

Hanguranketha Pradeshiya Sabah

Nuwaraeliya District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been furnished to Audit on 30 March 2017 while Financial Statements relating to the preceding year had been submitted on 08 April 2016. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 25 August 2017.

1.2 Qualified 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 Hanguranketha Pradeshiya Sabha at 31 December 2016 and its financial performance for the year then ended in accordance with the generally accepted Accounting Standards.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

- (a). Stamp fees amounting to Rs.1,307,550 receivable relating to March and April of the year under review had been debited as Rs. 2,615,100 to the debtors and for the rectification of that error, a sum of Rs.1,307,550 should have been credited to the debtors, whereas that amount had been credited to the creditors. Further, stamp fees amounting to Rs.46,000 received relating to the preceding year had been erroneously credited to the revenue of the year under review and in order to rectify that error, the revenue of the year under review should have been debited by that amount, whereas Rs.92,000 had been debited. Moreover, stamp fees amounting to Rs.46,00 received in cash had been erroneously credited to the debtors. As a result, creditors of Rs.1,307,550 and the revenue of the year of

Rs.46,000 had been overstated and understated respectively while credits of Rs. 1,261,550 had been overstated in the accounts as at 31 December of the year under review.

- (b) As court fines of Rs.29,834 relating to February and March of the year under review had been excessively credited to the revenue, revenue of the year should have been debited and the debtors should have been credited by that amount in order to rectify that error. Nevertheless, Revenue of the year amounting to Rs.59,656 had been debited and Accumulated Fund of Rs.59,656 had been credited. As such, revenue of the year Rs.29,822 and the Cumulative Fund of Rs.29,822 had been understated and overstated respectively.
- (c) Although the domestic loans and the loan balance payable to the Development Fund as at 31 December of the year under review amounted to Rs.11,915,631, it had been stated as Rs.11,538,053 in the balance sheet by understating Rs.377,578.
- (d) Even though the sundry deposit balance as at 31 December of the year under review was Rs. 2,907,794 it had been stated as Rs. 1,160,432 in the balance sheet by understating Rs. 1,747,362.
- (e) The outstanding Rates and tax balance as at 31 December of the year under review was Rs. 4,613,842, that balance had been stated as Rs. 2,218,065 in the balance sheet by understating Rs. 2,395,777.

1.3.2 Non-reconciled Control Accounts

Although the balance of the employees loan remained receivable as at 31 December of the year under review amounted to Rs. 1,963,757 according to the Employees Loan Account, it was Rs.1,900,734 according to the Employees Loan Register, thus observing a difference of Rs. 63,023.

1.3.3 Accounts Receivable and Accounts Payable

(a) Accounts Receivable

The balance of Work Debtors as at 31 December of the year under review was Rs. 43,679,766 and out of that, a sum of Rs. 34,362,237 had remained unrecovered for more than a period of one year.

(b) Accounts Payable

The value of payable accounts balances as at 31 December of the year under review was Rs. 32,600,754, out of that, a sum of Rs. 23,264,468 remained payable for more than a period of one years. Details appear below.

Item of Account	Balance less than one year	Balance more than one year	Total balance as at 31.12.2016
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	Rs.	Rs.	Rs.
Work Creditors	9,231,675	17,985,281	27,216,956
Contributions for Pension	104,611	5,279,187	5,383,798
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	9,336,286	23,264,468	32,600,754
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1.3.4 Lack of Evidence for Audit

The schedules relating to 04 Items of Accounts totaling Rs. 32,816,279 stated in the balance sheet as at 31 December of the year under review had not been furnished and as such, those could not be satisfactorily vouched in audit.

1.3.5 Non-compliance with Laws, Rules and Regulations.

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

Reference to Laws, Rules and Regulations	Non-compliance
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(a). Pradeshiya Sabha Act, No. 15 of 1987.	
Sections 150 - 166	Action had not been taken to recover the revenue in arrears amounting to Rs..6,417,784.
(b). Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
571 (2)	Necessary action had not been taken with regard to 21 lapsed deposits valued at Rs. 29,600
(c). Chapter XXIV of the Establishments Code	
	Action had not been taken to recover the employees loans amounting to Rs. 159,112 due from 13 employees retired, deceased, those who vacated the 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 of the year under review amounted to Rs. 9,962,267 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 1,872,766, thus indicating an improvement of Rs. 8,089,501 in the financial results.

2.2 Analytical financial Review

Increase in 03 Items of Revenue and decrease in one Items of Expenditure had mainly attributed to the improvement of Rs. .8,089,501 in the financial results.

2.3 Revenue Administration

2.3.1 Rates

Rates in arrears as at 31 December of the year under review amounted to Rs. 4,638,011, out of that, a sum of Rs. 3,496,256 had remained unrecovered for more than a period of one year.

2.3.2 Lease Rent

Lease rent in arrears as at 31 December of the year under review amounted to Rs. 129,603 and out of that, a sum of Rs. 110,950 had remained unrecovered for more than a period of one year

2.3.3 Court Fines and Stamp Fees

Court Fines and Stamp Fees remained receivable from the Chief Secretary and the other authorities of the Central Provincial Council as at 31 December of the year under review amounted to Rs. 817,220 and Rs. 6,119,700 respectively.

3. Operating Review

3.1 Capital Expenditure.

Although the estimated Capital Expenditure proposed to be incurred from the General Fund of the Sabha amounted to Rs. 3,711,400 according to the Budget of the year under review, the actual capital expenditure was Rs. 813,604. Accordingly, a sum of Rs. 2,897,796 out of the budgeted capital expenditure had not been utilized and the amount thus unutilized represented 78 per cent of the budgeted capital expenditure.

3.2 Management Inefficiencies

- (a). No action whatsoever had been taken to recover a sum of Rs. 54,000 recoverable to the Sabha from the Local Government Employees General Association in terms of the court decision dated 28 October 2015.
- (b). Out of the building construction permits issued from the year 2012 to 2016, surveys had not been conducted or Certificate of Conformity had not been issued in respect of buildings relating to 197 building permits. As a result, it had not been possible to identify the buildings which were liable to pay the Rates.
- (c). The libraries at Handawalapitiya and Akiriya belonging to the Sabha had not been properly maintained and building repairs too had not been carried out.
- (d). The following matters were observed in connection with the maintenance of the Ayurvedic Centre.
 - (i) The Handawalapitiya Ayurvedic Centre of the Sabha had been closed down over a period of 08 years without being utilized for the public utility.
 - (ii) The Idampitiya Ayurvedic Centre had not been properly maintained and the building, security fence and the gate of the Centre remained dilapidated condition. Further, lack of various equipments required for the maintenance of the activities of the Centre was also observed.

3.3 Idle and Underutilized Assets

- (a). A motor grader and a water bowser belonging to the Sabha had been parked in the premises of the Sabha from the beginning of the year 2015 without being utilized for any purpose.
- (b). The Honda motor bicycle and 04 wheeler Kubota tractor which had been removed from use for over a period of 05 years had been parked in the premises of the Sabha.

3.4 Solid Waste Management.

- (a). The wastes brought to the Solid Waste Management Centre at Aspatthiya, Methagama from the Hanguranketha, Rikillagaskada and Padiyapelalla towns situated in the council area were not being properly managed and polythene contained therein were destroying by burning and the polythene mixed with the degradable wastes were being covered with soil together with the above degradable particles.
- (b). The solid wastes collected in the Hewaheta town were being disposed of to a place situated in the vicinity of the town without segregating and as those wastes were being covered with soil, it resulted in contamination of the water sources and due to burning of polythene, air pollution was taking place.
- (c). According to the Letter of the Provincial Council Commissioner of the Central Province dated 27 July 2016 issued under the titled “ Domestic Composte Bin Distributing Project-2016” , 140 Composte bins had been purchased and out of that 118 bins valued at Rs. 431,108 had been kept in the premises of the Sabha without being distributed among the people of the area of authority of the Sabha even by 27 February 2017, the date of audit.

4. **Accountability and Good Governance**

Budgetary Control

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 09 per cent to 87 per cent in 07 Items of Revenue and variations from 17 per cent to 60 in 08 Items of Expenditure were observed. Accordingly, it was observed that the Budget had not been made use of as an effective tool of management.

5. **Systems and Controls**

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

Areas of Systems and Controls	Observations
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(a) Revenue Administration	Failure to recover the revenue in arrears receivable to the Sabha.
(b) Debtors and Creditors Control	Failure to settle the money receivable to the Sabha and failure to settle the payments due to be paid by the Sabha
(c) Assets Management	Not properly maintaining the libraries and the Ayurvedic buildings belonging to the Sabha.
(d) Accounting	Existence of various shortcomings on accounting assets and liabilities and revenue and expenditure relating to the year of accounts.