

**Ella Pradeshiya Sabha**  
**Badulla District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 18 June 2014 and the financial statements for the preceding year had been presented on 10 June 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 20 October 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 Sri Lanka Public Sector Accounting Standards and give a true and fair view of the state of affairs of the Ella Pradeshiya Sabha as at 31 December 2013 and the financial results of its operations and cash flows for the year then ended.

**1.3 Comments on Financial Statements**

**1.3.1 Decrease in Net Assets**

According to the financial statements presented, the value of net assets as at end of the year under review amounted to Rs.9,338,204 and the value of net assets as at end of the preceding year amounted to Rs.11,457,662 and the net decrease amounted to Rs.2,069,458.

**1.3.2 Accounting Deficiencies**

- (a.) A sum of Rs.1,332,022 received for works from the Department of Local Government -Uwa Province during the year under review had been credited to the stamp duty deposits account and therefore the revenue for the year had been understated by a similar amount and the balance of the deposits payable account had been overstated in the financial statements by a similar amount.
- (b.) Local Loans and Development Fund account should be debited and the creditors account should be credited by Rs.452,355 for provisions in respect of loan installments payable to the Local Loans and Development Fund as at 31 December of the year under review. However, Local Loans and Development Fund account had been debited and the accumulated fund account had been credited by Rs.625,693 through Journal Entry 52 and therefore, the creditors balance had been understated by Rs.452,355 and the balance of the Local Loans and Development Fund account had been understated by Rs.173,338 and the balance of the accumulated fund account had been overstated by Rs.625,693 in the financial statements as at end of the year.
- (c.) The balance of the unsettled advances amounting to Rs.100,000 as at end of the year under review had been brought to account as Rs.896,209.

- (d.) Stall rent in arrears amounting to Rs.142,541 as at 31 December of the year under review had been accounted as Rs.69,289 understating by Rs.73,252. Therefore, revenue debtors as at end of the year had been understated in the financial statements by a similar amount.
- (e.) According to the schedules received by the Sabha, the court fines receivable as at 31 December of the year under review in respect of the period June to December 2013 amounted to Rs.800,007. But this had been accounted as Rs.675,857 understating by Rs.124,150.
- (f.) The capital aid receivable as at end of the year under review amounted to Rs.3,710,216. But, it had been overstated by Rs.614,813 as Rs.4,325,029.
- (g.) Rates in arrears account had been debited by Rs.132,092 and the accumulated fund account had been credited through Journal Entry No.27 of the year under review so as to rectify the error made by Journal Entry No.56 of year 2012. However, such adjustment had not been made in the accounts by the relevant Journal Entry during the preceding year. Therefore, the balance of revenue debtors and the balance of the accumulated fund as at end of the year under review had been overstated in the financial statements by a similar amount.
- (h.) The provisions made by Journal Entry No.47 for revenue receivable during the preceding years had not been adjusted in the accounts when they were received. To rectify this error, the accumulated fund had been debited and the other revenue in arrears account had been credited by Rs.1,106,864; without properly identifying the relevant revenue heads and the manner in which the entries made in the preceding years.

### **1.3.3 Unreconciled Control Accounts**

According to the financial statements for the year under review, the balance of the employees loans account amounted to Rs.698,993. But, according to the schedules, it was Rs.773,839 indicating a difference of Rs.74,846.

### **1.3.4 Accounts Receivable and Payable**

According to the financial statements presented, the value of balances of accounts receivable as at 31 December of the year under review amounted to Rs.12,946,463 and the value of accounts payable amounted to Rs.16,916,489.

### **1.3.5 Lack of Evidence for Audit**

Six items of accounts valued at Rs.29,453,134 could not be satisfactorily vouched in audit due to the non-submission of detailed schedules, Board of Survey Reports and vesting orders to audit.

### **1.3.6 Non-compliance with Laws, Rules and Regulations**

Instances of non-compliance with the following laws, rules and regulations were observed in audit.

**Reference to Laws, Rules,  
Regulations etc.**

**Non-compliance**

- (a.) Gazette Notification No.1790 dated 31 December 2012 and the National Environmental Act No.47 of 1980 - Environment protection licence had not been issued in terms of the Act to 25 businesses run within the area of the Sabha and the validity period of 13 licence issued to businesses had been lapsed.
- (b.) Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government - The monthly lease rent of 19 stalls owned by the Sabha had not been get assessed through a Government Valuer or a Valuer of Local Authorities in terms of the provisions of the circular.

**2. Financial Review**

**2.1 Financial Results**

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2013 amounted to Rs.145,807 as against the excess of revenue over recurrent expenditure amounting to Rs.768,887 for the preceding year and the net decrease of the financial results was Rs.914,694.

**2.2 Analytical Financial Review**

A net decrease of Rs.914,694 was observed in the financial results during the year under review when compared with the preceding year and an analysis of it is shown below.

	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>Variance</u></b>	
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<b><u>Recurrent Revenue</u></b>				
Rates and Taxes	6,934,196	5,071,707	1,862,489	
Rent	2,122,912	1,579,330	543,582	
Licence Fees	559,850	1,123,875	(564,025)	
Service Charges	3,728,191	6,860,305	(3,132,114)	
Warrant Charges and Fines	440,677	723,045	(282,368)	
Other Revenue	120,330	174,596	(54,266)	
Revenue Aid	13,706,148	10,131,379	1,574,769	1,948,067
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<b><u>Recurrent Expenditure</u></b>				
Salaries and Allowances	19,459,011	16,158,852	(3,300,159)	
Travelling Expenses	485,497	609,286	123,789	

Supplies and Equipment	3,334,562	1,875,502	(1,459,060)	
Repairs and Maintenance of Capital Assets	1,662,216	2,131,981	469,765	
Transport, Utility and Other Services	1,372,162	2,420,876	1,048,714	
Payment of Interest, Dividends and Bonus	651,076	727,716	76,640	
Aid, Contributions and Subsidies	344,838	457,005	112,167	
Pensions, Pensionery Benefits and Gratuities	448,749	514,132	65,383	(2,862,761)
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		Net Decrease of Financial Results		(914,694)
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## 2.3 **Revenue Administration**

### 2.3.1 **Performance of Collection of Revenue**

- (a.) None of the arrears of acre tax and lease rent of the weekly fare as at 01 January 2013 had been recovered as at 31 December 2013 and only 34% of the rates in arrears and 11% of the lease rent of quarries in arrears had been recovered. Therefore, it was observed that the progress of recovery of revenue in arrears was very unsatisfactory.
- (b.) By-laws had not been levied and charges had not been recovered in respect of maintenance of telephone communication towers installed within the area of the Sabha.

### 2.3.2 **Lease Rent**

- (a.) The lessees of 06 stalls owned by the Sabha had defaulted payment of lease rent for over 10 months. But, action had not been taken to recover the rent in arrears in terms of the relevant lease agreements.
- (b.) Action had not been taken in terms of the relevant lease agreements to recover lease rent in arrears amounting to Rs.383,585 due from the lessees of the Demodara quarry owned by the Sabha in respect of prior years.

### 2.3.3 **Water Charges**

It was observed that the charges recovered under the Heel-oya water scheme maintained and operated by the Sabha is not adequate even to settle the water bills itself except the other maintenance expenses. It was also observed that the recovery of charges of other water schemes owned by the Sabha is also not satisfactorily.

#### **2.3.4 Court Fines and Stamp Fees**

According to the financial statements presented by the Sabha court fines and stamp fees amounting to Rs.2,457,828 had been due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013. Details are shown below.

	Rs.
Court Fines	675,857
Stamp Fees	1,781,971

#### **2.3.5 Other Revenue**

The Sabha had published by Gazette Notification No.1790 dated 31 December 2012 that fees not exceeding 1% of the income of the year preceding the relevant year should be charged from the hotels with lodging registered at the Tourist Board and operate within the area of the Sabha. However, fees had not been charged from a lodge situated at the Ella-Town.

### **3. Accountability and Good Governance** **Budgetary Control**

Significant variances were observed between the budgets prepared by the Sabha for the year under review and the actual data and therefore, it was observed that the budget had not been made use of as an effective tool of control.

### **4. Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Contract Administration