

**/Naula Pradeshiya Sabha**

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**Matale District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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Financial Statements for the year under review had been submitted to Auditor General on 10 April 2015 while Financial Statements relating to the preceding year had been submitted on 06 May 2014. The Auditor General's Report relating to the year under review was issued to the Secretary to the Sabha on 29 July 2015.

**1.2 Opinion**

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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 the Naula 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**

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**1.3.1 Accounting Deficiencies**

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Following accounting deficiencies were observed in audit.

- (a) While adjustments to the Accumulated Fund had not been made correctly with regard to the overstatement of Creditors balance in a sum of Rs2,076,555 payable to the Local Government Pension Fund pointed out in the Auditor General's Report for the preceding year, Contribution Payable had been overstated in a sum

of Rs. 1,881,190 in the Revenue and Expenditure Account during the year under review.

- (b) A Work Debtors balance Receivable totalling Rs. 2,492,928, a Work Creditors balance Payable totalling Rs. 3,591,825 and 3 Other Creditors balances totalling Rs. 21,245 had been omitted in the financial statements.
- (c) The cost of two blocks of land in extent of 10.56 Perches vested in the in the Sabha by vesting orders of the Naula Divisional Secretariat in September 2007 and cost of the Waste Management Building constructed during the year 2006 had not been capitalized even during the year under review.
- (d) Without accounting for the cost of Tipper Vehicle and the Tractor provided by the Ministry of Provincial Councils and Regional Development as grants, insured value of Rs. 10,178,880 had been capitalized while the cost of the Tractor Trailer provided as grants by the Central Province Chief Ministry during the year 2006 had not been accounted.
- (e) Un- settled Advances totalling Rs.450,800 provided to contractors in 03 instances on the basis of the provisions of the Ministry of Economic Development for carrying out Works, had not been accounted.
- (f) The value of 106 Galvanized Pipes amounting to Rs. 117,342 in the possession of the Sabha, out of the 145 Galvanized Pipes received to the Wilgamuwa Pradeshiya Sabha from the Ministry of Provincial Councils and Regional Development and subsequently provided to the Naula Pradeshiya Sabha had not been accounted.

### **1.3.2 Non-reconciled Control Accounts**

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Disparities totalling Rs. 476,422 were observed between the 03 items of accounts totaling Rs. 50,630,707 shown in the financial statements and the total of balances shown in the subsidiary registers and records relevant to those accounts.

### **1.3.3 Accounts Receivable**

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While the total of 05 balances of Accounts Receivable as at the date of end of the year under review amounted to Rs. 26,297,715, four balances that had elapsed more than 05 years totalling Rs. 167,314 were included therein.

### **1.3.4 Accounts Payable**

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While the total of 02 balances of Creditors payable as at the date of end of the year under review amounted to Rs.25,565,065, a balance of Rs. 214,538 that had elapsed more than 03 years was included therein.

### **1.3.5 Lack of evidence for audit**

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Transactions totalling Rs. 6,459,005 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**

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### **2.1 Financial Results**

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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.449,747 as compared with the excess of revenue over recurrent expenditure for the preceding year

amounted to Rs.2,987,996. When compared with the preceding year, a decline of Rs.2,538,249 was shown in the financial results for the year under review.

## **2.2 Analytical Financial Review**

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Some important information relating to financial position and financial performance of the Pradeshiya Sabah during the year under review and the preceding 02 years period is shown below.

- (a) When the surplus is taken as a percentage of operational revenue, a continuous decline in that percentage was indicated.
  
- (b) While a continuous upward trend of the ratio between the total revenue and expenditure is indicated, the audit opinion is that, it is not a satisfactory situation with regard to financial control

## **2.3 Revenue Administration**

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### **2.3.1 Performance in Revenue Collection**

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While Rates in Arrears as at the beginning of the year under review was Rs.1,889,807, billings for the year had been Rs.1,673,976. Recoveries during the year had been Rs.631,203 and Rs.875,810 respectively. The progress in recovery of Rates was not at a satisfactory level as the percentage of recovery had been 33 and 52 per cent respectively.

### **2.3.2 Rates**

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While Rates in Arrears and Surcharges had been Rs. 2,056,770 and Rs. 407,843 respectively, balances that had elapsed a period of more than 05 years amounting to Rs. 89,482 was included therein.

### **2.3.3 Lease Rent**

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- (a) While Stalls Rent had been recovered on the basis of a decision of the General Sabha Meeting without rent being recovered on the basis of the assessment of the Chief Value as per directions in Paragraph 1 in Circular No. 1980/46 dated 31 December 1980 of the Commissioner of Local Government, lease agreement of certain stalls had not been up dated.
  
- (b) While the balance in the Lease Rent in Arrears Account as at the end of the year under review was Rs. 278,020, balances amounting to Rs. 195,385 relevant to past years were included therein.

### **2.3.4 Acreage Tax and Garbage Tax**

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While the Acreage Tax in Arrears amounting to Rs. 23,684 and Garbage Charges amounting to Rs. 19,613 were outstanding as at the end of the year under review, those balances were being brought forward unchanged during a period of 5 years.

### **2.3.5 Court Fines and Stamp Fees**

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A sum of Rs. 442,253 on account of Court Fines and a sum of 1,200,000 on account of Stamp Fees were due to be from the Chief Secretary of the Provincial Council and other authorities.

### **2.3.6 Publicity Advertisements Charges**

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A sum of Rs. 138,315 had not been recovered from the Publicity Advertisements Boards displayed in the area, in terms of sub-sections vii(f) and xxx in Section 126 of the Pradeshiya Sabha Act No.15 of 1987.

## **2.4 Surcharges**

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A sum of Rs. 7,335 relevant to a surcharge imposed in terms of provisions in the Pradeshiya Sabha Act No. 15 of 1987 during a previous year was due to be recovered.

## **3. Operating Review**

### **3.1 Management Inefficiencies**

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While the Chairman of the Pradeshiya Sabha had constructed own residential house in the land in Naula, Kanumulayaya belongs to the Sabha without complying with the instructions in Clause 3.5 of Circular No. SC/RD/02/10 dated 03 February 2010 of the Secretary to the President, other parties too had been carrying on businesses in that land. However, any course of action had not been taken against that matter by the officers responsible.

### **3.2 Operational Inefficiencies**

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Following matters are observed.

- (a) Although 22 Inventory Goods relating to 10 subjects valued at Rs. 607,617 had been provided to the Sabha for the E-Nena Piyaasa Information Technology Promotion Project under Provincial Criteria Based Development Grants during the year 2012, , that Project had not been commenced.
- (b) Action had not been taken to get settlement of the sum of Rs. 152,500 not covered through the insurance claim, out of the expenditure incurred for repairing the Double Cab Vehicle met with an accident on 23 January 1999

- (c) Out of 609 trade stalls identified for issue of licenses for the year under review, Licenses had been issued for only for 76 trade stalls, while 533 trade stalls had been carrying on business without obtaining licenses. However, money had not been recovered for licenses from those institutions.
  
- (d) Action had not been taken in terms of Paragraph 06 in Accounts Circular No. 95/9 dated 27 December 1995 of the Central Province Chief Secretary, to recover Loan Balances in Arrears amounting to Rs. 378,840.

### **3.3 Idle/Under-utilized Assets**

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A Hand Tractor valued at Rs. 100,000, a Trailer and a Water Bowser had remained idle during a period of 10 years.

### **3.4 Identified Losses**

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Out of the Galvanized Pipes provided through the Ministry of Provincial Councils and Regional Development, a shortage of 37 units of Galvanized Pipes valued at Rs. 40,959 was observed.

### **3.5 Improper Transactions**

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- (a) Expenditure amounting to Rs. 1,031,822 had been incurred for woks not complying with the provisions in the Circular No. 01/2014 dated 05 May 2014 of the Secretary to the Provincial Councils Ministry.
  
- (b) A sum of Rs. 150,760 had been overpaid exceeding the standards rates of the Provincial Engineering Service Department for removing a rock blocking a Sabha Road.

### **3.6 Contract Administration**

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#### **Opelgama Drinking Water Scheme**

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A Mobilization Advance of Rs. 196,000 had been provided for commencement of work in terms of the agreement entered into with the Opelgama Rural Development Society for implementation of Opelgama Drinking Water Scheme under the provisions of the Ministry of Economic Development. Although the work had not been commenced by the Society, the advance money had not been settled even up to 17 March 2015.

### **3.7 Solid Waste Management**

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While a quantity of about 02 tons of garbage collected in the area by engaging the Sabha tractor and the employees are carried away to Serudandapola Land and had been buried the garbage pit and covered with earth, an expenditure of Rs. 70,000 had been incurred for cutting garbage pits for the year under review. Although a building too had been constructed in the Serudandapola Land for waste management during the year 2006, that building had not been utilized for the relevant work up to the end of the year under review.

## **4. Accountability and Good Governance**

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### **4.1 Internal Audit**

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Although an officer had been appointed to the Internal Audit Section without assigning duties in writing, an adequate internal audit had not been taken place, as other duties too had been assigned to that officer.



## **4.2 Audit and Management Committees**

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Action had not been taken to establish Audit and Management Committees in terms of the letter No.CPC/CLG/1/9/1/4 dated 08 August 2014 of the Commissioner of Local Government even as at 31 December of the year under review.

## **4.3 Budgetary Control**

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Even after making amendments to the budget during the year under review, material differences were observed between the budgeted and actual revenue and expenditure as per particulars given below. Accordingly it was observed that, the Budget had not been made use of as an effective tool of management.

- (a) While any revenue had not been earned from estimated revenue amounting to Rs.11,910,000 relating to 04 Items of Revenue, there were variations in a range of 1.76 to 82 per cent between the estimated and actual revenue of another 09 Items of Revenue.
- (b) While the entire provision of Rs. 21,333,570 made available for 17 Items of Expenditure had been saved, there were variations in a range of 2 to 82 per cent between the net provision and actual expenditure in another 33 Items of Expenditure.

## **5. Systems and Controls**

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

- (a.) Accounting
- (b.) Budgetary control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Vehicles Control
- (f.) Debtors Control
- (g.) Contracts Control