

**Nawagaththegama 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 10 April 2015 and the financial statements for the preceding year had been presented on 29 April 2014. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 13 August 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 Nawagaththegama Pradeshiya Sabha as at 31 December 2014 and the financial result of its operations and cash flows for the year then ended.

**1.3. Comments on Financial Statements**

**1.3.1. Accounting Deficiencies**

The following accounting deficiencies are observed.

- a) The water purification and electrode cleaning machine had been received as donations for a water project started in the year 2014, and the value of the machine amounting to Rs.1,042,000, had not been brought to account as fixed assets.
- b) The value of Fotone Tipper Truck received as donations from the Ministry of Local Government had not been computed and brought to account.
- c) The Paving Blocks Manufacturing Plant valued at Rs.656,842, had not been brought to account as a fixed asset.

- d) The capital aid amounting to Rs.160,000 receivable from the Ministry of Economic Development in respect of work carried out for Deyata Kirula Development Project in 2014 had been omitted from accounts. Therefore the impact on the debtors and the creditors had also been omitted from accounts by a similar amount.
- e) The value of closing-stock stock as at 31 December 2014 in respect of 44 items in 5 types of tube well equipment and 38 items in 2 types of electrical equipment had not been computed and brought to account.
- f) The capital aid amounting to Rs.8,483,971 received from the Ministry of Highways in the year 2013 had not been set-off against debtors. Therefore the surplus in the year and the debtors had been overstated by a similar amount.
- g) The value of closing-stock in concrete paving blocks amounting to Rs.625,600 had not been brought to account as current assets. Therefore the current assets and surplus had been understated by a similar amount.

### **1.3.2. Accounts Receivable and Payable**

- a) The total balances of accounts receivable as at 31 December 2013 amounted to Rs.12,388,339. The rent in arrears not recovered over a period of 3 years amounted to Rs.21,000. Though the balances of revenue debtors, amounting to Rs.8,483,972 had been received from the Ministry of Highways during the year, the amount continued to be shown as a debtor, as it had not been brought to account correctly.
- b) The total accounts payable by the Sabha to external parties as at 31 December 2014 amounted to Rs.6,246,895.
- c) The total employee loans receivable as at 31 December 2014 had been Rs.1,626,410.

### 1.3.3. Lack of Evidence for Audit

The balances of assets and liabilities totalling to Rs.33,686,228 in respect to 04 items of accounts, could not be verified satisfactorily, due to non-submission of sufficient evidence to the audit, to confirm the balances.

## 2. Financial Review

### 2.1. Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2014 amounted to Rs.3,215,036, as compared with the excess of recurrent expenditure over revenue amounting Rs.845,516 for the preceding year. In the year under review and in the preceding year; the capital aid had been Rs.39,954,010 and Rs.13,079,469 respectively; and the capital expenditure had been Rs.26,348,370 and Rs.13,920,775; respectively. When these amounts are considered, there had been a surplus of Rs.10,390,604 during the year under review, whilst the deficit during the preceding year had been Rs.1,686,822. Therefore, there had been an improvement of Rs.12,077,426 in the financial result during the year under review.

### 2.2. Revenue Administration

#### 2.2.1. Performance on Revenue Collection

The information submitted with respect to Estimated Revenue and Actual Revenue, relevant to the year under review and the preceding year, are indicated below.

Item of Revenue	2014			2013		
	Estimated	Actual	Cumulative	Estimated	Actual	Cumulative
			Arrears			Arrears
			as at 31-Dec			as at 31-Dec
	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>
Lease Rent	1,557	814	743	1,687	720	967
Licence Fees	125	55	70	141	100	41
Court Fines	2,040	776	1,264	2,436	2,042	394
Other	2,887	396	2,491	2,083	507	1,576

The following matters are observed.

- a) The percentage of revenue collection with respect to the estimated revenue during the preceding year had been 53%, whilst the percentage during the year under review was 31%. Therefore, there had been a deterioration of 22%.
- b) When compared with the preceding year, the variance between the estimated revenue and the actual revenue as at 31 December had been 47% and 69%. Therefore, there had been over estimation during the preparation of estimates.

### **2.2.2. Court Fines and Stamp Fees**

The revenue from court fines amounting to Rs.388,207, receivable from Puttlum Magistrate Court for the period from August 2014 to December 2014 had not been brought to account, whilst the stamp fess receivable from North Western Provincial Council for the period from May in the preceding year to 31 December in the year under review, had not been computed and brought to account.

## **3. Operating Review**

### **3.1. Management Inefficiencies**

The following are observed.

- a) Though a capital investment amounting Rs.700,000 from the Sabha funds had been forecast in the year under review, for the production of concrete paving blocks, the contribution made from the Sabha funds had been only 67%, which amounts to Rs.471,728.
- b) The building rent in arrears carrying forward for number of years amounting to Rs.21,000, had not been recovered.
- c) The Sabha had not made sufficient, effort on revenue promotion programmes or focus on new revenue generation avenues.
- d) Sufficient internal audit had not been carried out, as per the internal audit plan.

- e) During the year under review, the estimated capital expenditure of the Sabha was Rs.80 million, whilst the actual expenditure was Rs.26 million. Therefore the relevant variance had been Rs.54 million, and the capital expenditure had been an over estimated by 67%.

### **3.2. Idle and Underutilized Assets**

The Mini Kubota Tractor and the Trailer owned by the Sabha valued at Rs.332,500, had been idling over a period of 10 years.

### **3.3. Human Resource Management**

The following matters are observed.

- a) The approved cadre of the Sabha as at 31 December 2014 had been 49, whilst the actual number was 52. Accordingly there had been, a surplus of 11 employees in two types of posts, and a surplus of 08 employees in three types of posts.
- b) The post of Secretary of the Sabha had been vacant for several years, and the Development Officer (Revenue Promotion) had been acting for the Secretary.
- c) Though the approved cadre of Development Officers was 07, there was a surplus of 07 officers

## **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