

Haldummulla Pradeshiya Sabha
Badulla District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 07 May 2015 while Financial Statements relating to the preceding year had been submitted on 30 May 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Sabha on 13 August 2015.

1.2 Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Haldummulla Pradeshiya Sabha as at 31 December 2014 and its financial performance for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

(a) Instead of crediting the sum of Rs. 1,024,491 received in excess of the balance of Stamp Fees Debtors in respect of prior years as at the beginning of the year under review to the Accumulated Fund Account and debiting the stamp Fees Revenue Account, Stamp Fees Debtors (Other Revenue in Arrears) Account had been debited having credited the Stamp Fees Revenue Account. Due to that, Accumulated Fund balance as at 31 December of the year under review had been understated in a sum of Rs. 1,024,491 while Other Revenue in Arrears balance had been overstated in a sum of Rs. 1,020,446 and Revenue for the year had been overstated in a sum of Rs. 2,044,937 in the financial statements.

(b) Although the balance of the Contribution from Revenue to Capital Outlay Account should be equal to the balance of the Properties, Plant and Equipment Account balance of the Sabha, according to the financial statements submitted for

the year under review the total of balances of the Properties, Plant and Equipment had been Rs. 27,142,721 and the Contribution from Revenue to Capital Outlay Account had been Rs. 21,142,721 indicating a difference of Rs. 6,000,000.

- (c) Although the balance of the Local Loans and Development Fund prevailed at the beginning of the year under review was Rs. 5,142,806, it had been shown as Rs. 4,794,079 understating in a sum of Rs. 348,727 in the financial statements.
- (d) Value of non-reconciliations amounting to Rs. 1,536,500 prevailed between balances in the subsidiary registers and the financial statements as at 31 December 2013 had been debited to the Contribution from Revenue to Capital Outlay Account having credited the Assets Accounts through Journal Entry No. 14 without getting confirmed the correct balances.
- (e) In spite of the fact that Court Fines Receivable at the beginning of the year under review had been understated, Court Fines of Rs. 73,885 computed as an amount received in excess of that amount in respect of prior years had been debited to the Debtors Account having credited the Accumulated Fund through the Journal Entry No. 08. Due to that, the balance of the Accumulated Fund and the Debtors balance had been understated at the rate of Rs. 73,885 in the financial statements at the end of the year under review.
- (f) Although the Courts Fines Receivable as at 31 December of the year under review was Rs. 1,113,985, it had been accounted as Rs. 385,375. Due to that, the Courts Fines Receivable had been understated in a sum of Rs. 728,610 in the financial statements.
- (g) Although the amount payable according to the bill forwarded by the Local Government Pension Fund as at 31 December of the year under review was Rs.1,663,285, it had been shown as Rs.1,675,607 under Creditors. . Due to that, Liabilities had been overstated in a sum of Rs. 12,322 in the financial statements.

- (h) Value of 472 Galvanized Flag Posts amounting to Rs. 466,581 received from the Divi Neguma Department during the year under review and Value of 10 Multi-Purpose Mobile Booths amounting to Rs. 265,000 received from the Ministry of Local Government and Provincial Councils had not been accounted. Due to that, Assets and the balance of the Contribution from Revenue to Capital Outlay Account as at 31 December of the year under review had been understated at the rate of Rs. 731,580 in the financial statements.

1.3.2 Non-reconciled Control Accounts

While the balance relevant to an item of accounts according to subsidiary registers was Rs. 407,736, the balance according to the Statement of Financial position, it had been Rs.1,869,314.

1.3.3 Accounts Receivable and Payable

According to the financial statements presented total of Accounts Receivable as at 31 December of the year under review was Rs.35,307,064, while the total of Accounts Payable had been Rs. 32.410,966.

1.3.4 Lack of Evidence for Audit

Seven Items of Accounts valued at Rs. 48,543,330 could not be satisfactorily vouched in audit due to non-rendition of Schedules, Deeds and Plans.

1.3.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with following laws, rules and regulations etc. were observed in audit. Details are shown below.

**Reference to Laws, Rules,
Regulations etc.**

Non-compliance

- | Reference to Laws, Rules,
Regulations etc. | Non-compliance |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Financial Regulation 371 of the Republic of Sri Lanka | Advances amounting to Rs. 300,012 granted in 21 instances during the period from the year 1994 to 31 December 2014 had not been settled. |
| (b) Clauses 4 in Chapter xxiv of the Establishments Code of the Republic of Sri Lanka | Staff Loans amounting to Rs.26,920 remaining un-recovered due since 2005 from an employee who was in service of the Sabha and vacated service had not been recovered. |
| (d) Circular No. 1980/46 dated 31 December 1980 of the Commissioner of Local Government in the circular | Monthly Lease Rent of 29 stalls belong to the Sabha had not been got assessed through the Chief Valuer or an Assessor in the Local Government Service. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2014 amounted to Rs. 4,706,937 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 2,172,420. Accordingly, a favorable variance of Rs. 2,534,517 was observed in the financial results.

2.2 Revenue Administration

Rent in Arrears amounting to Rs. 547,922 due from 18 stalls belong to the Sabha had not been recovered.

2.2.1 Court Fines and Stamps Fees

Court Fines amounting to Rs.385,375 and Stamp Fees amounting to Rs. 3,481,400 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014.

3. Operating Review

3.1 Operating Inefficiencies

3.1.1 Contract Administration

A total sum of Rs.3,671,250 as interest amounting to Rs. 2,437,921 and a sum of Rs. 1,233,329 as loan installments as at 31 December 2014 had been paid out of the Sabha Fund to the Local Loans and Development Fund in respect of the loan of Rs. 5,000,000 obtained for the construction of Koslanda Market Complex. Although a period of about 05 years had elapsed, construction works of this market complex had not been completed. While the rent income which could have been derived to the Sabha had been lost, there is a risk of an adverse effect on the financial position of the Sabha, due to payment of interest out of the Sabha Fund.

3.1.2 Idle and under-utilized Assets

The Plough received with the Johndear Tractor during the year 2004 and the two engines removed in two instances from the Cab Vehicle bearing No.252-6369 remained idle.

3.1.3 Identified Losses

Out of the 472 Galvanized Flag posts provided under the provisions of the Divi Neguma Department, only 192 Flag Posts had been recorded in the Inventory and 280 Flag Posts valued at Rs. 276,786 had been misplaced.

4. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management