

Nawagaththegama Pradeshiya Sabha

Puttlam District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Auditor General on 28 April 2016 while Financial Statements relating to the preceding year had been submitted on 10 April 2015. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 20 July 2016.

1.2 Qualified Opinion

In my opinion except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Nawagaththegama 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) Information relating to 03 current accounts had been maintained as one account of the main ledger and only assets, liabilities & equity account balance have been used in the preparation of Trial Balance.
- (b) A sum of Rs.7,425 that should have been brought to account as other revenue had been brought to account as charges & revenue for utility services.
- (c) 112 library books value of which amounted to Rs.37,680 purchased during the year had not been brought to account.
- (d) A computer valued at Rs. 15,500 and 14 computer accessories not valued included in the Fixed Assets Register without being brought to account under Fixed Assets.
- (e) Value of the final stock had been over-stated in accounts by Rs.458 and understated by Rs.28,973 respectively.
- (f) Although acquisition of assets during the relevant period had been shown in the Net Assets Variation Statement as Rs.29,808,658, value of added assets for the period in the Balance Sheet had been shown as Rs.31,048,613. Accordingly a difference of Rs.1,239,955 was observed.

- (g) Removal of assets during the year under review had been brought to accumulated fund account and adjusted under previous – year adjustments.
- (h) Decrease of creditors by Rs.471,979 in the cash flow statement and removal of assets to the value of Rs.194,897 had been adjusted as an addition.
- (i) Crew Cab, Motor Grader and Backhoe Loader made available to the Pradeshiya Sabha had neither been valued and nor brought to account.
- (j) Action had not been taken to assess & bring to account the value of Tractor bearing number NW-RD 1652 and the Trailer bearing No.NW – RW 8875 valued at Rs.1,550,000 and Rs.35,000 being its transfer cost had been brought to account as assets.
- (k) Action had not been taken to bring to account the amount of Rs.5,570 being the value of stock in hand.
- (l) Fire extinguisher valued at Rs.4,750 and computer Printer valued at Rs.6,000 had not been brought to account as fixed assets.

### 1.3.2 Unreconciled Control Accounts

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Balance of the financial statements presented during the year had been Rs.5,858,783. However according to schedules that balance was Rs.5,893,947. Accordingly a difference of Rs.35,164 was observed.

### 1.3.3 Accounts Receivable and Payable

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Following matters were observed.

- (a) The total of account balance receivable as at 31 December 2015 amounted to Rs.4,997,185 while the total of account balance payable amounted to Rs.5,746,743 of which the total of account balance receivable over one year was Rs.3,427,777 and the value of balance payable over 03 years amounted to Rs.243,629.
- (b) Sufficient evidence on royalty amounting to Rs.243,629 being brought forward over a number of years had neither been submitted for auditing nor action taken to credit the same to government revenue.
- (c) A sum of Rs.709,186 applicable to 07 industries implemented in 2014 had been included in the balance of Rs.2,881,442 receivable from the Ministry of Economic Development. Therefore it had been overstated in accounts by similar amount.
- (d) With regard to stamp fees, estimated value of Rs.30,000 for 2013 and Rs.80,000 for 2014 had been brought to account without scheduling and calculating stamp fees receivable over a period of one year.
- (e) Due to non repayment of 20 percent advance paid in a sum of Rs.436,000 for 05 industries in 2014 and in a sum of Rs.40,000 for one industry totaling Rs.476,000 being implemented under assistance of the Ministry of Economic Development, recovery had not been impossible.
- (f) The total staff loan advance recoverable as at 31 December 2015 had been amounted to Rs.1,915,412.

#### 1.3.4 Lack of Evidence for Audit

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Due to non submission of evidence required for audit, it had not been possible to satisfactorily verify balance of accounts amounting to Rs.1,728,860.

#### 1.3.5 Non compliance with Laws, Rules and Regulations

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Following observations are made.

- (a) Action had not been taken to formally recover court fines, stamp fees and lease rent recoverable in terms of Sections 129 (2) (a) and (f) of the Pradeshiya Sabha Act No.15 of 1987
- (b) A Fixed Assets Register on all lands and buildings owned by the Sabha had not been maintained in terms of Rule 217 of Pradeshiya Sabha Rule(Finance and Administration)1988.

### 2. Financial Review

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#### 2.1 Financial Result

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According to financial statements presented excess of recurrent expenditure over income for the year ended 31 December 2015 amounted to Rs.3,393,978 as against excess of income over recurrent expenditure of the preceding year amounted to Rs.3,215,036.

#### 2.2 Analytical Financial Review

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##### Structure of Expenditure

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Budgeted and actual expenditure of the Sabha along with relevant variance for the year under review are given below.

Item of Expenditure	Budgeted	Actual	Variance
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	Rs.	Rs.	Rs.
	'000	'000	'000
<b><u>Recurrent Expenditure</u></b>			
Personal emoluments	22,978	23,267	(289)

Other	6,236	6,758	(522)
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Sub total	29,214	30,025	(811)
Capital expenditure	2,088	7,554	(5,466)
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Grand total	31,302	37,579	(6,277)
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Variance between estimated capital expenditure and actual capital expenditure was 72 per Cent

### 2.3 Working Capital Management

Percentage between current assets and current liabilities for the year 2014 was 1.08 : 0.93 while during the year under review the same was 1.6 : 0.6. However standard percentage should have been 2:1.

### 2.4 Revenue Administration

#### 2.4.1 Performance in Revenue Collection

Following observations are made.

(a) Information relating to estimated revenue and actual revenue submitted by the Sabha applicable to the year under review are as follows;

Item of Revenue	Estimated	Actual	Variance
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	Rs.	Rs.	Rs.
-	<b>000'</b>	<b>000'</b>	<b>000'</b>
Rates & Taxes			
Lease Rent	1,733	2,515	(782)
Licence fee	141	154	(13)
Fines & Warrants	2,740	851	1,889
Other	26,688	2,595	24,093
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	31,302	6,115	25,187
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In this regard following observations are made.

- (i) Recovery of revenue during the previous year had been 30 per cent of the estimated revenue and the same had been 19 per cent during the year under review leading to 11 percent decrease.
- (ii) When compared previous year and the year under review the variance between estimated income and actual income as at 31 December should have been 69% & 80%. Accordingly over estimation occurred.

(b) Progress of the recovery of revenue in arrears and billed revenue achieved by the Sabha during the year under review are as follows:

Item of Accumulated Revenue	Revenue in	Recovery	Billed re-	Recovery	
	arrears as at 01.01.2015	from arrears	venue in the year	from billed revenue	arrears as at 31.12.2015
	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'
Lease Rent	03	03	998	1,137	(139)
Licence fee	--	--	80	101	(21)
Warrants & fines	388	388	851	507	332
Other Revenue	131	21	90	--	200

According to the above information, arrears in revenue of warrant fees and court fines as at 31.12.2015 for the year under review had been Rs.344,000. However only Rs.332,000 had been brought to account as revenue in arrears. Therefore Rs.12,000 had been understated in accounts.

#### 2.4.2 Court Fines & Stamp Fees

Following observations are made

##### (a) Court Fines

Action had not been taken by the Sabha to bring court fines during the period from June to November amounting to Rs.509,831 and only a sum of Rs.281,998 applicable to the period from June to September had been brought to account as debtors. Instead the Sabha had taken action to bring only an estimated amount of Rs.50,000 for October, November and December to account.

(b) Stamp Fees

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Due to non scheduling of stamp fees receivable, the Sabha had taken action to bring to account an estimated amount of Rs.200,000 applicable to period from June 2013 to 31 December of the year under review.

3. Operating Review

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3.1 Management Inefficiencies

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The Sabha had neither implemented a sufficient revenue promotion programme nor concentrated on new revenue generating avenues.

3.2 Identified Losses

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Following matters are observed.

(a) As per Board of Survey report 2015 it was observed that 20 books valued at Rs.2,804 had been lost and action had not been taken to recover the loss from responsible parties.

(b) Although 18 books valued at Rs.3,745 had been lent 03 year before, action had neither been taken to secure the return of those books nor steps taken to recover the loss.

3.3 Contract Administration

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Repair work in respect of 03 roads under provision of the Ministry of Economic Development at estimated cost amounted to Rs.1,180,660 had not been completed whereas Rs.120,000 which being 20% of the estimated cost had been made available as advance payment applicable to one road, achievement had not been sufficient to recover the advance. Progress of other two roads too had been 45 per cent and 40 per cent respectively.

4. Good Governance & Accountability

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4.1 Budget Controlling

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Budgeted capital provision during the year under review amounted to Rs.2,088,250 while the actual capital expenditure was Rs.7,554,076, variance of which being nearly 362 percent.

#### 4.2 Annual Procurement Plan

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Annual procurement plan had not been prepared.

#### 4.3 Internal Auditing

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Although the Sabha had prepared internal audit plan, internal audit had not been conducted from 01 July to 31 December 2015

#### 4.4 Audit and Management Committees

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Audit and management committees had been established in 2014. Whereas this committee should have been met once in quarter, audit and management committee meeting was not held in 2015.

#### 4.5 Human Resources Management

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Approved and Actual Cadre

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Following observations are made in this regard.

- (a) The Post of Secretary remains vacant for a number of years and duties of that post are covered by Development Officer (Revenue Promotion)
- (b) It was observed that public service and supervision would be far behind the expected level due to posts of Librarian, work supervision, tube well technician and electrician had been falling vacant for a long time.

#### 4.6 Assets Management

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Following observations are made

- (a) Idle and underutilized assets  
Mini Kubota Tractor and Trailer valued at Rs.332,500 owned by the Sabha had been remained idle for over eleven years.
- (b) Irregular use of assets not acquired  
Action had not been taken to transfer Backhoe Loader bearing No.WP-2A-5050 valued at Rs.16,380,000 and motor grader bearing No.2A-5289 valued at Rs.18,000,000 in the name of Sabha even by 17 May 2016.

5. Systems and Controls

Special attention of the Sabha should be drawn to the following areas of Systems and Controls:

- a) Accounting
- b) Revenue Administration
- c) Assets Management