

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 19 May 2016 and the financial statements for the preceding year had been presented on 20 April 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 30 June 2016.

1.2 Qualified Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this reports, 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 2015.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a) The value of oil spraying machine received as donation from the Department of Local Government during the year under review had not been brought to accounts.
- (b) Due to crediting of the revenue derived from water tax amounting to Rs.95,150 to the cumulative fund through journal 55 tax revenue during the year under review had been understated by the same amount.
- (c) Engineering stones of Rs.6037 and hume pipes 8" x 24" of Rs.127,540 being balance stock as at 31 December 2015 of the industrial sector had not been brought to account as balance stock.
- (d) Audit fees of Rs.71,160 payable for 2013 & 2014 had been shown in accounts as Rs.100,000.
- (e) While capital aid of Rs.1,033,173 applicable to 2005 had been brought to revenue account of the same year, it had again been brought to cumulative fund account through journal entry 29 during the year under review.

1.3.2 Lack of Evidence for Audit

Two items valued at Rs.99,969 shown in financial statements could not be verify satisfactorily due to non submission of defiled schedules.

1.3.3 Non - Compliance with Laws, Rules & Regulations

Instances relating to non-compliance with laws, rules and regulations are given below.

Reference to Laws, Rules & Regulations

Non compliance

Financial Regulations of the Republic of Sri Lanka

- | | |
|-------------|---|
| (i) FR 571 | Action had not been taken to bring expiry deposits, value of which been Rs.776,086 to revenue or to make necessary adjustments. |
| (ii) FR 396 | Necessary adjustments had not been made in respect of 11 cheques valued at Rs.21,892 which expired 06 months but not submitted for payment. |

2. Financial Review

2.1 Financial Result

According to financial statements presented, the excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2015 amounted to Rs.1,855,078 as compared with the excess of the recurrent expenditure over income for the proceeding year amounted to Rs.4,873,960. Following the computation of capital aid of the year under review and preceding year that had been amounted to Rs.73,023,133 and Rs.15,189,115 and the capital expenditure amounted to Rs.73,805,319 and Rs.16,210,883 respectively, the excess of the same has been Rs.1,072,892 and Rs.3,852,192 respectively. Accordingly deterioration of Rs.2,779,300 is indicated in the financial result of the year under review.

2.2 Analytical Financial Review

- (a) During the year under review the total operating revenue of the Sabha amounted to Rs.48 mn. and it has been Rs.07 mn. increase when compared with the total operating revenue of the preceding year which amounted to Rs.41mn.
- (b) During the year under review the recurrent expenditure amounted to Rs.46 and it has been Rs.10mn increase when compared with the recurrent expenditure of the preceding year which amounted to Rs.36 mn.
- (c) Capital revenue during the year under review amounted to Rs. 73 mn'. and it is Rs.58mn. increase when compared with the capital revenue of the preceding year which amounted to Rs.15mn. capital expenditure of the year under review had been Rs.74mn. and it has been Rs.58mn. increase over the preceding year.
- (d) In view of the above the excess for the year amounted to Rs.01mn. and it was Rs.03mn. decrease of the financial result when compared with the excess of the preceding year which amounted to Rs.04mn.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Revenue in Arrears.

Information on estimated revenue, actual revenue and revenue in arrears of the year under review in comparison to the previous year are given below.

| Item of Revenue | <u>2015</u> | | | <u>2014</u> | | |
|------------------|-------------|---------|---------------|-------------|---------|---------------|
| | Budgeted | Actual | Arrears as at | Budgeted | Actual | Arrears as at |
| | | | 31 Dec. | | | 31 Dec. |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| a) Rates & Taxes | 2,749 | 2,852 | 9,550 | 2,924 | 1,712 | 10,702 |
| b) Lease Rent | 2,545 | 2,319 | 6,876 | 2,532 | 1,636 | 6,317 |
| c) Trade License | 775 | 1,195 | - | 975 | 1,002 | - |
| d) Other Revenue | 42,606 | 37,123 | 29,516 | 35,176 | 28,087 | 28,496 |

2.2.2 Collected Revenue from billed amount

Information relating to collecting of income and revenue in arrears in respect of the year under review are given below.

| Item of Income | Billing of Revenue | | Collecting of Revenue | | | | Arrears of revenue | | | |
|----------------|-----------------------------|--------------------|-----------------------|--|---|---|--------------------|--|---------------------------------|--|
| | Arrears as at 01.01.2015 | Billing in 2015 | Total | Collected amount from arrears upto 31.12.2015 | Amount collected through billing | Total amount received for next year | Total | Balance from arrears as at 01.01.2015 | Arrears of billed revenue | Total in arrears as at 31.12.2015 |
| | Rs. | Rs. | Rs | Rs | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| Rates & Taxes | 9,314,227 | 2,674,248 | 11,988,475 | 1,788,963 | 1,017,650 | 45,543 | 2,852,156 | 7,525,263 | 1,656,598 | 9,181,860 |
| Acre tax | 387,954 | 37,879 | 425,833 | 51,722 | 5,233 | 483 | 57,438 | 336,232 | 32,645 | 368,877 |
| Water tax | 626,696 | 250,700 | 877,396 | 282,666 | 90,700 | 1,800 | 375,166 | 344,030 | 160,000 | 504,030 |
| Shop rent | 548,540 | 237,850 | 786,390 | 172,650 | 37,640 | 10 | 210,300 | 375,890 | 200,209 | 576,099 |
| Lease Rent | 5,639,620 | 2,265,025 | 7,904,645 | 656,189 | 1,452,351 | - | 2,108,540 | 4,983,431 | 812,673 | 5,796,104 |

2.2.3 Rates and Taxes

- (a) Out of the billed rates and taxes of Rs.2,674,248 during the year under review only a sum of Rs.1,017,650 had been collected which being 38% of the billed amount.
- (b) Overall rates and taxes in arrears of the Sabha at the end of the year under review amounted to Rs.9,181,861. Accordingly poor progress of collecting revenue during the relevant period was observed.
- (c) Action had not been taken to recover arrears by forfeiting movable property owned by persons evading the payment of rates and acre tax in the area of authority of the Sabha as stipulated under Section 158 of the Pradeshiya Sabha Act No.15 of 1987

2.3.4 Stamp Fees

Out of the stamp fees recovered by the Sabha from Register General, value that should have been recoverable to the Sabha as at 31 December 2015 amounted to Rs.22,010,858 of which Rs.9,089,676 had been for the period between 2008 to 2010 and it was observed that those balances older than 05 years being brought forward further would be unnecessary expansion of assets party in the financial position variation statement of the Sabha at the end of the year under review.

2.3.5 Court Fines

Value of court fines recoverable from the Chief Secretary of the province as at 31 December 2015 amounted to Rs.7,504,809 of which Rs.1,939,309 are court fines applicable to the period between 2005 to 2009.

2.3.6 Lease Rent

- (a) Lease rent as at 31 December 2015 amounted to Rs.5,979,606 of which Rs.4,988,842 were lease rent in arrears during the period from 2001 to 2014.
- (b) Stall rent in arrears at the end of the year under review amounted to Rs.576,100 of which Rs.532,800 had been the amount in arrears while the period of arrears was between 02-09 years. It was also observed at the audit that collection of stall rent income had been at poor progress.

2.3.7 Taxes on Land Sales

Although the Sabha should recover 01% of the amount received through land sale proceeds within its area of authority as per section 154(1) of the Pradeshiya Sabha Act. No.15 of 1987, only 01% of the estimated sale amount had been recovered.

Water Tax

Water tax in arrears at the end of the year under review amounted to Rs.270,036 and the recovery of water tax was at poor progress. There were 23 water users whose period of arrears were between 01 - 07 years.

2.3.8 Acreage Tax

Acreage tax in arrears at the end of the year under review amounted to Rs.368,394 of which around Rs.170,501 were in arrears over a period of 08 years. Collection of acreage tax was at poor progress.

2.4 Structure of Expenditure

Budgeted and actual expenditure of the Sabha for the year under review and preceding year along with relevant variance are as follows:

| Item of Expenditure | <u>2015</u> | | | <u>2014</u> | | |
|------------------------------|---------------|----------------|-----------------|---------------|---------------|--------------|
| | Budgeted | Actual | Variance | Budgeted | Actual | Variation |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| <u>Recurrent Expenditure</u> | | | | | | |
| Personal Emoluments | 35,262 | 33,438 | 1,824 | 27,310 | 22,777 | 4,533 |
| Other | 13,240 | 12,593 | 647 | 12,580 | 13,362 | (782) |
| Sub Total | 48,502 | 46,031 | 2,471 | 39,890 | 36,139 | 3,751 |
| Capital Expenditure | 1,500 | 73,805 | (72,305) | 17,000 | 16,211 | 789 |
| Grant Total | <u>50,002</u> | <u>119,836</u> | <u>(69,834)</u> | <u>56,890</u> | <u>52,350</u> | <u>4,540</u> |

According to the above table capital expenditure of the year under review had been increased by Rs. 72,305mn. over budgeted amount.

2.5 Surcharges

A surcharge notice was issued on 24 March 2011 by Auditor General to the Chairman of the Pradeshiya Sabha including its officials for non recovery of taxes amounting to Rs.901,705 that should have been recovered for renting of the right of collecting Arachchikattwa weekly fair rental for 2005 of that amount at the end of the year under review Rs.113,100 had been recovered in instalments with further recoverable amount of Rs.788,605.

3. Operating Review

3.1 Action Plan

18 Projects valued at Rs.7,265,000 that should have been implemented in keeping with the Action Plan for the year under review had been abandoned while Rs.597,219 spent in excess of the estimated amount.

3.2 Human Resources Management

Approved and Actual Cadre

Information relating to approved and actual cadre of the Sabha as at 31 December 2015 are as follows..

| Employee Grade | Approved | Actual | Vacant | Excess |
|-----------------------|-----------------|---------------|---------------|---------------|
| Tertiary | 01 | 01 | - | - |
| Secondary | 25 | 18 | 09 | 02 |
| Primary | <u>52</u> | <u>56</u> | <u>04</u> | <u>08</u> |
| | <u>78</u> | <u>75</u> | <u>13</u> | <u>10</u> |

4. Systems and Controls.

Special Attention is invited to the following areas of systems and controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Debtors & Creditors Control