

Narammala 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 20 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 Public Sector Accounting Standards and give a true and fair view of the state of affairs of the Narammala Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following accounting deficiencies were observed.

- a) 02 vehicles valued at Rs.1,946,897, received from the Department of Agrarian Services had not been brought under the motor vehicles and carts account.
- b) The salary reimbursement income relating to the year under review, had been understated by Rs. 900,000, and the salary reimbursements receivable at the end of the year amounting to Rs.61,498 had not been brought to account.
- c) Though the capital expenditure relating to the year under review was Rs. 36,652,361, it had been shown in the financial statements as Rs.30,595,472. Therefore the capital expenditure had been understated by Rs.6,056,889.

- d) A sum of Rs.1,444,500 received from the Department of Local Government to repair the Double Cab bearing Number 53-5721, during the year 2012, had been brought to account as capital revenue of the year.
- e) A sum of Rs.499,812 receivable from the Alawwa Pradeshiya Sabha had been debited to advances account by Journal Entry 68, and this amount had been debited to the said account again. Therefore the balance of the advances account at the end of the year had been overstated by Rs.499,812.
- f) The Electrical Store building valued at Rs.15,000 and, the General Market and Bus Stand building valued at Rs.312,427, written-off in the year under review, had been included in the balance of Rs.26,090,358 of the land and buildings account at the end of the year under review.
- g) The capital expenditure account had been debited and the creditors account had been credited through Journal Entry 59-1, while making payment of Rs.85,250 during the year under review, although no provision had been made as creditors in the preceding year. Therefore both capital expenditure account and creditors account had been overstated by Rs.85,250.
- h) To adjust the balances in deposits account, at the beginning of the year and corresponding balances in deposits registry, a sum of Rs.1,146,310 had been debited to the consolidated fund account, and credited to the deposits account through Journal Entries 62, 63, 64, 65 and 66. Similarly a sum of Rs.51,815 had been credited to the accumulated fund account and debited to the deposits account through Journal Entry 67.

1.3.2. Unreconciled Control Accounts

There were differences amounting to Rs.1,486,261 between the accounts and the relevant registers in respect of 06 items of accounts, as at end of the year under review.

1.3.3. Accounts Receivable and Payable

- a) The value of balances in accounts receivable as at 31 December 2013 amounted to Rs.27,921,373 and out of this Rs.6,061,762 represent balances for 1 to 3 years.

- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.18,945,895.

1.3.4. Unauthorised Transactions

A balance in work creditors account at the beginning of year under review, amounting to Rs.11,381,418, had been written-off from the accumulated fund account through Journal Entry 55, without proper identification.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the operating surplus of the Sabha for the year ended 31 December 2013 amounted to Rs.2,293,799, as compared with operating surplus amounting Rs.12,181,622 for the preceding year, showing a deterioration of operating result by Rs.9,887,823. When the capital aid of Rs.24,932,729 and capital expenditure of Rs.32,945,587 are adjusted to this operating result, the financial result for the year under review had become a deficit of Rs.5,719,059.

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.56,483,260, and of this, Rs.30,595,170 representing 54% consists of non-generated revenue, such as court fines, stamp fees, and salary reimbursements. Similarly the capital revenue amounted to Rs.24,932,729, and of this, Rs.21,041,549 representing 84% 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.54,189,460, and of this, Rs.31,432,744 representing 58% consists of expenditure related to personal emoluments. Of this, 59% amounting to Rs.18,392,388 had been received from the Commissioner of Local Government in the form of salary reimbursements. Similarly the capital expenditure amounted to Rs.32,945,587 and only 18% of this, amounting to Rs.6,164,889 had been spent from Sabha funds, and the balance 82% amounting to Rs.26,780,698 consists of development works carried out from provisions from other institutions.

2.3. Working Capital Management

According to the bank reconciliation statement submitted to audit, an unsettled amount of Rs.113,625 carried forward since year 2011, had not been settled even in the year under review.

2.4. Revenue Administration

2.4.1. 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.

2.4.2. Business Taxes and Trade Licence Fees

Articles 150 (1) and 152 (1) of Pradeshiya Sabha Act No. 15 of 1987 and the Pradeshiya Sabha (Finance and Administration) Rules 59-67 of 1988, stipulate the necessity of conducting a survey, and issuing notice to the industry owners and businessmen, to pay the taxes imposed by the Sabha within 7 days, but this had not been carried out.

2.4.3. Court Fines and Stamp Fees

The court fines receivable from the Chief Secretary of the Provincial Council as at 31 December 2013 was Rs.805,784.

3. Operating Review

3.1. Operating Inefficiencies

The Sabha had approved 226 building applications during the period from year 2011 to 2013, and there were 194 locations which had not obtained Certificates of Conformity, even at end of the year under review. If all those buildings had been constructed, Sabha would have earned a revenue of Rs.38,800, and if the construction work had not been completed, the Sabha would have earned annual charges for extension of the period of building permits, as per the by-laws of the Sabha,

3.2. Implementation of Projects

02 Paving Block machines had been purchased in 2011 at a cost of Rs.275,500, but Paving Blocks had not been manufactured using these machines after October 2011. Again in December in 2011, 02 Concrete Block machines had been installed in the relevant premises at a cost of Rs.135,000, but Concrete Blocks had not been manufactured after February 2012.

4. Accountability and Good Governance

4.1. Budgetary Control

Though a capital revenue amounting to Rs.115,500,000 had been estimated in the budget for the year under review, the accomplishment was only 22% which amounts Rs.24,932,729.

5. Systems and Control

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

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