

**Lunugala Pradeshiya Sabha**  
**Badulla District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 27 April 2015 while Financial Statements relating to the preceding year had been submitted on 20 June 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 13 August 2015.

**1.2 Opinion**

I am of opinion that except for the effect on the financial statements of the matters referred to in paragraph 1.3 of this report, that the financial statements had been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the financial position of the Lunugala Pradeshiya Sabha as at 31 December 2014 and financial results of its operation and for the year then ended.

**1.3 Comments on Financial Statements**

**1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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

**1.3.2 Accounting Policies**

Policies relating to Depreciation of Fixed Assets and Properties, Valuation of Inventory Goods and Stocks and Pricing Policy had not been disclosed in the financial statements.

**1.3.3 Accounting Deficiencies**

(a.) Although the value of fixed assets of the Pradeshiya Sabha as at 31 December of the year under review and the value of Contribution from Revenue to Capital Outlay Account should be equal with each other, a difference of Rs.906,406 was observed in those balances.

- (b.) Although the correct value of Library Books of the year under review according to the ledger was Rs. 925,869, amount shown in the financial statements had been Rs. 1,763,144. Accordingly, the balance of the Library Books Account had been overstated in a sum of Rs. 837,275.
- (c.) Although the Rent Revenue for the year under review according to the financial statements was Rs. 3,942,329, the correct balance according to the ledger had been Rs. 3,486,366 and therefore The Rent Income had been overstated in a sum of Rs. 455,963.
- (d.) Although the Rates Revenue for the year under review according to the financial statements was Rs.1,344,680, the correct balance according to the ledger had been Rs.1,721,741 and therefore the Rates Revenue had been understated in a sum of Rs.377,061.
- (e.) Fixed Assets valued at Rs. 4,910,842 had not been accounted when accounting for the Fixed Assets during the year under review.
- (f.) Members Allowance amounting to Rs. 61,500 and Court Fines amounting to Rs.1,704,753 received in respect of the preceding year had been accounted as revenue for the year under review.
- (g.) Court Fines amounting to Rs. 876,266 relevant to the year under review had not been accounted.
- (h.) Value of Tractor amounting to Rs. 2,161,900 provided to the Sabha on 17 December of the year under review had not been shown in the Fixed Assets.
- (i.) Stamp Fees Revenue amounting to Rs. 158,595 received relevant to the preceding year had been accounted for the year under review.

**1.3.4 Non-reconciled Control Accounts**

When the balances shown in the financial statements submitted by the Sabha are compared with the ledger accounts relevant to those, a difference of Rs. 1,126,696 was observed.

**1.3.5 Suspense Account**

Action had not been taken to settle the credit balance of Rs. 678,671 in the Suspense Account during the year under review as well.

**1.3.6 Accounts Receivable and Payable**

While the value of Accounts Receivable balances as at 31 December of the year under review was Rs.25,942,641, the value of Accounts Payable balances had been Rs.17,778,649.

**1.3.7 Lack of Evidence for Audit**

Transactions amounting to Rs.15,071,193 could not be satisfactorily vouched in audit due to non-submission of required information to audit.

**1.3.8 Non-compliance with Laws, Rules and Regulations**

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Following non-compliance with the laws, rules and regulations etc. were observed in audit.

Reference to Laws, Rules, and  
Regulations

Non-compliance

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National Environmental Act  
No. 47 of 1987 and Gazette  
Notification No.1159/22 dated  
22 November 2000

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Environmental Permits had not been issued with  
regard to 23 business entities and Industries in the  
area of authority of the Sabha.

- (b) Financial Regulation 571 of the Republic of Sri Lanka      Twenty deposits valued at Rs. 90,333 not claimed within two years from the date of deposit had not been cleared.

## **2. Financial Review**

### **2.1 Financial Results**

According to the Financial Statements presented, excess of recurrent expenditure over revenue for the year ended 31 December 2014 amounted to Rs. 746,535, while the corresponding excess of recurrent expenditure over revenue for the preceding year had been Rs. 1,924,972 showing a decline of Rs. 1,178,437 in the financial results for the year under review.

### **2.2 Revenue Administration**

#### **2.2.1 Performance of Revenue Collection**

##### **Collection of Revenue in Arrears**

While 18% of the Acreage Tax in Arrears as at 01 January 2014 had been recovered during year 2014, out of Rent and Rates, only 9.6% and 21.8% respectively had been recovered and therefore position with regard to the progress relating to recovery of revenue in arrears was unsatisfactory.

#### **2.2.2 Rates**

Although Rates should be revised once in every five years and recoveries should be made accordingly, Rates for the year 2014 were being recovered on the basis of the assessment made during the year 2005.

#### **2.2.3 Property Tax**

A sum of Rs. 1,271,523 outstanding for leasing out 08 properties belong to the Sabha, for 04 years from the year 2011 to the year 2014 had not been recovered even up to 31 December 2014.

#### **2.2.4 Stalls Rent**

Although the stalls belong to Local Authorities should be assessed at least once in every 05 years and rent should be recovered accordingly in terms of circular no. 1980/46 dated 31 December 1980 of the Commissioner of Local Government, rent for 28 stalls in the Madolsima Town was being recovered by the Sabha based on the assessment made during the year 2005.

### **3. Operating Review**

Following matters are observed.

#### **3.1 Management Inefficiencies**

- (a) Although a sum of Rs.27,900 had been paid to a private entity for 30 bags of cements under Uva Provincial Council Funds during the month of August 2014 by the Sabha, cements had not been provided to the relevant Kovil even up to 26 June 2015.
- (b) While 172 books valued at Rs. 29,066 were not available in the Library belongs to the Sabha, action had not been taken to get back those books or to recover money for those books.

#### **3.2 Idle Assets**

The Tractor bearing the number 78-9579 belongs to the Sabha remained idle and getting rusted in the Sabha Ground without being used.

### **4. Systems and Controls**

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

- (a.) Accounting
- (b.) Internal Control
- (c.) Revenue Administration
- (d.) Contracts Administration