

Naula Pradeshiya Sabha
Matale District

1 **Financial Statements**

1.1 **Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 30 March 2016 and the financial statements for the preceding year had been presented on 10 April 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 28 June 2016.

1.2 **Opinion**

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Naula Pradeshiya Sabha as at 31 December 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 **Comments on Financial Statements**

1.3.1 **Accounting Deficiencies**

The following accounting deficiencies are observed.

- (a) The value of 02 buildings constructed and renovated respectively during the year under review amounted to Rs.1,096,226. This had not been capitalized.
- (b) The balance of work aid receivable had been understated by Rs.3,925,697 and the work aid and work expenses of the year had been overstated by Rs.9,766,679 and Rs.4,708,732 respectively
- (c) Stamp fees revenue of Rs.2,782,135, for the year and the balances of revenue receivable in respect of 2 other Revenue Accounts amounting to Rs.3,382,444 had been understated.
- (d) Salaries reimbursable for the year under review amounted to Rs.18,056,522. However, this had been shown as Rs.18,374,033 in the financial statements resulting in an overstatement of salaries reimbursable by Rs.317,511.
- (e) A community centre valued at Rs.86,500, a village council office building valued at Rs.100,000 and few stalls at Elahera Road valued at Rs.60,000 were physically not in existence. However, these had been included in the balances of the Land and Buildings. As a result, the balance of land and buildings had been overstated by Rs.246,500.
- (f) The value of library books as at end of the year under review as per board of survey report was Rs.2,688,183. However, this had been shown as Rs.1,170,714 in the financial statements resulting in an understatement of library books by Rs.1,517,469.

1.3.2 **Unreconciled Control Accounts**

A difference of Rs.164,206 was observed between the balances of 02 items of accounts aggregating Rs.2,057,283 as per financial statements and the related balances appearing in the subsidiary registers and reports.

1.3.3 Accounts Receivable

The balances of 05 accounts receivable aggregated Rs.12,737,026. This included 03 balances of over 03 years aggregating Rs.179,218.

1.3.4 Accounts Payable

The balances of 05 creditors accounts payable aggregated Rs.12,696,102. This included balances of over 01 year amounting to Rs.9,013,711.

1.3.5 Lack of Evidence for Audit

Transactions aggregating Rs.3,296,815 could not be satisfactorily vouched in audit due to non rendition of adequate evidence for 03 items of accounts.

1.3.6 Non-compliance with Laws, Rules, Regulations etc.

The following matters are observed.

Reference to Laws, Rules and Regulations

(a) Rule 218 of the 1988 Pradeshiya Sabha (Finance and Administration) Code of rules

(b) Paragraph 3.5 of the circular of the Secretary to the President No. SP/RD/02/10 of 03 February 2010

Non-compliance

Land and buildings of the Sabha should be subjected to a survey every year. However, a survey of land and buildings had not been carried out after 1987.

Although it has been instructed that external parties should not be allowed to enjoy the land belonging to the Sabha without proper authority. However, the ex-Chairman of the Pradeshiya Sabha had constructed his house in a land at Kanuruvlayaya and another party had been engaged in trade in the said land.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.3,465,634 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.449,746 resulting in an improvement in financial results of the year under review by Rs.3,015,888.

2.2 Analytical Financial Review

Certain important information relating to the financial status and financial performance of the Pradeshiya Sabha during the year under review and 2 previous years appear below.

(a) Continuous rise in the ratio between the total revenue and expenditure was observed.

(b) Out of the total recurrent expenditure of Rs.27,194,218 of the year under review, a sum of Rs.21,462,093 representing 79 per cent had been spent on personal emoluments.

2.3 **Revenue Administration**

2.2.1 **Rates and Taxes**

- (a) The balances of rates and taxes and the surcharge as at 31 December 2015 amounted to Rs. 1,773,543 and Rs.585,983 respectively. Balances of over 05 years amounting to Rs.1,468,279 had been included in the balances of rates and taxes.
- (b) Action had not been taken to recover rates and taxes during the period concerned In terms of provisions in Section 158(1) of the Pradeshiya Sabha Act No.15 of 1987. As a result, arrears of rates and taxes amounting to Rs.150,228 had not been recovered from the government properties within the authoritative area of the Sabha.

2.3.2 **Stall Rent**

- (a) The arrears of stall rent as at December of the year under review amounted to Rs.339,355.
- (b) Recovery of rent of stalls had not been made on the basis of valuation made by the Chief Valuer in terms of provisions in paragraph 1 of the circular of the Commissioner of Local Government No.1980/46 dated 31 December 1980. Instead, rent of stalls had been recovered on the basis of a decision made by the General Council dated 30 May 2013. Although, the period of validity of agreements had exceeded by 05 years, new agreements had not been entered into.

2.3.3 **Acreage Tax**

The balance of arrears of acreage tax as at 31 December of the year under review amounted to Rs.23,684. This balance had been continuously brought forward for six years, without change.

2.3.4 **Water Charges**

The balance of arrears of water charges as at 31 December of the year under review amounted to Rs.236,707 The balance of arrears of garbage fees which continued to be brought forward for 5 years without change amounted to Rs.19,613.

2.3.5 **Court Fines and Stamp Fees**

The court fines and stamp fes recoverable amounted to Rs.988,307 and Rs.2,353,700 respectively.

2.3.6 **Advertisement Board Charges**

Advertisement board charges had not been recovered in terms of sub section XXX of Section 126(V11)(f) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions in Paragraph 39 of the bye-laws (1V)(a) of the Gazette Notification No.520/7. As a result, a sum of Rs.540,330 was due as at end of the year under review.

3. **Operating Review**

3.1 **Management Inefficiencies**

The following matters are observed.

- (a) Action had not been taken to recover the distress loan balance of Rs.199,920 from an officer whose services had been suspended in 2012.
- (b) The double cab bearing No. 252-6567 had met with an accident on 23 January 1999 and the amount spent to repair it amounted to Rs.152,200. This had not been reimbursed by the Sri Lanka Insurance Corporation.

3.2 **Operating Inefficiencies**

The following matters are observed.

- (a) Compliance certificates should be issued for buildings constructed with approved plans in terms of Section 21 of the Urban Development Authority Act No. 41 of 1978. However, approval had been granted 91 for out of 104 building applications received during the year under review and the two previous years. Compliance certificates had been Issued for only 43 of these applications.
- (b) Action had not been taken to acquire the land vested with the Sabha with legal deeds. The ownership of buildings of 19 crematoriums of the Sabha valued at Rs.157,572 had also been not confirmed.
- (c) Five water projects constructed in 2014 under the Gama Neguma Programme by spending Rs. 980,000 were inoperative.

3.3 **Irregular Transactions**

Membership of the people's representatives of the Pradeshiya Sabha had ceased on 15 May 2015. In spite of this, the allowances payable for fuel and telephone to members had been fully paid for the month of May and as such a sum of Rs.13,500 had been overpaid.

3.4 **Solid Waste Material Management**

About 02 tons of garbage collected within the authoritative area of the Sabha by utilizing the tractor and employees of the Sabha had been removed and buried in the soil. Meanwhile, the building constructed in 2006 in that place for garbage management and the compost division constructed during the year under review by spending Rs.750,000 had not been utilized for the said purpose.

3.5 **Assets Management**

Idle and under utilized assets

The following matters are observed.

- (a) Action had not been taken either to dispose of or to repair and make use of, a tractor and a trailer the value of which had not been stated, a tractor valued at Rs.200,000 and a galie bowser valued at Rs.130,000 all of which remained unused for a period ranging from 2 to 10 years.
- (b) Suitable action had not been taken with regard to the engine removed from a cab 04 years ago.
- (c) Forty four water meters purchased for Rs.142,102 in 2014 remained in the stores without being used.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

- (a) The revenue estimated for 03 items of revenue amounted to Rs.20,323,716. But, the Sabha could not succeed in earning the revenue. Meanwhile, 35 to 91 per cent of the revenue targeted for 09 items of revenue could not be achieved..

- (b) The provision made for 16 items of expenditure amounted to Rs.837,000. The entire provision had been saved without incurring any expenditure. The variances between the net provision and the actual expenditure of 12 items of expenditure ranged from 45 to 95 per cent.
- (c) An expenditure of Rs.1,330,836 had been incurred in excess of the budgeted provision of 13 items of expenditure during the year under review. However, proper approval had not been obtained in this regard.
- (d) Significant variances were observed between the budgeted and actual revenue and expenditure consequent to the transfer of provisions among items of revenue and expenditure during the year under review showing that the budget had not been utilized as an effective instrument of management control.

4.2 **Internal Audit**

A lady officer had been appointed for internal audit work without assigning duties to her in writing. But, she had been entrusted with other duties too. As such, adequate internal audit had not been carried out.

4.3 **Audit and Management Committees**

Action had not been taken to establish Audit and Management Committees in terms of the letter No.CPC/CLG/1/9/1/4 of 08 August 2014 of the Commissioner of Local Government .

5. **Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Assets Management
- (e) Control over Vehicles
- (f) Debtors' and Creditors' Control