

Valikamam South West Pradeshiya Sabha

Jaffna District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 25 April 2014 and the financial statements for the preceding year had been presented on 25 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 26 November 2014.

1.2 Opinion

In my opinion, except for the effects on the financial statements of the matters referred to in paragraph 1.3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Valikamam South West Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations and cash flow for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

(i) The accounting deficiencies observed in the financial statements are shown in the following table as revenue, assets and liabilities.

Effect on Financial Statements	Revenue		Assets		Liabilities	
	No. of Instances	Value	No. of Instances	Value	No. of Instances	Value
		Rs.		Rs.		Rs.
Understatements			01	41,182,591	02	281,335
Overstatements	02	1,574,197	01	162,532	01	17,817
Omissions					02	4,747,834

1.3.2 Unreconciled Control Accounts

The balances of miscellaneous deposits were Rs.2,446,768 as per main ledger whereas it was Rs.2,436,568 as per Miscellaneous Deposit Account.

1.3.3 Lack of Evidence for Audit

Non rendition of Information for Audit

Four transactions valued at Rs.22,960,738 could not be vouched in audit due to non- rendition of necessary information for audit.

1.3.4 Idle Reserves

Reserves of past years in the Income and Expenditure Accounts continued to be shown as balances without being used for the intended purpose.

<u>Type of Reserve</u>	<u>2012</u>	<u>2013</u>
	(Rs)	(Rs)
Redemption of Loans	92,578	92,578
Pensionary Reserve	4,570,689	4,570,689
Replacement Reserve	3,091,296	3,091,296

1.3.5 Non Compliance

The following instances of non-compliance with laws, rules, regulations and management decisions were observed in audit

Reference to Laws, Rules and Regulations

1988 Pradeshiya Sabha (Finance and Administration) Rules

Chapter V
Section 140

Financial Regulations of the Democratic Socialist Republic of Sri Lanka No. 571

Non compliance

The Secretary had not taken action with regard to non-payment of the advance of Rs.28,482 on the due date.

Lapsed deposits of Rs.1,671,148 exceeding 2 years continued to be shown in the Deposit Account since 1999.

Value Added Tax Act No.14 of 2012 of the Department of Inland Revenue

The value added tax of Rs.502,444 recovered during the previous year had been credited to the Consolidated Fund without being remitted to the Department of Inland Revenue.

Inland Revenue Act No. 10 of 2006

The withholding tax of Rs.57,728 recovered during the previous year had been credited to the consolidated fund without being remitted to the Department of Inland Revenue.

Goods and Services Tax No.34 of 1996

The goods and services tax of Rs.1,670,178 recovered by the Sabha during the previous year had been credited to the consolidated fund without being remitted to the Department of Inland Revenue.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha for the under review was Rs.37,893 as compared with the revenue exceeding the recurrent expenditure amounting to Rs.22,416,902 of the preceding year.

2.2 Financial Control

The budget had not been properly prepared. As such, it was observed in audit that there was a difference of Rs.3,025,598 between the budgeted and actual revenue and a difference of Rs.9,064,323 between the budgeted and actual expenditure.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review, as presented by the Chairman, appear below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
-----	-----	-----	-----
	Rs.000	Rs.000	Rs.000
(i.) Rates and Taxes	1,768	1,512	3,887
(ii.) Lease Rent	6,863	6,310	-
(iii.) Licence Fees	8,013	3,203	-
(iv.) Other Revenue	60,143	62,736	42,997

2.3.2 Loss of Revenue

- (a) Entertainment tax of Rs.17,200 had not been recovered from lotteries conducted by temples and old boys' associations during 2012 to 2013.
- (b) The Sabha had exempted the entertainment tax on Rs.50,000 collected from lotteries conducted by the Old Boys' Development Society of the St.Canria college (Ilavalai) and the Sabha had been deprived of its revenue.

2.3.3 Revenue Collection

Legal or any other effective action had not been taken by the Sabha to recover the arrears of rates and taxes and lease rent amounting to Rs.4,134,005 during the year under review.

2.3.4 Court Fines

Court fines amounting to Rs.1,684,346 recovered under various ordinances by the Mallakam Magistrate's Courts during January to July of the year under review had been accounted for, as revenue. However, the court fines of Rs.1,233,438 due for the period August to December 2013 had not been accounted for, as revenue or receivables.

2.3.5 Stamp Fees

The stamp fees due from the Register General for the period 2006-2013 was Rs.8,363,432. But, the amount shown as receivable in the financial statements was Rs.42,750,240. Effective action had not been taken to recover the stamp fees.

2.4 Assets Management

2.4.1 Idle and Under Utilized Physical Resources

- (a) Twenty four items purchased for Rs.34,242 by the Sabha during the year 2001 remained idle at the stores.
- (b) According to the board of survey report, there were 67 unusable items at the head office and at the sub office.
- (c) The board of survey had recommended to destroy 35 items of the head office as they were unusable. But, these items were lying at the stores.
- (d) The pickup van bearing No.252-6555 shown in the list of fixed assets of the Sabha had not been produced for physical verification.

2.4.2 Vehicle Utilization

- (a) The damaged ploughing machine bearing No.NPRV 9792 remained parked in the premises of the Sabha for about 2 years without usage.
- (b) The milometers of 6 vehicles had been damaged and as such the consumption of fuel per kilometre could not be ascertained in audit.

2.4.3 Staff Loans Recoverable

The arrears of staff loans due from 11 officers who had retired/ suspended from service amounted to Rs.66,806. This amount continued to be shown as balances due without action being taken to recover it from gratuities/ sureties although five years had elapsed.

2.4.4 Operating Inefficiencies

- (a) Donations received from the Commissioner of Local Government and non-governmental organizations during 2009-2010 amounted to Rs.151,715. This had not been used for the intended purpose and had been included in the sundry Debtors Account. Due to that the public had not been benefitted from these donations.

- (b) The UNICEF had granted Rs.160,000 during the year under review for constructing latrines. This continued to be held in the Miscellaneous Deposit Account without being used.

2.5 Contract Administration

(a) Delay in Executing Projects

A sum of Rs.42,649,820 was in the Sundry Debtors Account since 2012 as the proposed projects had not been executed upto the date of this report.

(b) Abandonment of Projects

Twelve Projects valued at Rs.8,414,655 approved in the budget for the year under review had been abandoned due to improper preparation of projects. Meanwhile, a sum of Rs.3,171,371 had been invested in a fixed deposit at the National Savings Bank and as such the benefits due to the public from these projects had been deprived of.

3. Systems and Controls

Special attention is needed in respect of the following areas of system and controls.

- (a) Budget
- (b) Sundry Deposits
- (c) Miscellaneous Deposits
- (d) Donations
- (e) Fixed Assets
- (f) Staff Loans
- (g) Collection of Revenue