

## **Horana Pradeshiya Sabha**

### **Kalutara District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 01 April 2015 while Financial Statements relating to the preceding year had been submitted on 16 May 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 15 July 2015.

##### **1.2 Opinion**

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Horana Pradeshiya Sabha as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Deficiencies**

Following observations are made.

- (a) Although the sum of Rs.3,213,411 paid during the year in respect of the loan obtained from the Local Loans and Development Fund should be separately accounted as loan installment, loan , and interest paid, total amount had been credited in the cash book and accounted as capital expenditure.
- (b) Cheques amounting to Rs. 194,906 had been dishonored and that amount had credited in the cash book and had been debited to the Dishonored Cheques Account. While that amount had been received from the debtors, Dishonored Cheques Account should have been credited by that amount. However, without doing so, that amount had been accounted as a recurrent expenditure under Interest Payments, Dividends and Bonus Payment.
- (c) The sum of Rs. 5,401,267 recovered as Road Damage Charges during the year under review had been accounted as Revenue.
- (d) According to the Statement of Revenue in Arrears as at 31 December 2014 presented, a sum of Rs. 11,241,916 had been billed as Rates, Acreage Tax, TradeLicenses, Entertainment Tax and Stalls Rent. However, a sum of Rs.9,615,363 only had been

accounted as revenue for the year under review. Due to that, Revenue Receivable had been understated in a sum of Rs.1,626,553.

- (e) Although the balance to be obtained after balancing the Repairs to Capital assets Account should be Rs.25,217,992, it had been copied to the Trial Balance as Rs.25,262,960. Due to that, expenditure had been overstated in a sum of Rs.44,968.
- (f) Although a sum of Rs.37,808,154 had been debited to the Arrears of Other Revenue Account as Stamp Fee for the year under review, a sum of Rs.16,871,062 had been recorded to the credit of Stamp Fees Revenue Account. Due to that, Stamp Fees Revenue had been understated in a sum of Rs.20,937,092.
- (g) While Fixed Deposits Interest received amounting to Rs. 539,363 had been accounted as Direct Remittances Revenue, a sum of Rs. 344,660 had been debited as Bank Charges expenses having set –off against the Revenue, and a sum of Rs. 194,703 had been accounted as Sundry Income.
- (h) Although the balance in the Peoples’ Bank Fixed Deposit Account as at the end of the year under review was Rs. 21,198,992, according to the Confirmation Certificate the balance had been Rs.23,315,254 and accordingly, Interest Income had been understated in a sum of Rs.2,116,262 in the accounts.
- (i) Although the total of Fixed Assets and the balance of the Contribution from Revenue to Capital Outlay Account should be equal, a difference of Rs.9,366,773 was observed between the those accounts.

### **1.3.2 Lack of Evidence for Audit**

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Eight accounts balances totalling Rs.129,277,457 due to non-submission of detailed schedules, and two account balances totalling Rs.3,994,697 due to non-submission of files could not be satisfactorily vouched in audit.

## **2. Financial and Operating Review**

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### **2.1 Financial Results**

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According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2014 had been Rs.16,006,325 as compared with the corresponding excess of recurrent expenditure over revenue amounted to Rs.8,558,869 in the preceding year

## 2.2 Revenue Administration

### 2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information as furnished by the Secretary relating to Estimated Revenue, Actual Revenue and arrears of Revenue are shown below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs. '000	Rs. ' 000	Rs. '000
Rates and Taxes	8,282	9,602	13,982
Acreage Tax	31	5	486
Industrial Tax	625	625	-
Business Tax	2,542	2,542	-
Trade License Fees	943	926	20
Lease Rent	425	425	181
Entertainment Tax	533	483	51
Stalls Rent	1,452	3,012	482

### 2.2.2 Rates

- (a) Out of the balance of Rates in arrears amounting to Rs. 13,982,677 as at 31 December 2014, although a sum of Rs. 4,289,754 was outstanding to be recovered as at 30 April 2015, action had not been taken to recover those even as at 15 June 2015, date of audit.
- (b) While Rates in arrears amounting to Rs. 8,411,805 outstanding since the year 2008 from workshops located in the area shown as an Investment Zone belong Poruwadanda Sub-office, had not been recovered, that amount had been deleted from the Statement of Arrears of Revenue on 30 April 2015 without approval.

### 2.2.3 Acreage Tax

Although there was balance of arrears amounting to Rs.117,119 as at 30 April 2015,out of the Acreage Tax balance in arrears amounting toRs.486,141as at31 December 2014, action had not been taken to make recoveries even up to 15 June2015.

### 2.2.4 Court Fines and Stamp Fees

- (a.) Amounts Receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2014 were as follows.

	Rs.
Court Fines	8,000,000
Stamp Fees	37,808,154

- (b.) Action had not been taken even up to 15 June 2015 to get the schedules relevant to Stamp Fees Receivable since February 2011 from Horana, Kalutara, Delkanda and Homagama Land Registries.
- (c.) Although true value of revenue receivable should be identified and accounted in deciding the Court Fines and Stamp Fees for the year under review, billings had been made without considering that and due to that, Stamp Fees and Courts Fines Revenue had been understated.

### **3. Operational Review**

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#### **3.1 Operational Inefficiencies**

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##### **3.1.1 Deposits for Road Damages**

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A sum of Rs.275,000 during the year 2013 and a sum of Rs. 990,990 during the year 2011 totalling Rs.1,265,990 paid to the Sabha on account of damages to roads by the Government or Other Institutions had been kept in the Deposits Account without repairing the roads.

##### **3.1.2 Staff Security Deposits**

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- (a) Although a sum of Rs.21,600 had been recovered as Security Deposits from Sabha Employees who are required to furnish security, those monies had not been deposited having opened bank accounts.
- (b) While accounts had been opened only for Security Deposits amounting to Rs.14,500 obtained from 7 employees, although two officers had retired and two officers had received transfers out of them, action had not been taken to release the relevant security deposits.

##### **3.1.3 Vehicles Control and Maintenance**

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Following observations are made.

- (a) Although there are 25 Vehicles belong to the Sabha, as at 15 June 2015, date of audit, a Register of Vehicles had not been maintained in terms of Financial Regulation 1647 (e) of the Republic of Sri Lanka.
- (b) A complete survey had not been carried out with regard to equipment of vehicles as shown in the Financial Regulation 1647 (a) of the Republic of Sri Lanka.

- (c) While Monthly Summaries relating to any vehicle of the Sabha had not been prepared, Running Charts too had not been submitted in terms of Financial Regulation 1645 (b and (c) and 1646) of the Republic of Sri Lanka.
- (d) Fuel Consumption Tests of the vehicles had not been carried out once in 06 months in terms of Public Administration Circular No. 41/90 dated 10 October 1990.
- (e) Although Milo Meters of 07 vehicles had been defunct since a number of years, action had not been taken to repair those.
- (f) While a Hand Tractor and a Trailer had been kept without being used for running since the year 2008, steps had not been taken for disposal.

### **3.4 Motor Grader and the JCB Machine**

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- (a) Although the above machines had been engaged for construction of roads, an advanced work plan, and approved estimates were not available. Machines had been engaged on the basis of the instructions given by the Chairman for relevant works.
- (b) While a sum of Rs. 535,482 had been spent for repairs to Motor Grader, a sum of Rs. 2,001,990 had been spent for fuel and maintenance of the JCB Machine during the year under review.

### **3.5 Payment of Advances**

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Although a Staff Grade Officer cannot obtain advances exceeding Rs. 20,000 in terms of Financial Regulation 371(b) of the Republic of Sri Lanka, advances amounting to Rs.857,047 had been paid exceeding that limit.

### **3.6 Staff Loans**

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- (a) A balance of Rs.186,111 outstanding to be recovered from 23 employees who had vacated service was included in the Staff Loan Balance as at 31 December 2014. Action had not been taken to recover the further sum of Rs. 179,611 outstanding as at 30 May 2015.
- (b) According to the Staff Loans Register a sum of Rs. 35,646 had been over recovered from 19 employees who had left on transfers, substitutes and project employees. Action had not been taken to refund these amounts to the relevant individuals.
- (c) Action had not been taken to recover the sum of Rs. 15,000 outstanding from 7 substitute employees from the relevant guarantors.

### **3.7 Budgetary Control**

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- (a) Although a sum of Rs. 4,514,500 had been made available for 24 Items of Expenditure according to the Budget estimates for the year 2014, any expenditure had not been incurred out of those. Accordingly, it was revealed that the Budget had not been made use of as an effective tool of management.
- (b) Instances of transferring provision totalling Rs. 18,262,800 for 10 Items of Expenditure, to other Items of Expenditure due to non-fulfillment of relevant work were observed. Accordingly, it was confirmed in audit that it had not been active to achieve the expected objectives.
- (c) A sum of Rs. 99,506 had been overprovided during the year under review as expenditure payable in respect of Provincial Criteria Based Projects carried out during the preceding year.
- (d) While provision had not been made as expenditure payable amounting to Rs. 308,641 relevant to the year under review and past years under Maga Neguma Project, and had not been accounted in the Revenue and Expenditure Account.

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

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

- (a.) Accounting
- (b.) Human Resources Management
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Internal Audit