

Arachchikattuwa Pradeshiya Sabha

Puttlam District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 20 April 2015 and the financial statements for the preceding year had been presented on 02 May 2014. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 28 July 2015.

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 Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Arachchikattuwa Pradeshiya Sabha as at 31 December 2014 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following accounting deficiencies are observed.

(a) The value of six buildings owned by the Sabha; the water motor valued at Rs.11,160 given to the Bangadeniya library; and the value of balance stock of accessories purchased from National Water Resources and Drainage Board, amounting to Rs.356,983; had not been brought to account.

(b) The sum of Rs.498,500 expended in the year under review, for the foreign tour which had been proposed to undertake by the Chairman in the year 2015, had been debited to the accumulated fund account. Therefore the current assets and general reserve account had been understated by Rs.498,500.

- (c) The capital aid amounting to Rs.6,396,788 received in cash during the year under review had not been brought to account as revenue.
- (d) The value of balance in capital aid account at the end of the year under review, amounting to Rs.7,373,013 had been set-off against the debtors. Therefore the balance in debtors had been understated in the financial statements by a similar amount.

1.3.2. Un-reconciled Control Accounts

The value of balances relevant in 07 item of account in the financial statements differed from the relevant subsidiary registers and the value of this un-reconciled difference amounted to Rs.492,740.

1.3.3. Accounts Receivable and Payable

The balance of the revenue debtors included property taxes in arrears, amounting to Rs.3,950,537, carrying forward over a period of 5 years, whilst the value of balances over one year in the creditors balance amounted to Rs.4,296,898.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2014 amounted to Rs.4,873,960, as compared with the excess of revenue over recurrent expenditure amounting Rs.2,920,753 for the preceding year. In the year under review and the preceding year; the capital aid had been Rs.15,189,115 and Rs.5,820,813 respectively; and capital expenditure had been Rs.16,210,883 and Rs.8,151,940 respectively; and when these amounts are considered, a surplus of Rs.3,852,192 and a surplus of Rs.589,626 exist in the financial results of the Sabha, respectively. Therefore the financial result had been improved by Rs.3,262,566.

2.2. Analytical Financial Review

- a) The ratio between current assets and current liabilities was 4:1, whilst the accepted ratio was 2:1.

- b) The total value of current assets amounted to Rs.48 million, and out of this approximately 84.3% amounting to Rs.40.5 million had been revenue debtors.

2.3. Revenue Administration

2.3.1. Estimated Revenue, Actual Revenue and Revenue in Arrears

According to the information submitted on revenue in arrears relevant to the year under review, the accumulated arrears at the end of the year under review had been; Rs.10.7 million in the rates and taxes; Rs.6.3 million in the lease rent; and Rs.28.5 million in the other income.

2.3.2. Rates and Taxes

The Sabha had incurred losses by not taking action to recover the rates and taxes, even based on a temporary valuation; in respect of 14 new construction units extending to an area of 23,885 square feet that had been issued with Certificates of Conformity in the year under review; and in respect of any of the buildings issued with Certificates of Conformity after the year 2007.

2.3.3. Lease Rent

Legal action had not been taken in accordance with the agreement, to recover lease rent in arrears amounting to Rs.877,140, in respect of Arachchkattuwa *Sathi Pola* for the year 2013,.

2.3.4. Other Revenue

Though the Gazette Notification promulgated on 20 December 2013 had stipulated the collection of taxes in respect of advertisements, the relevant charges had not been collected during the year under review as well as in the preceding year, in respect of large hording fixed along both sides of Chillaw-Puttalam main road,

2.3.5. Court Fines and Stamp Fees

Action had not been taken to recover the value of court fines amounting to Rs.9,312,684 and the value of stamp fees amounting to Rs.18,690,241, receivable as at the end of the year under review, from the Chief Secretary of the Province.

2.3.6. Surcharges

The Auditor General had issued a surcharge notice to the Chairman and other officers of the Sabha on 24 March 2011, for not recovering the taxes amounting to Rs.901,705, which should have been collected for leasing out the authority for the collection of fees from Arachchkattuwa *Sathi Pola*, for the year 2005. Out of this, Rs.113,100 had been recovered in instalments by the end of the year under review, whilst Rs.788,605 was recoverable.

3. Operating Review

3.1. Management Inefficiencies

- (a) The number of street light posts within the area under the authority of the Sabha, had not been accounted precisely, whilst a register had not been maintained to record the requests for street light posts repairs / complaints. The daily maintenance work carried out by electricians, are not reported to a responsible officer in writing, whilst electrical equipment and accessories had been issued, without verifying the utilization of previously issued items. The expenditure incurred for the maintenance of street lights during the year under review had been Rs.998,686.
- (b) 204 books valued at Rs.31,664, in the accession register of Bangadeniya public library, and 88 books valued at Rs.5,530, in the accession register of Udappuwa public library, had not been submitted for the goods verification on 31 December 2014. Therefore the loss incurred by the Sabha in the year under review was Rs.37,194. Action had not been taken in this regard as stipulated in F.R. 102 to 110 of Financial Regulations of the Republic of Sri Lanka.

3.2. Irregular Transactions

For obtaining services of Backhoe, the Sabha had made payments at an hourly rate, which is Rs.400 more than the rate decided by the District Price Committee. Therefore the Sabha had incurred a loss of Rs.18,800 for 47 metre-hours.

3.3. Transactions of Contentious Nature

It was observed that, the provisions in relevant circulars, as well as the provisions under *Agrahara Insurance Scheme* had been disregarded, when paying the compensations in respect of accidents occur whilst working in public service. Accordingly, Rs.25,146 and Rs.25,047 each, totalling to Rs.50,193 had been paid for life insurance cover obtained in personal name, in respect of two employees who work in the Sabha, as electricians.

4. Systems and Controls

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

- a) Accounting
- b) Budgetary Control
- c) Revenue Administration
- d) Assets Management
- e) Debtors and Creditors Control