

Arachchikattuwa Pradeshiya Sabha

Puttalam District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2016 had been submitted to Audit on 27 March 2017 while Financial Statements relating to the preceding year had been submitted on 19 May 2016 and the Auditor General's Report relating to the year 2016 had been sent to the Secretary of the Sabha on 24 July 2017.

1.2 Qualified Opinion

In my opinion, except for the effects 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 Arachchikattuwa Pradeshiya Sabha as at 31 December 2016 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 matters are observed.

- (a) Machinery and furniture valued at Rs.261,255 and Rs.218,370 respectively, auctioned in March 2017 had been eliminated from the financial statements of the year 2016.
- (b) Despite having credited the capital donation of Rs.1,033,173 relating to the year 2005 to the Income and Expenditure Account of the same year, that amount had been again credited in the year 2015 to the Accumulated Fund Account through Journal Entry No.29.

1.3.2 Unreconciled Control Accounts

The following matters were observed.

- (a) The contributory pensions of Local Government valued at Rs.16,674 payable to the Department of Pensions as at the end of the year under review according to the financial statements, had been Rs.420,492 according to a letter of the Department of Pensions, thus observing a difference of Rs.403,818.
- (b) Even though the revenue from lease rents of the year under review amounted to Rs.4,424,957 according to relevant registers, that amount was Rs.4,290,574 according to the Consolidated Report on Arrears of Revenue, thus observing a difference of Rs.134,383.

1.3.3 Lack of Evidence for Audit

Schedules and Confirmation of Balances relating to debtors and advances amounting to Rs.83,931 and Rs.250,000 had not been made available. As such, they could not be satisfactorily examined in Audit.

1.3.4 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, Management Decisions etc.	Non-compliance
(a) Pradeshiya Sabha Act, No.15 of 1987	
(I) Section 158	Action had not been taken to recover the arrears of rates amounting to Rs.7,985,676 by seizing the movable property belonging to defaulters of rates in the area of authority of the Sabha.
(II) Section 159 (I)	Action had not been taken to recover lease rent and stall rent receivable to the Pradeshiya Sabha amounting to Rs.4,424,957 and Rs.572,550 respectively.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
Financial Regulation 371	Action had not been taken even as at 31 December of the year under review to settle an advance of Rs.280,000 granted in the years 2008, 2009 and 2014.
(c) Treasury Circular No. IAI/2002/02 of 28 November 2002	A Register of Fixed Assets had not been maintained relating to computers and computer accessories belonging to the Sabha.

02. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 had been Rs.6,040,231 as compared with the corresponding excess of revenue over recurrent expenditure of Rs.1,855,078 for the preceding year.

2.2 Analytical Financial Review

The increase in two Items of Revenue by Rs.9,048,627 and the decrease in one Item of Expenditure by Rs.5,467,073 had mainly attributed to the improvement of the financial result by Rs.4,185,153.

2.3 Revenue Administration

2.3.1 Performance in Collection of Revenue

Sixty seven per cent out of the revenue from rates and taxes, 75 per cent of the revenue from acreage tax, 79 per cent of the revenue from water tax, 58 per cent of the revenue from stall rent and 36 per cent of the revenue from lease rent that should be collected as at the end of the year under review, had not been recovered.

2.3.2 Rates and Taxes

The following matters were observed.

- (a) Out of the rates and taxes amounting to Rs.2,674,966 billed for the year under review, only a sum of Rs.1,171,734 had been collected during the year. It was 44 per cent of the amount billed.
- (b) Out of the arrears of rates and taxes for the preceding years, only 29 per cent had been recovered in the year under review. Accordingly, a sum of Rs.7,985,675 had to be recovered as at the end of the year under review.

2.3.3 Lease Rents

The arrears of lease rent as at 31 December 2016 amounted to Rs.4,424,957 and a sum of Rs.4,289,602 out of that, was lease rent recoverable from the year 2002 up to the year 2015.

2.3.4 Other Revenue

Out of 05 stalls rented out by the Sabha, the arrears of rent receivable by 31 December 2016 amounted to Rs.572,550 while a sum of Rs.470,418 out of that, had remained without being recovered for a period ranging from 01 year to 10 years.

2.3.5 Court Fines and Stamp Duty

The value of stamp duties and court fines recoverable as at 31 December 2016 from the Chief Secretary amounted to Rs.31,266,067 and Rs.9,718,559 respectively.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) Employees' loans amounting to Rs.149,210 remains in arrears since before the year 2008 due to transfers and vacation of service and the Sabha had not taken necessary action to recover those amounts.
- (b) The revenue from rates and taxes had been decreased due to recovery of rates and taxes in the year under review as well by the Sabha on an old assessment of 9 years.
- (c) Action had not been taken to obtain new assessment values for 22 properties identified as special property.
- (d) Eighty four roofing sheets valued at Rs.149,100 purchased in the year 2014 had not been distributed among the relevant beneficiaries.
- (e) Action had not been taken to lease out an extent of 04 acres 01 rood and 26 perches on 06 lands belonging to the Pradeshiya Sabha, for the year under review.

3.2 Progress in the execution of Projects

Provisions of Rs.17,082,104 had been made for the year under review for 35 projects and out of those projects, 10 projects estimated at Rs.5,333,008 had not been commenced by 31 December 2016. Five projects had achieved only a progress between 20 per cent and 75 per cent and activities of 20 projects had been completed during the year.

3.3 Solid Waste Management

A possibility in rising of environmental problems exists in the continuous collection and disposal of about 04 tons of waste per day within the area of authority of the Sabha to a land owned by an outside party and the Sabha had failed to arrange and implement a proper procedure relating to solid waste management.

3.4 Human Resources Management

According to the approved and actual cadre of the Sabha as at 31 December 2016, there were 17 vacancies and 08 in excess respectively in the Secondary and Primary Levels.

4. Good Governance and Accountability

4.1 Action Plan

In terms of Public Finance Circular No. 01/2014 and Circular dated 13 February 2014, an Action Plan had not been prepared relating to the year under review by the Sabha.

4.2 Internal Audit

Internal audit examinations relating to financial and operating activities of the Sabha had not been carried out for the year under review.

5. Systems and Controls

Special attention is needed in respect of the following areas of control.

System	Observations
(a) Debtors	Failure in taking action to recover debtors balances shown in financial statements for a long period and in taking necessary future measures in respect of uncertain debtors balances.
(b) Creditors	Failure in taking action to settle creditors balances shown in financial statements for a long period.
(c) Fixed Assets	Non-maintenance of a register relating to computers and computer accessories owned by the Sabha.
(d) Collection of Revenue	Failure in taking action to recover revenues such as rates and taxes, lease rent, stall rent, stamp duties and court fines receivable.
(e) Employees' loans	Failure in taking action to recover employees' loans, shown as recoverable since before the year 2008.
(f) Waste Management	Action had not been taken to dispose of waste collected daily in the area of authority of the Sabha in an environment friendly manner.