

Hanguranketha Pradeshiya Sabha

Nuwaraeliya District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 07 April 2015 while Financial Statements relating to the preceding year had been submitted on 31 March 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 28 July 2015.

1.2 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 Hanguranketha Pradeshiya Sabha at 31 December 2014 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

Following matters are observed.

- (a) Fair Taxes Billings amounting to Rs.1,516,794 of the year under review had been accounted as Rs.1,129,023 in the Revenue and Expenditure Account. Due to that revenue for the year under review had been understated in a sum of Rs.387,771.

- (b) While salaries paid during the year amounting to Rs.914,954, to 18 employees who were made permanent in October 2014 had not been got reimbursed, it had not been accounted as Debtors as well.
- (c) Salary Reimbursements amounting to Rs.9,388,789 relating to Physical Planning Section had been shown under Other Revenue in the Revenue and Expenditure Account. Due to that, Other Revenue had been overstated and the Salary Reimbursements (Other Grants) had been understated to the extent of that value.
- (d) A sum of Rs.500,761 received as Charges for Services, had been shown under License Fees in the Revenue and Expenditure Account. Due to that, License Fees had been overstated and the Service Charges had been understated to the extent of that value.
- (e) The balance of the Local Loans and Development Fund as at 31 December 2014 amounting to Rs.14,464,226 had been shown as Rs.14,444,329 in the financial statements. Due to that, Loan Capital had been understated in a sum of Rs.19,897.
- (f) Action had not been taken to record in the Cash-Book and account the sum of Rs.291,285 shown in the bank reconciliation statement for December 2014 as amount not recorded in the Cash-Book.

1.3.2 Non-reconciled Control Accounts

While the total of balances relevant to 04 items of accounts according to Control Accounts was Rs. 79,037,247, according to Subsidiary Registers and records, the total of those balances had been Rs. 62,037,531.

1.3.3 Decrease in Net Assets

While the value of Net Assets as at 31 December of the year under review was Rs.103,096,026, that value of the preceding year had been Rs. 104,064,928. Accordingly it was observed that the decline in Net Assets had been Rs. 968,902.

1.3.4 Accounts Receivable

While the balance of Work Debtors as at 31 December 2014 was Rs. 39,194,775, the value of balances that had elapsed for a period of one year included in that was Rs.14,112,067. While these amounts were provisions to be received from the Central Government, any evidence was not furnished to audit supporting that money will be received.

1.3.5 Accounts Payable

While the value of Accounts Payable balances as at 31 December 2014 was Rs.40,051,191, out of balances that had elapsed for more than a period of 01 year was Rs.9,340,611.

2. 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 2014 amounted to Rs.1,580,613 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 3,390,754.

2.2 Analytical financial Review

When the surplus for the year under review is compared with the surplus for the preceding year, a decrease in a sum of Rs. 1,810,141 was observed. It was due to decrease of revenue in 03 revenue items in a range from 13 per cent to 28 per cent and increase of expenditure in 05 expenditure items in a range from 24 per cent to 1080 per cent.

2.3 Working Capital Management

When total Current Assets were compared with the Current Liabilities, Current Ratio had been 1:2:1 and it was lower than the optimum level. The corresponding value for the preceding year was at an optimum level of 2:3:1. While 74 per cent of the Current Assets had been Work Grants in arrears, 74 per cent of the Current Liabilities had been Works Creditors.

2.4 Revenue Administration

2.4.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

Item of Revenue	Receipts during the Year				Balance as at 31.12.2014		Total Arrears
	Arrears as at 01.01 2014	Billings during 2014	Out of arrears 2014	Out of billings 2014	Out of arrears	Out of billings	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates	1,812,947	1,888,916	494,764	954,277	1,318,183	934,639	2,235,517
Lease Rent	1,019,919	1,073,465	85,022	543,921	934,897	529,544	1,464,441
Water Taxes	755,679	1,181,090	590,620	630,450	165,059	550,640	715,699
Stamp Fees	3,758,386	4,149,120	2,150,155	1,291,703	-	2,857,417	2,857,417
Court Fines	480,710	974,202	472,706	374,622	9,004	599,580	607,581

2.4.2 Rates

While 27 per cent of the arrears at the beginning of the year and 50 per cent of the billings relating to Rates had been recovered at the end of the year under review, Rates in Arrears at the end of the year under review had been Rs. 2,235,517 including an arrears of Rs. 1,237,211 out of the opening balance. Action in terms of Section 158 of the Pradeshiya Sabha had not been taken to recover Rates in arrears.

2.4.3 Lease Rent

While a Revenue of Rs. 1,464,441 was outstanding to be recovered on account of leasing out stalls belong to the Sabha, proper agreements had not been entered into with the lessees.

2.4.4 Vehicles Parking Fees

By-laws had been imposed for parking vehicles for hire in the area of authority of the Sabha. Although there was a possibility to recover a formal tax by maintaining and marking vehicle parks for various types of vehicles that revenue had not been received due to inefficiency of authorities. Revenue of Rs. 9,600 only had been received from these hiring vehicles during the year 2014.

2.4.5 Water Charges

While Water Charges in Arrears as at 31 December 2014 was Rs.715,699, out of that there were balances in arrears for more than one year amounting to Rs.165,059. A proper procedure had not been followed for recovery of Water Charges in Arrears.

2.4.6 Trade License Fees

Although all names of business entities should be included in the Trade Licenses Register by the Revenue Inspector/or the Chairman after carrying out a proper survey at the beginning of each year in terms of Rule 07 of Pradeshiya Sabha (Financial and Administrative) Rules Series of 1988, action had not been taken as per those instructions.

2.4.7 Court Fines and Stamp Fees

Amounts receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014 are shown below.

	Rs.
Court Fines	974,202
Stamp Fees	4,149,120

Total	5,123,322
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3. Operating Review

3.1 Management Inefficiencies

- (a) Un-identified difference of Rs. 25,574 shown in the Bank reconciliation Statement as at 31 December 2008 had not been settled even up to the 31 December of the year under review.

- (b) Action in terms of Rule 218 of Pradeshiya Sabha (Financial and Administrative) Rules Series of 1988 had not been taken to carry out an annual survey with regard to the Land and Buildings of the Sabha.

3.2 Solid Waste Management

A suitable scheme had not been followed for garbage management over a number of years by the Sabha. An expenditure amounting to Rs. 276,440 had been incurred during January to October 2014 to cover garbage by putting soil.

3.3 Environmental Problems

An annual survey had not been carried out with read to institutions to be issued with Environment Protection Permits.

4. Accountability and Good Governance

4.1 Corporate Plan

Sabha had not prepared a Corporate Plan.

4.2 Budgetary Control

- (a) According to the Budget prepared for the year under review, when estimated revenue and expenditure are compared with the actual revenue and expenditure, variations from 07 per cent to 766 per cent in 07 Items of revenue and variations from 09 per cent to 766 in 10 items of expenditure were observed. Accordingly, it was observed that the Budget had not been made use of as an effective tool of management.
- (b) While over provision had been made for 09 Expenditure Heads without carrying out a proper study with regard to the necessity of provisions properly, these provisions had been transferred to 15 Items of Expenditure for which under provisions had been made.

- (c) The entire sum of Rs. 960,000 allocated for 07 Expenditure Heads had been saved without performing the relevant works.
- (d) A sum of Rs. 356,062 had been spent in 05 instances without provisions being made in the Budget.

4.3 Annual Procurement Plan

Although a capital expenditure of Rs. 46,723,606 had been incurred during the year under review, an Annual Procurement Plan had not been used in terms of sub-paragraph 4:2 of the Government Procurement Guidelines.

4.4 Internal Audit

An Adequate Internal Audit had not been carried out in the establishment, in terms of Financial Regulation 133 of the Republic of Sri Lanka and the Circular No.DMA/2009/01dated 09 June 2009 of the Department of Management Audit.

5. Systems and Controls

Special attention of the Sabha is needed in the following areas of controls.

- (a.) Accounting
- (b.) Internal Control
- (c.) Revenue Administration
- (d.) Debtors and Creditors Control