

Wariyapolala Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 31 March 2014 and the financial statements for the preceding year had been presented on 28 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 28 November 2014.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Public Sector Accounting Standards and give a true and fair view of the state of affairs of the Wariyapola 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. Accounting Deficiencies

The following accounting deficiencies were observed.

- a) Provisions had not been made under creditors for the loan instalment amounting to Rs.401,593 payable for the last quarter of the year under review in respect of the loans obtained from the Local Loans and Development Fund. Similarly the relevant interest payable had amounted to Rs.227,792, but provision had been made only for Rs.220,107 under creditors. Therefore the balance of the creditors account as at the end of the year had been understated by Rs.409,278, and the interest expenses for the year had been understated by Rs.7,685.

- b) When the production cost of Concrete Blocks for the year amounting to Rs.8,403,770 is compared with the 397,988 numbers of Concrete Blocks manufactured, the production cost of one Concrete Block for the year under review, works out to Rs.21.11. But the manufactured stock had been valued at Rs.24.97 per block, and by therefore the balance of finished products as at end of the year had been overstated by Rs.216,588.

- c) Though the balance of key-money in arrears at the end of the year under review was Rs.8,657,810, it had been brought to account as Rs.7,017,650, understating the amount by Rs.1,640,160.

1.3.2. Contingent Liabilities

The Sabha had not paid the contributions properly to the Local Government Pension Fund, with respect to the employees, who have served in the Pradeshiya Sabha and retired, and entitled for contributions towards the Local Government Pension Fund. Hence the balance payable to the Fund, as at the end of the year under review amounted to Rs.3,023,766.

1.3.3. Unreconciled Control Accounts

There were differences amounting to Rs.362,150 between the accounts, and the corresponding values in relevant registers, relating to receivables and opening balances of the year under review, in respect of 10 items of accounts.

1.3.4. Accounts Receivable and Payable

The following observations are made.

- a) The value of balances in accounts receivable as at 31 December 2013 amounted to Rs.108,394,442 and of this, Rs.25,000,000 related to stamp fees receivable for the year 2010.
- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.48,527,406 and of this, Rs.6,031,346 represent balances for over 3 years.

1.3.5. Lack of Evidence for Audit

Transactions totalling to Rs.29,703,228 could not be examined in detail, due to non-submission of required information to audit.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the operating surplus of the Sabha for the year ended 31 December 2013 amounted to Rs.8,381,390, as compared with the operating surplus amounting Rs.14,226,467 for the preceding year, indicating a deterioration of the operating result by Rs.5,845,077. When the capital aid of Rs.46,166,397 and capital expenditure of Rs.54,531,526 are adjusted to this operating result, the surplus for the year under review had been decreased to Rs.16,261.

2.2. Analytical Financial Review

The following observations are made.

- a) The total recurrent revenue of the Sabha for the year under review amounted to Rs.91,186,312, and of this, Rs.69,562,211 representing 76% consists of non-generated revenue, such as courts fines, stamp fees, and salary reimbursements. Similarly the entire capital revenue amounted to Rs.46,166,397, and of this, Rs.40,186,844 representing 87% had been received from other institutions for development work in the area under authority, through sources such as Gama Neguma and Maga Neguma.
- b) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.91,186,312, and of this, Rs.45,173,675 representing 49% was expenditure related to personal emoluments. Of this, 73% amounting to Rs.33,058,896 had been received from the Commissioner of Local Government in the form of salary reimbursements, and it had been brought to account under other revenue. Similarly the capital expenditure amounted to Rs.41,211,624 and 16% of this, amounting to Rs.6,740,697 only had been spent from Sabha funds, and the balance 84% amounting to Rs.34,470,927 consists of development works carried out from provisions of other institutions, through sources such as Gama Neguma, and Maga Neguma.

2.3. Revenue Administration

2.3.1. Performance on Revenue Collection

Though the revenue collectors do not possess a clear authority to collect revenue such as trade licences, business taxes, stall rentals, lease rentals in the field, the revenue collectors of the Sabha had collected revenue such as rates and taxes and licence fees and business taxes in the field through-out the year.

2.3.2. Rates and Taxes

According to Pradeshiya Sabha (Finance and Administration) Rules 32-42 of 1988, action need to be taken to prepare the list of arrears quarterly, issue the notices and recover the arrears in rates and taxes after retaining the properties. But in the quarter ended on 31 December 2013, the list of arrears had been prepared and warrants had been issued only for Rs.53,495 in respect of 29 units in 06 streets. A sum of Rs.27,280 of this had been recovered from 16 units. Similarly there were long outstanding arrears of Rs. 62,210 relevant to 18 cases in Katupotha division.

2.3.3. Stall Rentals

- a) The stall number 10 on the upper floor of Bus Stand Complex had been rented for Rs.805,000 through tenders in the year 2008, but an arrears of Rs.150,000 remained even as at 28 January 2014.

- b) 14 stalls on the upper floor of the Small Scale Trade Complex, had been rented for a value of Rs.8,307,810 on key-money basis on 22 January 2011, and according to the terms and conditions relevant to the payment, this amount should have been paid before 15 August 2011. But even at the time of the audit in January 2014, there was an arrears of Rs.7,757,810 and the construction work of stalls also had not been commenced.

3. Operating Review

3.1. Performance Evaluation

Out of the welfare works planned for the year under review, by the Sabha entire work on 04 welfare works valued at Rs.450,000 had not been done, whilst 04 welfare works valued at Rs.23,266,000, had only been partly attended between 15% to 70%. Similarly out of the capital works planned for the year under review, by the Sabha the entire work on 05 capital works valued at Rs.4,300,000 had not attended, whilst 06 capital works valued at Rs.35,100,000, had only been partly attended between 8% to 27%.

3.2. Management Inefficiencies

The Sabha had approved 697 building applications during the period from year 2008 to 2011, and 48 Certificates of Conformity had been issued. Sabha had not taken action against, not obtaining the Certificates of Conformity and not extending the period of building permit in respect of 649 applications. In accordance with by-laws of the Sabha, if all those buildings had

been constructed, Sabha would have earned a revenue Rs.649,000 from Certificates of Conformity, and if the construction work had not been completed, the Sabha would have earned a revenue of Rs.195,000 from annual charges for extending the period of building permits.

3.3. Implementation of Projects

Under the implementation of special projects for Local Authorities, the Department of Local Government – Wayamba, had provided Rs.500,00 for the dairy cattle project of Wariyapola Pradeshiya Sabha on 10 February 2010. At the end of the year under review, a sum of Rs.218,000 from the project funds, had been idling without utilising for the relevant work.

4. Systems and Control

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

- a) Accounting
- b) Budgetary Control
- c) Financial Control
- d) Revenue Administration
- e) Assets Management