

Soranathota 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 03 June 2014 and the financial statements for the preceding year had been presented on 19 June 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 16 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 my 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 Soranathota Pradeshiya Sabha as at 31 December 2013 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Decrease of Net Assets

According to the financial statements presented, the value of net assets as at end of the year under review amounted to Rs.641,459,663 and the value of net assets as at of the preceding year amounted to Rs.642,251,003 and the net decrease amounted to Rs.791,340.

1.3.2 Accounting Deficiencies

(a.) According to the Amortization Statement dated 28 May 2013 of the Chief Executive Officer of the Local Loans and Development Fund, the revised amount of loan was Rs.8,834,609 and this had been shown in the balance sheet as Rs.8,358,593. Therefore, the loan balance had been understated in the financial statements by Rs.476,016.

(b.) Interest payable amounting to Rs.763,242 during the year under review in respect of the loan obtained from the Local Loans and Development Fund had not been brought to account and therefore, the expenditure had been understated by Rs.763,242. Provision had not been made in respect of Rs.1,056,999 payable as at 31 December of the year under review. Therefore, liabilities had been understated in the financial statements by Rs.1,056,999.

(c.) The entire salary reimbursements amounting to Rs.8,540,442 relating to the year under review had been shown under general administration without being apportioned under relevant programmes.

1.3.3 Accounts Receivable and Payable

The total of balances of accounts receivable as at 31 December of the year under review was Rs.10,661,868 and the total of the balances of accounts payable was Rs.17,567,057.

1.3.4 Lack of Evidence for Audit

Transactions totaling Rs.643,401,588 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

1.3.4 Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with laws, rules and regulations were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) National Environment Act No.47 of 1980 and the Gazette Extra-ordinary No.1523/16 dated 25 January 2008 published subsequently	- Twelve businesses which had obtained trade licence from the Sabha for the year 2013 had not been identified through a survey whether they fall under Schedule (c) of the relevant Gazette and action had not been taken to issue environment licence.
(b.) Stamp Fees (Special Provisions) Act No.12 of 2006	- Stamp fees amounting to Rs.25,366 collected during the period April to December 2013 had not been remitted to the Commissioner General of Inland Revenue.
(c.) Financial Regulation 371 of the Republic of Sri Lanka	- Advances amounting to Rs.39,667 paid to the officers of the Sabha at 12 instances during 2012 and 2013 had not been settled in terms of the Financial Regulation.
(d.) Section 1.6 and 4 of Chapter xxiv of the Establishments Code of the Republic of Sri Lanka	- Employees loans amounting to Rs.26,587 remained unrecovered since 2011 in respect of 10 employees transferred from the Sabha service and vacated posts had not been recovered.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2013 amounted to Rs.11,638 as against the excess of revenue over recurrent expenditure amounting to Rs.1,180,202 for the preceding year. Accordingly, an adverse variance of Rs.1,191,840 was observed in the financial result.

2.2 Analytical Financial Review

An analytical review of the net decrease of the financial results is shown below.

	<u>2013</u>	<u>2012</u>	<u>Variance</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	
<u>Recurrent Revenue</u>				
Rates and Taxes	3,828,127	4,798,831	(970,704)	
Rent	470,400	640,092	(169,692)	
Licence Fees	484,240	531,011	(46,771)	
Service Charges	1,010,143	1,360,301	(350,158)	
Warrant Charges and Fines	378,228	337,381	40,847	
Other Revenue	141,818	331,342	(189,524)	
Revenue Aid	8,540,442	6,981,079	1,559,363	(126,629)

<u>Recurrent Expenditure</u>				
Salaries and Allowances	11,181,564	9,784,369	(1,397,195)	
Travelling Expenses	199,716	209,299	9,583	
Supplies and Equipment	598,205	1,059,058	460,853	
Repairs and Maintenance of Capital Assets	923,922	540,732	(383,190)	
Transport and Utility Services	1,518,026	1,341,257	(176,769)	
Payment of Interest, Dividends and Bonus	15,000	420,349	405,349	
Aid, Contributions and Subsidies	306,643	420,333	113,690	
Pensions, Pensionery Benefits and Gratuities	121,959	24,437	(97,522)	(1,065,201)
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		Adverse Variance		(1,191,840)
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2.3 Revenue Administration

2.3.1 Performance of Collection of Revenue

It was observed that the level of progress of recovery of rates and acre tax was very low.

2.3.2 Lease Rent

The monthly lease rent of 25 stalls owned by the Sabha had not been get assessed through the Chief Valuer or Valuer in relation to the Local Authorities in terms of the provisions of the Circular No1980/46 dated 31 December 1980 of the Commissioner of Local Government.

2.3.3 Court Fines and Stamp Fees

Court fines and stamp fees receivable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
Court Fines	655,508
Stamp Fees	447,041

3. Operating Review

3.1 Idle/ Underutilized Assets

The Water Motor 13.5 Amp (Serial No.7576F) had been lying idle since year 2012 without being repaired and used.

4. Accountability and Good Governance

4.1 Budgetary Control

The following variances were observed between the budgeted income and expenditure of the Sabha relating to the year under review and the actual income and expenditure. Therefore, it was observed that the budget had not been made use of as an effective tool of control.

<u>Recurrent Revenue</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Percentage of</u>
	Rs.	Rs.	Rs.	<u>Variance %</u>
Licence Fees	900,000	484,240	415,760	46
Service Charges	1,365,000	1,010,143	354,857	26
Warrant Charges and Fines	630,000	378,229	251,771	40
Other Revenue	480,000	141,818	338,182	70
<u>Recurrent Expenditure</u>				
Salaries and Allowances	9,095,000	11,181,564	2,086,564	23
Travelling Expenses	450,000	199,716	250,284	56
Supplies and Equipment	691,760	598,205	93,555	13
Repairs and Maintenance of Capital Assets	720,000	923,922	203,922	28
Transport and Utility Services	1,363,000	1,518,026	155,026	11
Payment of Interest Dividends and Bonus	25,000	15,000	10,000	40
Aid Contributions and Subsidies	605,500	306,643	298,857	49
Pensions, Pensionery Benefits and Gratuities	25,000	121,959	96,959	388

3. 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