

**Naththandiya Pradeshiya Sabaha
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 2016 and the financial statements for the preceding year had been presented on 24 May 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 30 June 2016.

1.2 Qualified Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this reports, 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 Naththandiya Pradeshiya Sabha as at 31 December 2015.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following deficiencies are observed.

- a) At the computation of final stock 2015, the value of the stock of medicine and the stock of compost manure had been understated in accounts by Rs.301,187 and Rs.12,500 respectively.
- b) Fixed assets amounted to Rs.4,440,000 applicable to the year 2015 had not been capitalized during the year.
- c) Lease rent income of the year had been overstated in accounts by Rs.13,496.

1.3.2 Inappropriate Disclosure

What should be shown as current assets and current liabilities in financial statements should be transactions subject to realization or payment during the coming financial year. However 14 debtor balances amounting to Rs.65,928,207 and one creditor balance amounting to Rs.8,949,918, for which the Sabha had not any arrangement either to be recovered or paid out, had been shown in financial statements as current assets and current liabilities.

1.3.3 Un reconciled Control Account

A variance of Rs.131,074 was observed between balances in general ledger applicable to deposit account and balances in financial statements submitted to audit.

1.3.4 Accounts Receivable and Payable

The following observations are made:

- (a) Street lighting reimbursement amount of Rs.1,167,000 receivable from Electrical Engineer, CEB, Wennappuwa during the period from 2000 to 30 September 2004 had not been recovered upto 31 December 2015.
- (b) Action had not been taken to recover the sum of Rs.100,000 obtained from Pradeshiya Sabha by the Local Government General Association in 1999 and had abandoned the computation of interest receivable from 2007.
- (c) Action had not been taken to recover the sum of Rs.1,029,535 receivable from 2002 to 2008 which was within the capital aid amounting to Rs.6,967,210 receivable from various government institutions

1.3.5 Lack of Evidence for Audit

Verifications could not be carried out satisfactorily due to non submission of evidence such as balance confirmations and detailed schedules in respect of 03 items of accounts valued at Rs.180,955,305 stated in financial statements.

2. Financial Review

2.1 Financial Result

According to financial statements presented, the excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2015 amounted to Rs.44,466,145 as compared with the excess of the recurrent expenditure over income for the preceding year amounted to Rs.57,251,512. Following the computation of capital aid of the year under review and preceding year that had been amounted to Rs.47,240,310 and Rs.42,730,279 and the capital expenditure of the same period amounted to Rs.113,829,968 and Rs.91,017,022 respectively, the resultant shortage and the resultant shortage and excess of the same has been Rs.22,093,514 and Rs.8,964,769 respectively. Accordingly a decrease of Rs.31,058,283 is shown in the financial result of the year under review.

2.2 Analytical Financial Review

- (a) When compared with the total operating revenue of Rs.202 mn. during the preceding year, the total operating revenue of the year under review had been increased upto Rs.213 mn. representing an increase of Rs.11 mn. However, the sum of Rs.13.7 mn. received for salary reimbursement was also included in the increased amount.
- (b) Recurrent expenditure during the year under review amounted to Rs.168 mn. When compared with the preceding year's expenditure of Rs.145 mn. it had been an increase by Rs.23 mn.
- (c) Capital revenue during the year under review amounted to Rs.47 mn. When compared with the capital revenue amounting to Rs.42 mn. of the preceding year it represent an increase of Rs.05 mn. Capital expenditure during the year under review amounted to Rs.114 mn. representing an increase of Rs.23 mn. over the preceding year.

(d) In view of the above the shortage for the year under review had been Rs.22 mn. and when compared the same with the surplus of Rs.8.9 mn. in the preceding year, Rs.31 mn. decrease of the financial result was observed.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Revenue in Arrears.

Information relating to estimated revenue, actual revenue and revenue in arrears applicable to the year under review are as follows:

Item of Revenue	Billed for year	Receipts from billed revenue	Total Receipts during the year	Accumulated arrears
	Rs'000	Rs'000	Rs'000	Rs'000
Rates & Taxes	17,756	9,295	17,174	24,609
Lease rent	19,673	19,368	20,204	1,435
Licence fee	5,231	5,231	9,246	618
Other revenue	1,430	999	1,488	484

2.3.2 Revenue Collected from Billed Amount

Information relating to billing of income, collecting of revenue in arrears submitted in respect of the year under review are given below:

Item of Revenue	Billing of Revenue			Collecting of Revenue			Revenue in Arrears			
	Arrears as at 01.01.2015	Billed in 2015	Total	Collected amount from arrears	Amount collected through billing	Amount received next year	Total amount collected	Balance from arrears	Arrears of billed revenue	Total
	.Rs	.Rs	.Rs	.Rs	.Rs	.Rs	.Rs	.Rs	.Rs	.Rs
Rate & Tax	24,449,185.43	15,725,169.98	40,174,355.41	7,816,369.53	8,536,819.44	1,571,694.83	17,924,883.80	16,632,815.90	7,188,350.54	23,821,166.44
Acre Tax	709,611.48	74,483.23	784,094.71	30,722.30	28,462.49	3,000.03	62,184.82	678,889.18	46,020.74	724,909.92
Lease Rent	1,004,814.68	15,670,213.04	16,675,027.72	178,258.69	15,544,396.14	1,404.80	15,724,059.63	826,555.99	125,816.90	952,372.89
Licence Fee	4,632,417.19	5,231,421.87	8,751,899.06	4,014,761.53	5,231,421.87	-	9,246,183.40	617,655.66	-	617,655.66
Shop Rent	918,937.04	3,663,313.00	4,582,250.04	659,814.65	3,439,512.51	8,872.90	4,108,200.06	259,122.39	223,800.49	482,922.88
Other	35,294,328.73	72,531,893.24	107,826,221.97	27,618,410.97	63,189,175.65	1,445.78	90,809,032.40	7,675,917.76	9,342,717.59	17,018,635.35

Stamp fees	125,939,443.23	64,000,121.00	189,939,564.23	79,652,752.00	-	-	79,652,752.00	46,286,691.23	64,000,121.00	110,286,812.23
Court fines	29,532,358.00	24,735,691.00	54,268,049.00	29,252,775.00	16,025,705.00	-	45,278,480.00	279,583.00	8,709,986.00	8,989,569.00
Total	222,481,095.78	200,520,366.36	423,001,462.14	149,223,864.67	110,883,553.10	1,586,418.34	262,805,776.11	73,257,231.11	89,636,813.26	162,894,044.37

2.3.3 Lease Rent

Action had not been taken during the year under review to recover lease rent in arrears amounting to Rs.826,357 recoverable from 10 Lessees during the period from 2005 to 2014.

- (a) 10 properties owned by the Sabha had not been leased out during the year under review and base on the lowest bid value the income lost amounted to Rs.785,930.

2.3.4 Business Tax

At the recovery of business tax the relevant business establishments should be identified and billed revenue should be collected from them. However business tax had been billed only in consideration of the revenue collected. According to business tax register of the preceding year and the current year it was observed that there were several abandoned business establishments from which revenue had not been collected.

2.3.5 Stamp Fees

The value of stamp fees recoverable to the Sabha as at 31 December 2015 out of the amount recovered by the Provincial Council from the Registrar General amounted to Rs.110,286,812 of which a sum of Rs.11,534,507 were in respect for the period from 1991 to 2006. However acceptable confirmation on realization of those balance over 05 years old had not been submitted to audit.

2.3.6 Court Fines

The value of court fines recoverable from the Provincial Chief Secretary as at 31 December 2015 amounted to Rs.8,989,569 of which Rs.279,583 were court fines applicable to 2002.

2.3.7 Entertainment Tax

Entertainment tax amounting to Rs.63,509 had not been recovered from two Cinema Halls in the area of authority during the year under review.

2.3.8 Tax on Land Sales

In terms of provisions under Section 154 (1) of the Pradeshiya Sabha Act of 1987, the Pradeshiya Sabha should recover 1% of the land sale proceeds within the area of authority in 2015. However only 1% of the estimated sales amount had been recovered.

3. Operating Review

3.1 Management Inefficiencies

- (a) Due to payment of contributions to the Employees' Provident Fund in respect of employees serving the Sabha instead of making payments to the Public Servants Pension Fund and non payment of the same regularly, it had to be imposed surcharges on the Sabha which amounted to Rs.47,728 at the end of the year under review.

- (b) At the Leasing out of assets in 2015 only one person had submitted bids for 21 assets at a rate very near to the lowest bid and action had not been taken to lease out 10 assets.
- (c) Although two cheques to the value of Rs.437,207 and Rs.22,029 respectively received from two persons for leasing out of weekly fair of the Sabha in 2006 and for settlement of rates were dishonoured, action had not been taken to recover those money.
- (d) Interest due to be received upto 2007 in respect of the loan amounting to Rs.100,000 made available to the Sri Lanka Local Government Employees General Association had been calculated as Rs.10,835. However the interest receivable after 2007 had neither been computed nor brought to account.

3.2 Non authorized Transactions

The following observations are made:

- a) Capital aid amounting to Rs.3,327,600 receivable had been brought to cumulated fund through Journal Entry No.29 of the year under review.
- b) Rs.102,929 which being cash in hand of officers had been debited to the accumulated fund without an approval through journal entry No.25 during the year under review.
- c) Details on revenue in arrears amounting to Rs.269,700 had not been identified and brought to accumulated fund without approval.

3.3 Transactions in Contentious Nature

Although advance of Rs.600,000 had been paid to 04 individuals amounting at Rs.150,000 per person to purchase a land for constructing a cattle slaughtering house in 2002, action had not been taken either to secure the ownership of the land or to recover the amount.

3.4 Staff Loan

No formal action had been taken to recover staff loan balance of Rs.608,265 from transferred officers, Rs.120,416 from officers not reporting for work and Rs.102,564 from officers having vacated the post within total employee loan balance of Rs.11,646,697.

3.5 Human Resources Management

Approved cadre of the Sabha was 159. However due to 212 having been employed 65 employee excess was revealed. Although the approved cadre for primary grade was 114, the existing number had been 176. Accordingly the total employee excess was within the primary grade while 12 vacancies were available in other services.

4. Accountability & Good Governance

4.1 Internal Auditing

Internal auditing had not been carried out sufficiently within the institution.

4.2 Action Plan

Although an annual action plan which includes activities aimed at achieving objectives of the relevant Act with long - term vision as stipulated under sections from 04(a) to (f) of the Public Finance Circular No.PFD/RED/01/04/2014/01 of 17 February 2014 had to be formulated, an action plan different from that had been prepared.

5. Systems and Controls

Special attention of the Sabha is drawn to the following fields of Systems and Controls.

- (a) Accounting
- (b) Budgetary control
- (c) Revenue Administration