

Nagoda Pradeshiya Sabha
Galle District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 23 June 2014 while Financial Statements relating to the preceding year had been submitted on 21 May 2013. The Auditor General's Report relating to the year under review was issued to the Chairman on 22 December 2014.

1.2 Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report financial statements give a true and fair view of the financial position of the Nagoda Pradeshiya Sabha as at 31 December 2013 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 Non-compliance with Public Sector Accounting Standards

Following observations are made.

- (a.) Although Local Authorities should prepare the financial statements according to the Sri Lanka Public Sector Accounting Practices with effect from 01 January 2011, in terms of circular No.PED/54 dated 19 January 2010 of the Director General of Public Enterprises, those standards had not been followed.
- (b.) The Cash Flow Statement had not been submitted together with the financial statements for the year under review.

1.3.2 Accounting Policies

Accounting Policies followed by the Sabha had not been disclosed together with the financial statements.

1.3.3 Accounting Deficiencies

Following observations are made.

- (a.) The sum of Rs. 10,326,429 received from the Local government Department as reimbursement of salaries for the year under review had been shown under one Programme without being apportioned among all the Programmes.
- (b.) Provision had not been made in the financial statements for Audit Fees for the year under review.
- (c.) While the debit balance of Rs. 27,500 in the Cash Transfers Account as at 31 December of the preceding year had been written off to the revenue as Rs.227,500, Credit Balance of Rs. 27,500 had been accounted as an income for the year under review. Due to that, the balance of the Accumulated Fund had been understated in a sum of Rs. 200,000.

- (d.) The expenditure incurred amounting to Rs.163,550 for making Iron Doors and Windows for the Hangarathwala Community Hall had not been capitalized.
- (e.) Although the purchase of Library Books during the year under review had amounted to Rs.392,860, it had been capitalized as Rs. 439,009. Due to that, the balance of the Library Account and the balance of the Contribution from Revenue to Capital Outlay Account had been overstated in a sum of Rs. 46,149.
- (f.) Arrears payment of salaries amounting to Rs. 110,000 made during January 2013 had been shown as an expenditure of the year under review causing overstatement of expenditure in a sum of Rs.110,000 in the financial statements.
- (g.) Although the Court Fines Revenue for the year under review was Rs.2.093,016, it had been shown as Rs. 2,174,109 in the financial statements. Due to that, Revenue for the year under review and the Debtors of the year had been overstated in a sum of Rs. 81,093
- (h.) Provision had not been made in the financial statements for Pension Contributions Payable on behalf of the Retired Local Government Employees amounting to Rs. 2,359,377 as at 31 December of the year under review
- (i.) Provision had not been made in the financial statements for a Capital Grants of Rs. 300,000 receivable for the purchase of Strainer Machine of Rotary for the Compost Project and the relevant Capital Expenditure. Due to that, Capital Grants and Capital Expenditure for the year under review had been understated in a sum of Rs. 300,000.
- (j.) A sum of Rs. 19,600 as under billings and Rs. 112,430 as overbillings of Capital Grants as at 01 January 2013 had been adjusted without approval and identification. Due to that, Debtors Balance had been understated in a sun of Rs. 92,830.
- (k.) Pilisaruru Project Grants amounting to Rs. 1,499,800 and Pura Neguma Project Grants amounting to Rs. 706,000 totalling Rs. 2,205,800 received as Donations for the year under review had not been shown as Fixed assets in the financial statements.
- (l.) Capital Grants of Rs. 948,775 receivable for two Works for the preceding year had been shown as Capital Grants for the year under review in the financial statements.

1.3.4 Non-reconciled Control Accounts

A difference of Rs. 3,806,794 was observed between the balances according to control accounts relevant to 05 items of accounts and the balances according to subsidiary registers.

1.3.5 Suspense Account

Action had not been taken during the year under review too. To identify and adjust the accounts with regard to the credit balance of Rs. 22,785 in the Suspense Account that was being brought forward over a period prior to last three years.

1.3.6 Lack of Evidence for Audit

Evidences such as Title Deeds, up dated Register of Fixed Assets, up dated Register of Debtors, Schedules, Age Analysis etc., connected with transactions totalling Rs.80,596,420 shown in the financial statements were not furnished to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2013 amounted to Rs. 3,630,007 as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.1,280,440.

2.2 Revenue Administration

2.2.1 Rates

Although areas with road network facilities, electricity facilities, telephone facilities, water facilities and removal of refuse and garbage by the Sabha such as Nagoda, Udugama, Yatalamaththa exist in the area of authority of the Sabha, action had not been taken to recover rates having identified those areas, in terms of provisions in Section 134 Sub-section (1) and (2) of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.2 Acreage Tax

While the Acreage Tax in arrears as at 01 January 2013 was Rs. 261,471, billings amounted to Rs. 61,952 and recoveries amounted to 69,409 during the year. Accordingly, the balance of arrears as at 31 December 2013 had been Rs. 258,488 and it was observed that the progress relating to recovery of Acreage Tax was at a low level.

2.2.3 Trade License Fees and Business Taxes

According to the Notice issued by the Sabha under Sections 149, 150(1) and 152(1) of the Pradeshiya Sabha Act No. 15 Of 1987, in Gazette Notification No. 1791 dated 28 December 2012 of the Democratic Socialist Republic of Sri Lanka, Trade License Fees and Taxes should be recovered from the relevant business entities. In the sample audit checks carried out in that connection following matters were observed.

- (i.) Annual Survey had not been carried out with regard to business entities liable for Trade License Fees.
- (ii.) Trade License Fees amounting to Rs. 10,200 had not been recovered from 16 business entities during the year 2013.
- (iii.) Business Tax amounting to Rs. 45,000 had not been recovered from 08 Telephone Transmission Towers erected in the area of authority of the Sabha.

2.2.4 Court Fines and Stamp fees

Courts Fines amounting to Rs. 590,676 and Stamp Fees amounting to Rs.1,245,420 were receivable from the Chief Secretary of the Provincial Council and other authorities as at 31December 2013.

2.2.5 Lease Rent of Mapalagama Two Storied Market Complex Building

Following matters are observed.

- (i.) Although it had been informed that each agreement should be up dated once in three years according to Circular No. 2010/01 dated 27 December 2010 of the Commissioner of Local Government, action had not been taken to renew agreements relevant to 04 stalls in the ground floor and 06 stalls in the upper floor.
- (ii.) Agreements had been signed for 20 years for Stall No. 3 in the ground floor and stall No. 6 in the upper floor.
- (iii.) Although the monthly rent should be paid before 10th day of the each month, according to condition 02 of the agreement, rent amounting to Rs. 173,350 was in arrears from 11 stalls as at 31 December 2013.

2.2.6 Lease Rent of Thalgaswala Public Market

- (i.) Although it had been informed that each agreement should be up dated once in three years according to Circular No. 2010/01 dated 01 January 2011 of the Commissioner of Local Government, 04 stalls given on lease in 1985 and another stall given on lease in 2007 for a period of one year had not been up dated even as at 03 October 2014, date of audit.
- (ii.) Although the monthly rent should be paid before 10th day of the each month, according to condition 02 of the agreement, rent amounting to Rs. 48,450 was in arrears from 05 stalls as at 31 December 2013.

2.2.7 Lease Rent of Old Stalls at Mapalagama Junction

- (i.) Although it had been informed that each agreement should be up dated once in three years according to Circular No. 2010/01 dated 01 January 2011 of the Commissioner of Local Government, agreements relevant to 04 stalls signed in 1991 had not been updated.
- (ii.) Lease Rent amounting to Rs. 32,750 was in arrears from 04 stalls as at 31 December 2013.

3. Operational Review

3.1 Management Inefficiencies

- (i.) Declarations of Assets and Liabilities had not been furnished during the year 2013 by the Vice Chairman and 05 Members as required in terms of the Declaration of Assets and Liabilities Act No. 01 of 1975 as amended by Act No. 74 of 1988.
- (ii.) Tax Money amounting to Rs. 1,968,246 recovered during the year 2013 and years prior to that, in terms of provisions in the Value added Tax Act No. 14 of 2002 and Stamp Fees amounting to Rs. 540,406 recovered during the year 2013 and years prior to that, in terms of provisions in the Stamp Fees Special Provisions Act No. 12 of 2006 had not been remitted to the Department of Inland Revenue even up to October 2014.

- (iii.) Action had not been taken even up to October 2014 to recover a loan balance of Rs.34,427 in arrears during a period prior to the year 2009 that should have been recovered from 16 employees who were in service of the Sabha and left on transfers and retired.

3.2 Idle Assets

It had been informed to prepare a scheme for disposal of old vehicles and machinery getting destroyed without being used in Government Institutions by 05 September 2013, vide Circular No. PCMD/PR/2013 dated 05 June 2013 issued by the Secretary to the President with regard old vehicles and machinery getting destroyed without being used. It was observed in audit examination carried out on 05 September 2014 that a Backo Loader Machine valued at Rs. 3,900,000, a Hand Tractor and a Water Bowser were getting corroded in the Sabha premises and the Sub-office Premises and that action had not been taken according to instructions.

3.3 Contract Administration

A sum of Rs. 315,000 received for implementation of 09 Projects in the area of authority of the Sabha had not been used for the relevant Projects and kept idle in the Bank Current Account for Works even up to October 2014.

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.) Assets Management