

Mahawa 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 9 April 2014 and the financial statements for the preceding year had been presented on 4 April 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 11 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 Mahawa 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 accounting deficiencies were observed.

- a) The members' allowances of Rs. 96,500 receivable for the month of December of the year under review, had not been brought to account as revenue receivable, understating the revenue for the year and revenue debtors, by a similar amount.

- b) The over-provision for 2012 for work creditors amounting to Rs. 4,048,653, had been written-off in the year under review, by crediting to capital expenditure account through Journal Entry 40, instead of crediting the accumulated fund account. Therefore the capital expenditure for the year had been understated by a similar amount.

- c) Revenue from building inspection fees amounting to Rs. 160,770 relevant to the year under review, had not been taken to the revenue for the year and had been shown under deposits of building inspection fees, and subsequently credited to excess and shortages account through Journal Entry 68. Therefore the revenue for the year had been understated by a similar amount.
- d) Though the value of books in 04 libraries was Rs.3,508,801, according to the goods verification conducted in 2013, it had been shown in the financial statements as Rs.2,790,126, understating the value of the balance of the library books by Rs.718,675.

1.3.2. Contingent Liabilities

The Sabha had not paid the contributions properly to the Local Government Pension Fund, with respect to the employees, who have served in the Pradeshiya Sabha and retired, and entitled for contributions towards the Local Government Pension Fund. Hence the balance payable to the Fund, at the end of the year under review amounted to Rs.3,805,472.

1.3.3. Unreconciled Control Accounts

There were differences amounting to Rs.43,022,899 between the accounts and the relevant registers in respect of 09 items of accounts under billings and the balance as at end of the year under review.

1.3.4. Accounts Receivable and Payable

The following observations are made.

- a) The value of balances of accounts receivable as at 31 December 2013 amounted to Rs.74,164,328 and out of this, Rs.6,768,586 represent balances for over 3 years.
- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.53,954,999 and out of this, Rs.5,321,870 represent balances for over 1 year.

1.3.5. Lack of Evidence for Audit

Transactions totalling to Rs.65,863,683 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. 4,165, 912, as against the excess of recurrent expenditure over revenue amounting Rs.1,373,055 for the preceding year, indicating an improvement in the financial result by Rs.5,538,967. When the capital revenue of Rs.26,455,018 and capital expenditure of Rs.20,425,531 are adjusted to this financial result, the surplus for the year under review had been increased to Rs.10,195,399.

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.52,783,668, and of this Rs.35,492,948 representing 67% consists of non-generated revenue, such as courts fines, stamp fees, and salary reimbursement. Similarly the entire capital revenue of Rs.26,455,018 had been received from other institutions for development work in the area under authority, through sources such as operations aid, provincial investment, Maga Neguma and Wayamba Pubuduwa.
- b) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.48,617,756, and of this, Rs.32,282,330 representing 66% was expenditure related to personal emoluments. Of this, 69% amounting to Rs.22,170,678 had been received from the Commissioner of Local Government in the form of salary reimbursement, and it had been brought to account under other revenue. Similarly the capital expenditure amounted to Rs.20,425,531 and 7% of that, amounting to Rs.1,345,221 had been spent from Sabha funds, and the balance 93% amounting to Rs.19,080,310 consists of development works carried out from provisions of other institutions through sources such as Gama Neguma, Maga Neguma, provincial investments and Wayamba Pubuduwa.

2.3. Revenue Administration

2.3.1. Performance on Revenue Collection

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

2.3.2. Rates and Taxes

The rates and taxes in arrears at the end of the year under review amounted to Rs.1,641,903 and the amount billed for the year was Rs.1,940,208. Action had not been taken to prepare the list of arrears quarterly in accordance with Pradeshiya Sabha (Finance and Administration) Rules 32-42 of 1988, issue the notices and recover the arrears in rates and taxes after retaining the properties.

2.3.3. Business Taxes and Trade Licence Fees

Though a survey had been conducted in the area of authority of the Sabha, and a list containing the industries and business entities had been submitted to the Secretary, a notice had not been issued informing the industry owners and businessmen to pay the taxes imposed by the Sabha within 7 days.

3. Operating Review

3.1. Performance Evaluation

19 Telephone Transmission Towers had been erected within the area of authority of the Sabha and information with respect to the charges had not been submitted. Further 1292 street lamps had been fixed in the area of the authority of the Sabha, and an expenditure amounting to Rs.788,740 had been incurred as expenses on equipment.

3.2. Management Inefficiencies

Certificates of Conformity had not been obtained even as at end of the year under review, for 290 building permits approved by the Sabha during the period from year 2010 to 2013, and no action had been taken against occupying the buildings without the certificate of conformity and not extending the period of building permits.

3.3. Implementation of Projects

In the year 2008, a toilet block had been constructed in the new bus stand premises out of the, aid from the Ministry of Tourism, incurring a cost of Rs.3,664,947. Even 4 years after the construction, electricity and water supply connections had not been obtained, it had not been used even up to the end of the year under review. A site inspection carried out on 28 August 2013, revealed that the building had been damaged.

3.4. Contract Administration

The construction of Mahawa Town Hall estimated at a cost of Rs.16,000,000 through aid from Ministry of Local Government (2012) had been entrusted to the Civil Engineering Constructions on 11 September 2012. As per the agreement, the construction needs to be completed within 3 months, but even 50% of the construction work had not been completed at the end of the year under review. Though an additional estimate amounting to Rs. 3,430,302 had been prepared again in November 2012 and the relevant work had been progressed, an agreement had not been entered into in respect of the additional estimate.

4. Accountability and Good Governance

4.1. Budgetary Control

Though expenditure estimate amounts to Rs.72,547,000 according to the budget for the year under review, the recurrent expenditure had been exceeded the provisions by Rs. 161,000 and the capital expenditure had been exceeded by Rs. 6,175,000.

5. Systems and Controls

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

- a) Accounting
- b) Budgetary Control
- c) Financial Control
- d) Revenue Administration