review amounted to Rs.3,231,257 and it had been accounted as Rs.3,610,520. Therefore, the deficit for the year under review had been understated by Rs.379,263 and the value of revenue debtors as at 31 December 2013 had been overstated in the financial statements by a similar amount.
- (f) Provision for creditors amounting to Rs.62,632 had not been made as at 31 December of the year under review in respect of 06 instances and therefore, the deficit for the year under review and the value of creditors as at 31 December 2013 had been understated in the financial statements by Rs.62,632 each.
- (g) The value of the net assets of the balance sheet prepared as at 31 December of the year under review should be equivalent to reserves and loan capital. But, the value of net assets amounted to Rs.8,536,133 and the value of accumulated fund and reserves amounted to Rs.9,008,793 indicating a difference of Rs.472,660.
- (h) Motor vehicles and carts valued at Rs.603,000 purchased for strengthening the institutions of the Inter-village Pilot Project had not been capitalized and therefore, the value of fixed assets and the balance of the revenue contribution to capital outlay account as at 31 December of the year under review had been understated in the financial statements by Rs.603,000.

1.3.4 Unreconciled Control Accounts

The following differences were observed in comparing the balances of accounts shown in the financial statements presented by the Sabha with the relevant subsidiary registers.

Account	Balance as per Financial Statements	Balance as per Registers	Difference	Relevant Subsidiary Register
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	Rs.	Rs.	Rs.	
Employees Loans	521,000	782,998	261,998	Employees Loans Register
General Stores	179,224	30,728	148,496	Stores Schedule

1.3.5 Accounts Receivable and Payable

According to the financial statements presented by the Sabha the value of the balances of accounts receivable as at 31 December of the year under review amounted to Rs.23,716,411 and the value of the balances of accounts payable amounted to Rs.23,635,684.

1.3.6 Lack of Evidence for Audit

Five items of accounts valued at Rs.4,659,358 could not be satisfactorily vouched in audit due to the non-submission of relevant information to audit.

1.3.7 Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules, and Regulations	Non-compliance
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(a) Section 132 of the Pradeshiya Sabha Act, No.15 of 1987	A sum of Rs.56,440 had been spent from the Sabha Fund at 04 instances without obtaining the prior approval of the Minister.
(b) Value Added Tax Act, No.14 of 2002	Output tax amounting to Rs.40,074 recovered at 215 instances as at 31 December 2012 had been retained in the deposits account, without being remitted to the Commissioner General of Inland Revenue
(c) Financial Regulation 571 of the Republic of Sri Lanka	Deposits valued at Rs.91,161 not claimed within 02 years from the date of deposit had not been credited to revenue.
(d) Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government	The lease rent of the stalls owned by the Sabha had not been assessed once in 05 years through a Government Valuer or a Valuer of the Local Authorities.

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.1,924,972 as compared with the excess revenue over recurrent expenditure, amounting to Rs.586,344 for the preceding year. Therefore, the net increase of the financial result was Rs.1,338,628.

2.2 Analytical Financial Review

A net increase of Rs.1,338,628 in the financial result of the year under review was observed as compared with the preceding year. An analysis of this is shown below.

<u>Recurrent Revenue</u>	<u>2013</u>	<u>2012</u>	<u>Variance</u>
	Rs.	Rs.	Rs.
Rates and Taxes	1,146,607	1,189,068	(42,461)
Lease Rent	2,699,351	2,352,273	347,078
Licence Fees	799,637	547,520	252,117
Service Charges	285,011	181,964	103,047
Warrant Charges and Fines	3,329,861	1,702,446	1,627,415
Other Revenue	157,823	92,227	65,596
Revenue Aid	10,286,857	8,957,456	1,329,401
 <u>Recurrent Expenditure</u>			
Personal Emoluments	12,913,382	11,594,333	(1,319,049)
Travelling Expenses	260,390	193,193	(67,197)
Supplies and Equipment	1,505,336	1,329,443	(175,893)
Repairs and Maintenance of Capital Assets	280,472	252,514	(27,958)
Transport and Utility Services	764,731	542,438	(222,293)
Aid, Contributions and Subsidies	346,960	319,092	(27,868)
Pensions, Pensionery Benefits and Gratuities	708,904	205,597	(503,307)
Increase of Recurrent Revenue			----- 1,338,628 =====

2.3 Revenue Administration

2.3.1 Performance of Revenue Collection

Out of the acre tax in arrears as at 01 January 2013, no recoveries had been made as at 31 December 2013. Recovery of rates in arrears was 10%. It was observed that the progress of recovery of revenue is very unsatisfactory.

2.3.2 Rates and Taxes

Rates should be revised once in 05 years and rates and taxes should be recovered accordingly. But, rates and taxes for the year 2013 are being recovered based on the assessment made in 2005.

2.2.3 Court Fines and Stamps Fees

According to the financial statements presented by the Sabha, court fines and stamp fees amounting to Rs.1,990,142 had been receivable as at 31 December 2013, from the Chief Secretary of the Provincial Council and other authorities. Details are shown below.

	<u>Rs.</u>
(i) Court Fines	1,751,155
(ii) Stamp Fees	238,987

2.3.4 Land Tax

An Ayurvedic Dispensary is being operated by the Provincial Department of Ayurveda in the building of the Pattiplola Village Council within the land to the extent of 02 Acres, 03 Roods, 34 Perches and this property owned by the Sabha is situated at Bibile Road. However, the Sabha had not recovered any charge for this.

3.2 Idle Assets

The Hand Tractor No.78-9579 owned by the Sabha had been lying idle in the Sabha premises for over 03 years.

3.3 Solid Waste Management

The waste collected within the area of the Sabha is being disposed of immethodically within the Sabha site and a solid waste management system had not been implemented. It was observed that adverse effect will be arisen as the waste immethodically disposed of is mixed with the water of the Kumbukkan-Oya.

4. Accountability and Good Governance

Budgetary Control

The following variances were observed between the budgeted income and expenditure of the Pradeshieya Sabha for the year 2013 and the actual income and expenditure.

<u>Recurrent Revenue</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Presentage of</u> <u>Variance</u>
	Rs.	Rs.	Rs.	%
Licence Fees	912,000	799,637	112,363	12.3
Warrant Charges and Fines	1,714,000	3,329,861	1,615,861	94.2
Other Revenue	244,000	157,823	86,177	35.3
Revenue Aid	11,968,201	10,286,857	1,681,344	14.0
<u>Recurrent Expenditure</u>				
Travelling Expenses	314,000	260,390	53,610	17.0
Supplies and Equipment	1,272,000	1,505,336	233,336	18.3
Repairs and maintenance of Capital Assets	440,000	280,472	159,528	36.2
Aid, Contributions and Subsidies	516,000	346,960	169,040	32.7
Pensions, Pensionery Benefits and Gratuities	227,789	708,904	481,115	211.2

5. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Stores Control