

Haldummulla 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 30 May 2014 and the financial statements for the preceding year had been presented on 17 April 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

Because of the significant matters referred to in paragraph 1.3 of this report, the financial statements do not give a true and fair view of the financial position of the Haldummulla Pradeshiya Sabha as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The financial statements prepared and presented for the year under review had not been prepared in accordance with the Sri Lanka Public Sector Accounting Standards.

1.3.2 Accounting Deficiencies

- (a) According to the ledger account prepared by the Sabha, the credit balance of the accumulated fund account as at 31 December of the year under review amounted to Rs.13,173,433. But, it had been shown in the balance sheet as at that date as Rs.6,756,186. Therefore, a difference of Rs.6,417,247 was observed.
- (b) Stamp fees amounting to Rs.1,299,038 received during the year under review in respect of the previous years in excess of the opening debtors balance of the year under review had been credited to the debtors account instead of being credited to the accumulated fund account. Therefore, the debtors balance as at 31 December had been understated in the financial statements by a similar amount.
- (c) According to the schedule on court fines received by the Sabha, the income from court fines amounted to Rs.2,737,338. But, it had been shown in the income and expenditure account as a minus balance of Rs.443,267. Therefore, the income for the year had been understated in the financial statements by Rs.3,180,605.
- (d) Income from court fines in arrears as at 31 December of the year under review amounted to Rs.3,400,606 whilst it had been accounted as Rs.220,000 and therefore, debtors had been understated in the financial statements by Rs.3,180,606.

- (e) The balance of Rs.1,338,982 in the employees loans account as at 31 December of the year under review had been shown under revenue debtors and therefore, revenue debtors had been overstated in the financial statements by a similar amount.
- (f) The balance of the revenue contribution to capital outlay account as at 31 December of the year under review should be equivalent to the value of fixed assets. However, the balance of the revenue contribution to capital outlay account was Rs.12,605,329 whilst the balance of the fixed assets account amounted to Rs.28,225,699 indicating a difference of Rs.15,620,370.
- (g) The amount payable to the Local Government Services Pension Fund as at 31 December of the year under review was Rs.1,666,192. But, only a provision of Rs.11,352 had been made under creditors. Therefore, liabilities had been understated in the financial statements by Rs.1,654,840.
- (h) The interest income of Rs.34,548 relating to year for fixed deposits amounting to Rs.1,061,400 invested under Account No.6821339 been omitted from the accounts had been added to the opening balance of the fixed deposits account; but, it had not been credited to the accumulated fund account. Therefore, the balance of the accumulated fund had been understated in the financial statements by a similar amount.

1.3.3 Unreconciled Control Accounts

The following non-reconciliations were observed.

Item of Account	As at 31.12.2013 As per Balance Sheet	As per Schedule	Difference
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	Rs.	Rs.	Rs.
Plant and Machinery	3,020,271	2,942,021	78,250
Motor Cars and Carts	13,628,525	12,223,525	1,405,000
Furniture and Fittings	1,601,218	1,547,968	53,250
Rates and Taxes	328,746	335,194	6,448

1.3.4 Suspense Accounts

According to the trial balance prepared as at 31 December of the year under review, there was a credit balance of Rs.9,522,220 in the suspense account and this balance had not been included in the balance sheet.

1.3.5 Accounts Receivable and Payable

According to the financial statements presented, the total of the balances of accounts receivable amounted to Rs.10,480,133 and the total of the balance of accounts payable amounted to Rs.20,852,906 as at 31 December.

1.3.6 Lack of Evidence for Audit

Five items of accounts valued at Rs.22,418,549 could not be satisfactorily vouched in audit due to the non-submission of schedules with values, title deeds and plans and confirmation of balances.

1.3.7 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with following laws, rules and regulations etc. were observed in audit. Details are shown below.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u>	
Financial Regulation 371	Advances amounting to Rs.272,301 paid to various parties at 16 instances during the period 1994 to 2013 had not been settled.
(b) Section 04 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Employees loans amounting to Rs.26,920 due from an employee who had served the Sabha and later left the service had remained unrecovered since year 2005.
(d) Circular No.1980/46 dated 31 December 1980 of the Commissioner of Local Government	The monthly lease rent of 26 stalls owned by the Sabha had not been get assessed through the Chief Valuer or a valuer of the Local Government Service.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.2,172,420 as compared with the excess of revenue over recurrent expenditure amounting to Rs.510,186 for the preceding year. Accordingly, a favourable variance of Rs.1,662,234 in the financial results was observed.

2.2 Analytical Financial Review

An analytical review of the net increase of the financial results is shown below.

<u>Recurrent Revenue</u>	<u>2013</u>	<u>2012</u>	<u>Variance</u>	
	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	1,813,496	1,548,996	264,500	
Rent	924,101	840,720	83,381	
Licence Fees	796,350	743,340	53,010	
Service Charges	6,066,102	2,433,104	3,632,998	
Warrant Charges and Fines	(351,634)	1,100,028	(1,451,662)	

Other Revenue	248,655	276,738	(28,083)	
Revenue Aid	14,155,693	12,876,062	1,279,631	3,833,775

Recurrent Expenditure

Salaries and Allowances	17,443,456	15,198,400	(2,245,056)	
Travelling Expenses	324,278	341,658	17,380	
Supplies and Equipment	1,662,681	1,856,637	193,956	
Repairs and Maintenance of Capital Assets	693,385	442,494	(250,891)	
Transport, Utility and Other Services	433,891	442,726	8,835	
Payment of Interest, Dividends and Bonus	621,436	687,884	66,448	
Aid, Contributions and Subsidies	-	80,627	80,627	
Pensions, Pensionery Benefits and Gratuities	301,218	258,378	(42,840)	2,171,541
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				1,662,234
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2.3 Revenue Administration

2.3.1 Stall Rent

- (a.) Lease rent of 24 out of 26 stalls owned by the Sabha had been outstanding and the amount in arrears as at 31 December 2013 was Rs.135,712.
- (b.) Lease rent amounting to Rs.541,672 was due from the lessees who had taken the stalls owned by the Sabha on lease during the previous years and electricity charges amounting to Rs.40,692 relating to 05 stalls, settled by the Sabha had not been recovered from the relevant lessees.

2.3.2 Court Fines and Stamps Fees

Court Fines and Stamp Fees receivable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	<u>Rs.</u>
(i) Court Fines	220,000
(ii) Stamp Fees	1,065,000

3. Operating Review

3.1 Operating Inefficiencies

- (a.) Interest amounting to Rs.1,829,499 and loan instalments amounting to Rs.760,192 totaling Rs.2,589,691 had been paid as at December 2013 to the Local Loans and Development Fund from the Sabha funds in respect of the loan amounting to Rs.5,000,000 obtained for the construction of the Koslanda Trade Complex. The construction of this trade complex had not been completed, even though 04 years had passed and therefore the rent income that

could have been earned had been deprived of and there is a risk of adverse effect on the financial position of the Sabha, because interests have to be paid from the Sabha funds.

- (b.) According to Part IV(b) of the Gazette Notification No.1794 dated 18 January 2013 an annual display charge at Rs.50 per square foot should be recovered in respect of permanent hoardings installed within the area of the Sabha. But, a sum of Rs.30,000 due for 2013 in respect of the hoarding (20'×30') of 600 square feet on "Commercial Credit" installed by the side of Colombo - Badulla main road had not been recovered.

3.2 Idle/ Underutilized Assets

The following assets were lying idle.

- (a.) The cab bearing No. 53-5065 taken by the Army for the purpose of war during 1996 and returned to the Sabha in year 2009.
 (b.) The plough received with the John Deer Tractor during the year 2004.
 (c.) The 02 engines removed from the Cab No.252-6369 at 02 instances.

4. Accountability and Good Governance

Budgetary Control

Significant variances were observed between the income and expenditure shown in the Budget prepared by the Sabha for the year under review and the actual income and expenditure. Therefore, it was observed that the budget had not been made use of as an effective tool of control.

<u>Recurrent Revenue</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Present age</u>
	Rs.	Rs.	Rs.	<u>Variance</u> %
Rates and Taxes	1,497,664	1,873,496	315,832	21
Licence Fees	596,500	796,350	199,850	33
Service Charges	2,837,500	6,066,102	3,228,602	114
Other Revenue	341,500	248,655	92,845	27
<u>Recurrent Expenditure</u>				
Repairs and maintenance of Capital Assets	478,500	693,385	214,885	45
Transport and Utility Services	344,500	433,891	89,391	26
Aid, Contributions and Subsidies	11,500	-	11,500	100
Pensions, Pensionery Benefits and Gratuities	343,890	301,218	42,672	12

3. Systems and Controls

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

- (a) Accounting
 (b) Assets management