

Laggala – Pallegama Pradeshiya Sabha

Matale District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Auditor General on 20 July 2015 while Financial Statements relating to the preceding year had been submitted on 22 May 2014.

1.2 Opinion

I am of opinion that except for the effect on the financial statements of the matters referred to in paragraph 1.3 of this report, that the financial statements had been prepared in accordance with Generally Accepted Accounting Principles, give a true and fair view of the state of affairs of Laggala - Pallegama Pradeshiya Sabha as at 31 December 2014 and financial results of its operation for the year then ended and cash flows.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a) Four balances of Assets totalling Rs. 733,212, two balances of Liabilities totalling Rs. 79,000 and value of 79 Assets Units relating to 03 items received during the year under review and the preceding year had not been accounted.

- (b) Value of 03 items of accounts amounting to Rs. 222,518 had been overstated while the balance of Fixed Deposits amounting to Rs. 117,422 had been understated in the financial statements.
- (c) Audit Fees amounting to Rs. 87,864 relating to past years, paid during the year under review had not been removed from the Creditors balance and corrected the accounts.
- (d) Value of Land and in Buildings belongs to the Sabha as well as value of balance stocks of Water Stores and Electrical Stores had not been accounted.
- (e) Interest due amounting to Rs. 23,300 on the loan balance of an officer left on transfer from the Sabha during the year 2002 had been omitted from the accounts.

1.3.2 Non-reconciled Control Accounts

The disparities amounting to Rs.5,013,462 were observed between the 11 items of accounts totalling Rs.49,995,064 shown in the financial statements and the total of balances shown in the subsidiary registers and records relevant to those accounts.

1.3.3 Suspense Account

Although a sum of Rs. 3,449 had been debited to the credit balance of Rs. 1,842,869 shown in the financial statements as at the end of the preceding year and yearend balance had been shown as Rs.1,839,420, action had not been taken to identify that balance and settle the account.

1.3.4 Accounts Receivable and Payable

The total of 04 balances of Accounts Receivable totalling Rs. 182,875 brought forward unchanged over a period of more than five years and 02 balances of Accounts Payable amounting to Rs. 2,396,973 not settled during a period of more than two years had not been settled during the year under review as well.

1.3.5 Lack of evidence for audit

Transactions totalling Rs.4,234,052 relevant to 06 items of accounts could not be satisfactorily vouched in audit, due to non-submission of required information to audit.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabah for the year ended 31 December 2014 amounted to Rs. 2,580,852, as against the excess recurrent expenditure over revenue for the preceding year amounted to Rs. 2,643,943. When compared with the preceding year, an improvement of Rs.5, 224,795 was shown in the financial results for the year under review.

2.2 Analytical Financial Review

Following matters are observed.

- (a) Although a sum of Rs. 10,156,554 had been paid as salaries and allowances, out of that only a sum of Rs. 7,516,900 had been reimbursed. Accordingly, it was observed that a sum of Rs. 2,639,654 had been paid out of the Sabha Fund for payment of salaries of the employees of the Sabha.

(b) Ratio between the Total Revenue and the Total Expenditure

Although a certain progress is indicated when the position for the year under review is compared with that for the preceding year, total expenditure had been such as 84 per cent of the total revenue. It was observed that the expenditure had been at a high a level when compared with the revenue of the Sabha.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Progress relating to revenue collection of the Sabha as at 31 December 2014 is shown below.

Source of Revenue	Arrears as at 01.01.2014	Billing for the year 2014	Total amount to be received	Receipts out of billings for the year	Receipts out of balance in arrears	Total receipts	Balance as at 31.12.2014
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
(i) Rates and Taxes	77,376	260	77,636	260	--	260	77,376
(ii) Lease Rent	727,722	1,222,471	2,005,193	636,511	608,268	1,244,779	760,414
(iii) Licence Fees	--	242,390	242,390	242,390	--	242,390	--
(iv) Warrant Charges and Fines	1,353,122	1,464,639	2,817,761	841,255	1,353,122	2,194,377	623,384
	2,158,220	2,984,760	5,142,980	1,720,416	1,961,390	3,681,806	1,464,174

Following observations are made in this connection.

(a.) Lease Rent

Although Lease Rent billed for the year under review was Rs. 1,277,471, out of that only a sum of Rs. 636,511 had been recovered.

(b.) License Fees

It was not possible to confirm the revenue billed specifically, as a survey had not been carried out with regard the businesses liable for Trade Licenses.

2.3.2 Other Revenue

A total sum of Rs.196,000 being inspection charges at the rate of Rs. 3,000 and Environmental License Fees at the rate of Rs.4,000 had not been recovered during the year under review from 28 Paddy Mills ((with Drying Process) not granted with Environmental Licenses in terms of Section 26 of the National Environmental Act No. 47 Of 1980 as amended by Act No. 56 of 1980 and Act No.53 of 2000

3. Operating Review

3.1 Management Inefficiencies

Following matters are observed.

- (a) Action had not been taken to get under remitted Salary Reimbursements amounting to Rs. 263,406 during the year under review.
- (b) A sum of Rs. 24,915 had been overpaid as salaries to the Sabha Watcher retired during September 2014.
- (c) A sum of Rs. 1,996,975 was payable to the Pensions Department as at the end of the year under review on behalf of pension contribution of pensioners who retired prior to 03 September 1993 in terms of Section 36 of the Local Government Pension Payments Act of 1975.
- (d) While action had not been taken to get ownership of 05 vehicles received from various institutions transferred in favor of the Sabha, Annual Revenue Licenses had not been obtained for 03 vehicles for the year under review.
- (e) A building was being constructed for the Pradeshiya Sabha in the New Mahaweli Scheme as the Laggala – Pallegama area of authority would go under the reservoir to be constructed by diverting the Kaluganga. It was observed that, Sabha had not paid attention to introduce a suitable scheme to recover License Fees, Trade License Fees, and arrears of revenue due to be recovered to the Pradeshiya Sabha.

3.2 Contract Administration

Following matters are observed.

- (a) A sum of Rs15,400,000 had been paid without obtaining measurement reports to confirm that work had been completed as per estimates relevant to 17 works implemented during the year under review.
- (b) Matters observed at the physical inspection carried out on 07 February 2015 relevant to following works are shown below.

Name of work	Amount Spent	Date of Physical Examination
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	Rs.	
(a.) Making Kivule Wadiya, Peraketiya Road	200,000	It was not observed that the road is being used.
(b.) Concreting Narangamuwa Pallehena Road	1000,000	Although a sum of Rs.928,863 had been paid for concreting 51 cubic meters of the road under item of work No.02, it was observed that concrete applied was easily breakable and of a very low strength.
(c.) Concreting Ranamuregama Damketiya Agricultural Road	1000,000	Although a sum of Rs.586,707 had been paid for concreting 33 cubic meters of the road under item No.04 it was observed that concrete applied was not strong enough and that it was easily breakable.

4. Accountability and Good Governance

4.1 Audit and Management Committees

Although Audit and Management Committees had been established in terms of the letter No.CPC/CLG/1/9/1/16 dated 01 August 2014 of the Commissioner of Local Government, meetings had not been conducted.

4.2 Budgetary Control

- (a) Out of the provision of Rs.423,000 made available for 26 items of expenditure through the budget for the year under review, any expenditure had not been incurred.
- (b) Any amount had not been earned out of the estimated revenue of Rs.7,982,405 estimated to be recovered under 07 Items of Revenue.

Based on the above matters, it was observed that the Budget had not been made use of as an effective tool of financial management.

4.3 Audit Queries not replied and un-resolved

Replies had not been furnished to 03 queries out of the audit queries issued to the Sabha, during the year under review. The value of transactions which could be worked out, subject to those queries was Rs. 2,191,134.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management
- (d.) Human Resources Management
- (e.) Contracts Control
- (f.) Vehicles Control