

Rajanganaya Pradeshiya Sabha
Anuradhapura District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been presented to the Audit on 29 March 2018. The Report of the Auditor General relating to those financial statements was issued to the Chairman on 21 September 2018.

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 Rajanganaya Pradeshiya Sabha as at 31 December 2017 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 observations are made.

- (a) The cost of the water project and the building of the weekly fair that had been completed in the year 2016, had been understated by a sum of Rs. 7,674,230 in the accounts. Hence, the fixed assets and the balance of Revenue to Capital Outlay Account had been understated by that amount.
- (b) Instead of eliminating from the accounts the cost of materials removed from the old building of the weekly fair at the 5th post that had been recommended to be auctioned in the Board of Survey for the year 2016, the value of auction amounting to Rs. 109,750 had been eliminated from the accounts.
- (c) A number of 20 items of asset worth Rs. 1,106,177 shown under fixed assets had been eliminated in different instances. However, such eliminations had not been adjusted to the accounts.
- (d) As 20 GI pipes worth Rs. 28,500 had been accounted twice under machinery and office equipment, the Revenue Contribution to Capital Input Account had been overstated.
- (e) Stocks worth Rs. 666,656 that had been brought forward in the General Stores Account as at 31 December 2016, had been made use of in the year under review, but it had not been identified as an expenditure. Hence, the surplus and stocks of the year had been overstated by that amount.
- (f) As a deposit amount of Rs. 153,694 obtained for the year 2018 had been brought to accounts as a lease rent of the year under review, the surplus had been overstated by that amount whilst the repayable deposits had been understated by the same amount.
- (g) As the Court fines totaling Rs. 14,106,147 received in the year 2018 with respect to the preceding years, had been identified as an income of the year under review, the surplus of the year had been overstated by that amount.
- (h) Capital expenses amounting to Rs. 819,423 spent on the "Marga Sathiya" project had been brought to accounts as recurrent expenses. As such, the expenses of the year had been overstated by that amount. Even though the said expenses should have been reimbursed from the Department of Local Government, those expenses had not been shown as an amount receivable in the financial statements. Hence, the current assets had been understated by that amount.

- (i) As the sum totaling Rs. 615,932 spent on the constructions of lavatories of the Sabha had been brought to accounts as recurrent expenses, the expenses of the year had been overstated whilst the Revenue to Capital Outlay Account had been understated by that amount.
- (j) Even though the balance of the employees security deposit accounts totaled Rs. 43,154 as at 31 December of the year under review, that balance had been shown as Rs. 11,539. As such, the current liabilities had been understated by a sum of Rs. 31,615.

1.3.2 Accounts Receivable and Payable

Action had not been taken in the year under review to settle 08 receivable account balances totaling Rs. 2,374,837 brought forward over many years and 07 payable account balances totaling Rs. 1,720,536. The Sabha did not possess the age analyses relating to those balances and the information required to confirm the balances

1.3.3 Lack of Documentary Evidence for Audit

As the required information had not been made available, 03 items of accounts totaling Rs. 72,857,904 could not be satisfactorily vouched in audit.

1.3.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations, and Management Decisions are shown below.

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Value</u> Rs.	<u>Non-compliance</u>
(a) Rules of Pradeshiya Sabha (Financial and Administration) 1988		
(i) Rule 174		When the activities carried out on department basis, neither a check-roll nor a distribution register had been maintained on the group of laborers deployed on each rate.
(ii) Financial Rule 261.2.2	12,320	Of the sum amounting to Rs. 50,000 obtained to provide materials for the preschools, a sum of Rs. 12,320 had been spent on activities external to the relevant purpose.
(b) Gazette, No. 1993 dated 11 November 2016 relating to the imposition of annual license fees of the Sabha.	512,150	In a manner not compliant with the fees stated in the Gazette, fees had been charged from 253 businesses that had not been gazetted under business taxes.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 9,779,625 for the year ended 31 December 2017 as compared with the revenue in excess of the recurrent expenditure amounting to Rs. 3,816,875 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue, and Revenue in Arrears

Information submitted regarding the billed revenue, collected revenue and arrears revenue relating to the year under review is shown below.

Source of Revenue	Opening Balance as at 01 January 2017	Revenue Billed for 2017	Revenue Collected for 2017		Revenue in Arrears as at 31 December 2017
	Value	Value	Deficit as at 2017.01.01	of the Amount Billed for 2017	
	Rs.	Rs.	Rs.	Rs.	Rs.
License Fees	-	79,000	-	79,000	-
Trade Stall Rents	17,000	807,000	17,000	778,200	45,500
Tax on Tenders	-	461,200	-	461,200	-
Fees for Fairs	-	2,991,500	-	2,991,500	-
Business Tax	-	568,000	-	568,000	-
Industrial Tax	-	444,500	-	444,500	-
Environmental License	-	93,200	-	93,200	-
Total	17,000	5,444,400	17,000	5,415,600	45,500

2.2.2 Rates and Taxes

Action had not been taken to recover assessment tax based on the assessment of the properties by identifying the developed areas in the division, in accordance with Section 134 (i) of the Pradeshiya Sabha Act, No. 15 of 1987.

2.2.3 Court Fines

Court fines recoverable as at the end of the year under review amounted to Rs. 14,734,221.

2.2.4 Stamp Fees

The value of stamp fees recoverable from the North Central Provincial Council as at 31 December of the year under review amounted to Rs. 1,080,426.

2.2.5 Other Revenue

Action had not been taken to register the hoardings in the division of the Council and recover the revenue.

3. Operating Review

3.1 Performance

Matters revealed in the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people in terms of Section 3 of the Pradeshiya Sabhas Act, are as follows.

a) Bylaws

By-laws should have been made under Section 126 of the Pradeshiya Sabhas Act to carry out 28 main activities. Nevertheless, it had been published in the Gazette, No. 2051, dated 22 December 2017 that the North Central Provincial Council had followed Bylaw, No. 1960/35 stated in the Gazette, dated 30 0 March 2016. However, the said bylaws had not been implemented.

b) Action Plan

The Provincial Council had not prepared an Action Plan for the period of 2014/2015 in accordance with the Circular, dated 01 February 2017 of the Ministry of Finance and Planning, and carry out activities accordingly.

c) Sustainable Development Targets

The Sabha had not become aware of the 2030 Agenda of sustainable development adopted by the United Nations. As such, the Sabha had not taken action to carry out the activities mentioned therein.

3.2 Management Inefficiencies

The following matters were observed.

- a) Action had not been taken to rectify the difference of 25 items of assets between the schedule and Register of Fixed Assets relating to 05 items of fixed assets.
- b) A number of 04 units of assets worth Rs. 41,350 that had been auctioned, had been brought forward continuously without being eliminated from the schedules.
- c) The Register of Fixed Assets had not been maintained in an up-to-date manner enabling the separate identification of furniture and equipment acquired since the year 1988.

4. Accountability and Good Governance

4.1 Budgetary Control

As the budget had been prepared without forecasting the revenue and expenditure properly, a variance ranging from 33 per cent to 147 per cent was observed between the budgeted and actuals of 05 items of revenue whilst a variance ranging from 32 per cent to 308 per cent was observed between the budgeted and actuals of 06 items of expenditure in the year under review. Thus, it was observed that the budget had not been made use of as an effective instrument of management control.

4.2 Internal Audit

Even though an internal auditor had been appointed in terms of Section 06 of the Circular, No. 04/2015, dated 18 March 2015 issued by the Commissioner of the Local Government of the North Central Province, no internal audits had been carried out.

4.3 Audit and Management Committees

Audit and Management Committees had not been appointed for the year 2017 in accordance with the Circular, No. DMA/2009(1) of the Management Audit Department, dated 09 June 2009.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of control.

<u>System</u>	<u>Deficiency</u>
a) Fixed Assets	Failure to record accurately.
b) Stocks	(i.) Failure to identify the opening balance of the year. (ii.) Existence of unidentified stocks.
c) Debtors and Creditors	(i.) Failure to prepare the schedules. (ii.) Failure to prepare age analyses.
d) Projects	Lack of supervision.
e) Accounting	Failure to balance the general ledger.
f) Revenue	(i.) Failure to make bylaws. (ii.) Failure to recover rates. (iii.) Failure to assess the rented properties of the Sabha in view of charging revised fees. (iv.) Failure to prepare a register of hoardings. (v.) Failure to charge fees from the hoardings.