

Hanguranketha Pradeshiya Sabha

Nuwaraeliya District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 08 April 2016 while Financial Statements relating to the preceding year had been submitted on 07 April 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 19 August 2016.

1.2 Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Hanguranketha Pradeshiya Sabha at 31 December 2015 and its financial performance for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following matters are observed.

- (a) Stamp Fees amounting to Rs.6,456,080 relevant to the year under review had not been accounted.
- (b) Although the amount fall Rates and Taxes received during the year was Rs.1,586,226, it had been accounted as Rs.1,599,917.
- (c) Although the value of Pension Contribution amount of the year under review was Rs.106,106, it had been accounted as Rs.237,526 in the Revenue and Expenditure account overstating in a sum of Rs.131,420.
- (d) The value of Work Debtors as at 31 December of the year under review had been overstated in a sum of Rs. 775,000.
- (e) The value of Creditors as at 31 December of the year under review had been overstated in a sum of Rs. 190,917.
- (f) Salaries paid to permanent employees during the year 2015, but not reimbursed amounting to Rs. 2,797,971 had not been accounted as Debtors.

- (g) According to the Bank Reconciliation Statement as at 31 December 2015, expenditure amounting to Rs. 16,000 had not been identified and accounted. Due to that, the cash balance as at 31 December had been overstated to that extent and expenditure for the year had been understood to the same extent.
- (h) Action had not been taken to identify and account the receipts amounting Rs. 294,666 not recorded in the Cash Book shown in the Bank Reconciliation Statement during a period of more than 02 years.

1.3.2 Non-reconciled Control Accounts

While the total of balances relevant to 04 items of accounts according to Control Accounts was Rs. 96,452,159, according to Subsidiary Registers and records, the total of those balances had been Rs. 65,827,442 indicating a difference of Rs. 30,624,717.

1.3.3 Accounts Receivable and Accounts Payable

(a) Accounts Receivable

While the balance of Work Debtors as at 31 December 2015 was Rs. 49,626,7114, the value of balances that had elapsed a period of one year included in that was Rs. 38,346,569. While these amounts were provisions to be received from the Central Government, any evidence was not furnished to audit supporting that money will be received.

(b) Accounts Payable

While the value of Accounts Payable balances was Rs. 34,570,651, out of those, value of Accounts Payable balances that had elapsed for more than a period of 01 year was Rs. 23,166,649.

1.3.4 Lack of Evidence for Audit

Two items of accounts valued at Rs. 49,668,615 shown in the statement of financial position as at 31 December of the year under review could not be satisfactorily verified in audit due to non-submission of required information to audit.

1.3.5 Non-compliance with Laws, Rules and Regulations.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----
(a) Pradeshiya Sabha (Financial and Administrative) Rule 218	Action had not been taken to carry out a Survey annually with regard to Land and Buildings of the Sabha.
(b) Financial Regulation 571 of the Republic of Sri Lanka	Necessary action had not been taken with regard to 102 lapsed deposits valued at Rs. 912,509.
(c) Chapter XXIV of the Government Establishments Code	Action had not been to recover Loan balances amounting to Rs.174,512 outstanding from deceased, vacated service and left on transfers.

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 2015 amounted to Rs. 1,872,765 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 144,613 indicating an improvement of Rs. 1,728,152 in the financial results.

2.2 Analytical financial Review

Increase in 05 items of revenue and decrease in 05 items of expenditure had mainly affected the improvement in the financial results.

2.3 Working Capital Management

When total Current Assets were compared with the Current Liabilities, it was observed that the Current Ratio had been 1:43:1 and it was lower than the optimum level. While 74 per cent of the Current Assets had been Work Grants in arrears, 76 per cent of the Current Liabilities had been Works Creditors.

2.4 Revenue Administration

2.4.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information as furnished by the Secretary relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below

			Receipts during the Year		Balance as at	
31.12.2015			-----		-----	
Item of Revenue	Arrears	Billings	Out of	Out of	Out of Arrears	Out of Billings
Total Arrears	as at	during	Arrear	Billings		
	01.01.2015	2015	2014	2015		
	-----	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates	2,160,712	1,983,687	733,615	852,611	1,472,097	1,131,076
	2,603,173					
Lease Rent	1,529,124	2,373,687	83,470	1,668,838	1,445,654	1,209,722
	2,655,376					
Water Charges	948,741	3,215,515	280,750	2,789,845	667,991	425,670
	1,093,661					

2.4.2 Rates

While 33 per cent of the arrears at the beginning of the year and 42 per cent of billings for the year relating to Rates had been recovered, action in terms of Section 158 of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken to recover Rates in arrears at the end of the year under review amounting to Rs. 2,603,173 including the opening balance of arrears amounted to Rs. 1,427,097.

2.4.3 Lease Rent

While a Revenue of Rs. 2,655,376 was outstanding to be recovered at the end of the year under review on account of leasing out stalls belong to the Sabha, problems had arisen due to lack of proper agreements entered into with the lessees.

2.4.4 Trade License Fees

Although all names of business entities had been included in the Trade Licenses Register at the beginning of each year through a proper survey in terms of Rule 59 - 61 of Pradeshiya Sabha (Financial and Administrative) Rules Series of 1988, License Fees amounting to Rs. 51,300 for the year 2015 had not been recovered from 74 business entities.

2.4.5 Other Revenue

(a) Acreage Tax

Acreage Tax in arrears amounting to Rs. 116,875 including Acreage Tax in arrears amounting to Rs. 96,148 at the beginning of the year 2015 and billings for the year 2015 amounting to Rs. 96,148 were outstanding to be recovered.

(b) Vehicles Parking Fees

Although By-laws had been imposed for parking vehicles for hire in the area of authority of the Sabha, action had not been taken to maintain Vehicle Parks for various hiring vehicles, having marked places in order to recover a tax properly.

2.4.6 Court Fines and Stamp Fees

Court Fines amounting to Rs. 183,372 and Stamp Fees amounting to Rs. 6,456,080 were receivable as at 31 December 2014.

3. Operating Review

3.1 Operational Inefficiencies

While Recurrent Revenue of the Water Project of the Sabha was Rs. 3,081,932, expenditure had been Rs. 3,394,948 resulting in a deficit of Rs. 313,016.

3.2 Management Inefficiencies

Un-identified difference of Rs. 25,575 shown in the Bank reconciliation Statement as at 31 December 2008 had not been settled even up to the 31 December of the year under review.

3.2 Environmental Problems

Although the validity period had expired of the permits issued to 04 Business Entities liable to obtain permits in terms of Extra Ordinary Gazette Notification No.1533/16 dated 25 January 2008 issued by the Minister of Environment and Natural Resources under Section 23 (a) of the National Environmental Act No. 47 of 1980, those permits had not been renewed.

4. Accountability and Good Governance

4.1 Corporate Plan

A Corporate Plan had not been prepared incorporating the year under review as well.

4.2 Budgetary Control

(a) According to the Budget prepared for the year under review, when estimated revenue and expenditure are compared with the actual revenue and expenditure, variations from 18 per cent to 260 per cent in 08 Items of revenue and variations from 17 per cent to 160 in 11 items of expenditure were observed. Accordingly, it was observed that the Budget had not been made use of as an effective tool of management.

(b) Budgeted and supplementary provisions had not been compared with actual and a statement explaining the reasons with regard to surpluses and excesses under each item of revenue and expenditure had not been prepared and submitted in terms of Rule 193 of the Pradeshiya Sabha (Financial and Administrative) Rules Series of 1988.

4.3 Annual Procurement Plan

Although a capital expenditure of Rs. 81,135,522 had been incurred during the year under review, an Annual Procurement Plan had not been used in terms of sub-paragraph 4:2 of the Government Procurement Guidelines.

4.4 Internal Audit

An Adequate Internal Audit had not been carried out in the establishment, in terms of Financial Regulation 133 of the Republic of Sri Lanka and the Circular No. DMA/2009/01 dated 09 June 2009 of the Department of Management Audit.

4.5 Assets Management

Idle and Under-utilized Assets

(a) The Water Bowser bearing No. C.P.G.M.-2240 belongs to the Sabha had been parked in the Sabha ground from the beginning of the year 2015 without being utilized for any work.

(b) Annual Board of Survey

A Board of Survey had not been carried out for the year under review.

5. Systems and Controls

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

- (a) Revenue Administration
- (b) Assets Management
- (c) Debtors and Creditors Control