

Puttlam Pradeshiya Sabha

Puttlam District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 30 March 2015 and the financial statements for the preceding year had been presented on 28 March 2014. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 13 August 2015.

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 Puttlam Pradeshiya Sabha as at 31 December 2014 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 are observed.

- a) 04 vehicles valued at Rs.4,211,500, received as aid in the years 2005 and 2014, had not been brought to account under fixed assets, whilst creditors totalling to Rs.2,326,850 had not been brought to account under creditors account. The salary reimbursements of Sabha employees during the year under review totalling to Rs.2,197,367, had not been brought to account under accounts receivable.

- a) The interest amounting to Rs.50,660 paid for the first and second quarters of 2014, in respect of the loan obtained for the Madurankuliya *Sathipola*, had not been brought to account in the interest account. Therefore this account and the loan account had been understated by a similar amount.

1.3.2. Un-reconciled Control Accounts

The total balances in respect of 04 items of accounts in the financial statements of the year under review amounted to Rs.3,301,872, whilst the total according to the relevant subsidiary registers had been Rs.3,607,335. Therefore a difference of Rs.305,463 was observed. Though the balance in local loans and the loan payables for the development fund, as at the end of the year under review was Rs.19,810,505, according to the letter of confirmation of balance in the fund as at the relevant date, it had been Rs.30,941,094.

1.3.3. Accounts Receivable

The total balances of accounts receivable amounted to Rs.10,435,712, whilst the total balances exceeding a period of 01 year amounted to Rs.9,650,175. The value of current assets remained non-moving for many years, amounted to Rs.846,188.

1.3.4. Employees' Loans Receivable

The employees' loans in arrears amounted to Rs.3,240,743, and out of this Rs.46,669 represent receivables for over a number of years, from 14 employees in the categories of vacated posts, transferred, dead and retired.

1.3.5. Lack of Evidence for Audit

The transactions totalling to Rs.23,647,411 in respect to 03 items of accounts, could not be examined satisfactorily, due to non-submission of sufficient evidence to the audit.

1.3.6. Non-compliance with Laws, Rules and Regulations

a) Action had not been taken to collect the income due for the Sabha properly, as stipulated in the Sections 129 (2) (a) and (d), of the Pradeshiya Sabha Act No. 15 of 1987, whilst necessary legal action had not been taken as stipulated in the Section 150 (4) of the Act with respect to the personnel in business entities located within the area under the authority of the Sabha, that default the licence fees. Further, action had not been taken in accordance with the Section 158 of the Act, to recover the arrears by confiscating the movable property, owned by the personnel who had defaulted the rates and taxes and acre taxes, in the area under the authority of the Sabha.

b) Action had not been taken as stipulated in F.R. 571 (1) (2) (3) of Financial Regulations of the Republic of Sri Lanka, in respect of 20 deposits of over 02 years, amounting to Rs.9,196,130, carrying forward since the year 2008.

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 2014 amounted to Rs.3,401,063, as against the excess of revenue over recurrent expenditure amounting Rs.1,978,645 for the preceding year. The capital aid received in the year under review and in the preceding year, amounted to Rs.35,900,085 and Rs.9,159,410 respectively, and the capital expenditure in the year under review and in the preceding year, amounted to Rs.35,446,466, and Rs.13,859,585, respectively. When these amounts are considered, there had been, a deficit of Rs.2,947,444 in the year under review, and a deficit of Rs.2,721,530 in the preceding year. Therefore, in comparison to the preceding year, the financial result in the year under review had been deteriorated further by Rs.225,914.

2.2. Analytical Financial Review

The estimated value of items of recurrent expenditure for the year under review, except the personal emolument, had been Rs.20 million, whilst expenditure incurred had exceeded this amount by Rs.4.7 million, and the percentage of excess was approximately 23%. The provision for capital expenditure for the year under review, had been Rs.19.1 million, whilst expenditure incurred had exceeded this amount by Rs.16.3 million.

2.3. Revenue Administration

2.3.1. Performance on Revenue Collection

The information submitted by the Secretary, with respect to Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review, and the preceding submitted are indicated below.

	Item of Revenue	2014			2013		
		Estimated	Actual	Cumulative	Estimated	Actual	Cumulative
				Arrears			Arrears
				as at 31-Dec			as at 31-Dec
		Rs.000,	Rs.000,	Rs.000,	Rs.000,	Rs.000,	Rs.000,
(a)	Rates and Taxes	1,480	1,292	3,259	3,225	1,141	2,801
(b)	Lease Rent and Stall Rent	10,000	8,832	4,785	976	5,733	2,848
(c)	Licence Fees	4,500	4,336	904	6,975	4,059	908

2.3.2. Court Fines

The Sabha had received court fines amounting to Rs.5,538,384, for the period from January to July 2014. The court fines for the period from August to end of December 2014 had not been received, whilst Rs.12,000,000 had been estimated and brought to account as revenue from court fines during the year under review.

2.3.3. Stamp Fees

The Sabha had received stamp fees amounting to Rs.9,377,456, with relevant to the period from January to July 2014. Though, the Chief Secretary had sent stamp fees amounting to Rs.4,688,728 each for the same period twice, by mistake, the Sabha had not taken action to report this to the Chief Secretary. However, the Sabha had estimated and brought to account a sum of Rs.12,000,000 as the stamp fees receivable with respect to the year 2014. Accordingly, the Sabha had received more revenue than the estimated amount during the first half the year.

2.3.4. Other Revenue

The Motor Grader bearing number RS-1556 belongs to the Sabha had been rented out during the period from 2009 to end of the year 2014, and action had not been taken to recover rent amounting to Rs.725,971.

2.3.5. Property Tax

Action had not been taken to lease-out 12 properties owned by the Sabha in the year 2014, and based on the lowest bid, the Sabha had deprived of a revenue of Rs.225,480.

3. **Operating Review**

3.1. **Operating Inefficiencies**

The following are observed.

- a) The Sabha had not taken action to carry out an assessment of rates and taxes for nearly 9 years.
- b) A sum of Rs.161,587 had been paid as combined allowance for the Thailand visit of the Chairman, without the approval from the Governor of the North-Western Province and the Minister in charge of the subject.

3.2. **Idle and Underutilized Physical Resources**

The assets owned by the Sabha valued at Rs.4,467,800, had been kept idle and underutilized for number of years.

4. **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) Vehicle Control