

**Pannala Pradeshiya Sabha**

**Kurunegala District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 01 April 2013 and the financial statements for the preceding year had been presented on 30 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 August 2013.

**1.2 Opinion**

In view of the comments and observations appearing in my report I do not express an opinion on the financial statements of the Pannala Pradeshiya Sabha for the year ended 31 December 2012 presented to audit.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

The following observations are made.

- (a.) There were differences totaling Rs.203,353,036 between the balances as at 31 December 2011 according to the financial statements for the year 2011 and the opening balances of the year under review with regard to 05 ledger accounts.
- (b.) Income from court fines for the year had been taken to financial statements as Rs.21,197,813 by adding the billing for the year amounting to Rs.10,015,000 to court fines amounting to Rs.11,182,813 received during the year. As such, the excess and the court fines receivable had been overstated by Rs.11,182,813.
- (c.) Although the loan payable in respect of loans obtained under Local Loans and Development Fund and Asian Development Bank credit facilities amounted to Rs.62,036,763 only a sum of Rs.58,272,183 had been shown in the financial statements as loan capital. Therefore, the loan capital as at end of the year had been understated by Rs.3,764,580.

- (d.) According to the goods verification reports, the value of library books amounted to Rs.11,962,689. Nevertheless, it had been brought to the financial statements as Rs.9,732,482 and therefore, the value of library books as at end of the year under review had been understated by Rs.2,230,207.
- (e.) According to the registers the debtors (others) amounted to Rs.95,632,958 whereas it had been taken to financial statements as Rs.122,677,278 and as such, the debtors as at end of the year under review had been overstated by Rs.27,044,320.
- (f.) According to the schedules the actual expenditure creditors amounted to Rs.103,218,727 and it had been shown in the financial statements as Rs.77,705,790 and therefore, creditors as at end of the year under review had been understated by Rs.25,512,937.
- (g.) While adjusting the sum of Rs.1,544,500 overprovided for creditors of the year 2011; general supply creditors account had been debited and the accumulated fund account had been credited by Rs.44,500. Therefore, the general supply creditors had been overstated by Rs.1,500,000 and the accumulated fund as at end of the year under review had been understated by a similar amount.
- (h.) The money received for stalls allocated on key-money system had not been identified and brought to account as an income. Instead, the sum of Rs1,874,691 received during the year had been added to the opening balance of Rs.3,160,186 at the beginning of the year and the total sum of Rs.5,034,877 had been shown as deposit of key-money payable. As such, the profit for the year under review had been understated by Rs.1,874,691 and the accumulated fund had been understated by Rs.3,160,186.
- (i.) The total of the debit balances of suspense accounts was Rs.73,766 and according to the ledger accounts the above balance was Rs.176,367. If the balances amounting to Rs.43,821,632 erroneously adjusted by the Journal Entries during the year 2011 to the debit balance of the suspense account amounting to Rs.37,383,062 as at the beginning of year 2011 had been settled; the balance of the suspense account would have been a debit balance of Rs.43,645,264.

**1.3.2 Lack of Evidence for Audit**

Transactions totaling Rs.297,309,043 could not be satisfactorily vouched in audit due to non-submission of the required information to audit.

**2. Financial and Operating Review**

**2.1 Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2012 amounted to Rs.4,155,518 as compared with the excess of revenue over recurrent expenditure amounting to Rs.8,730,118 for the preceding year.

**2.2 Financial Control**

The following deficiencies in financial control were observed.

- (a.) Employees loan balance amounting to Rs.101,484 had been outstanding for over several years and capital receivable amounting to Rs.18,708,947 had not been get settled even during the year under review too.
- (b.) Fines for delay amounting to Rs.265,809 had been accrued due to non-payment of loan instalments duly in respect of the loan of Rs.60 million approximately obtained under Asian Development Bank credit facilities and the loan instalments amounting to Rs.2,306,887 also had not been paid even up to end of the year under review.

**2.3 Revenue Administration**

**2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue**

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	7,441	6,577	3,138
(ii.) Lease Rent	21,579	17,455	1,911
(iii.) Licence Fees	1,486	1,444	-
(iv.) Other Revenue	72,808	71,258	-

**2.3.2 Rates and Taxes**

Rates should be assessed through the Department of Valuation once in 05 years and the recoveries should be done based on the above assessment. But, rates for the year 2012 had been recovered based on the assessment made in year 2006. The arrears of rates as at end of the year amounted to Rs.2,535,889 and it represents 63% of the total annual billing of Rs.4,040,059. Out of the 672 units of rates of the Hamangalla Sub office a sample check was carried out on 111 units of rates of the left side of the Negombo Road and 143 units of rates of the right side of the Negombo Road and it was observed that there was an outstanding balance of Rs.76,529 as at 31 December 2012 and they were outstanding for periods ranging 3to 27 quarters. Action had not been taken in terms of Section 158 of the Pradeshiya Sabha Act No.15 of 1987 and Rules 31-42 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988, to recover the dues.

### **2.3.3 Lease Rent**

- (a.) The building of Yakvila Sub-office had been leased out to the Youth Services Council since March 2011 at a monthly rent of Rs.2,750 and 22 monthly installments amounting to Rs.60,500 had been due to the Sabha as at end of the year under review. Fines had not been billed on these outstanding amounts.
- (b.) The building of the Sabha at Makandura town had been leased out at a monthly rent of Rs.650 and 354 monthly installments amounting to Rs.230,240 had been due as at 31 December 2012.
- (c.) Stalls on the pavement owned by the Hamangalla Sub-office had been demolished by 2003 and there was an outstanding balance of Rs.12,480 relating to the above. There was an outstanding balance amounting to Rs.42,291 as at 31 December 2012 in respect of 4 places for which no billing is done.
- (d.) A building owned by the Hamangalla Sub-office had been leased out to run a Cinema hall and a sum of Rs.378,785 had been outstanding on the amounts billed for a period up to 30 June 2007. The monthly rent had not been billed for this building since July 2007 and this building had not been used for any specific purpose.
- (e.) The Police Station Giriulla is located in a building owned by the Sabha and a sum of Rs.299,234 was outstanding up to 01 June 2003 in respect of the above and no billing had been done since then.
- (f.) Eighteen out of the 48 stalls at the Giriulla General Market had been sealed due to non-payment of rent properly relating to the period from 2007 to 2010 and the above stalls had not been leased out again by calling for tenders according to the provisions of the Circular No.1980/46 dated 21 December 1980 of the Commissioner of Local Government. Further, the arrears totaling Rs.195,592 at the time of sealing the stalls had not been recovered even as at the end of the year under review.

- (g.) Quotations had been called for in January 2012 to lease out 10 stalls of the Kadane Gedara Trade Complex based on key-money of Rs.1,000,000 and only 02 stalls had been leased out. Although tenders had been called for again at 05 instances to lease out the balance 08 stalls, these could not be leased out even by the end of the year. Key money amounting to Rs.1,009,773 had been outstanding as at end of the year in respect of the 02 stalls leased out and agreements also had not been entered into for the said stalls.
- (h.) A building had been constructed in year 2010 at an expense of Rs.85,254,744 under the credit facilities of the Asian Development Bank. Quotations had been called for at an expense of Rs.140,608 at 04 instances during 2011 and 2012 to lease out 24 stalls in the ground floor for a minimum bid between the range of Rs.7,749,000 and Rs.380,000 and the upper floor bearing No.25 for Rs.11,106,000 under key-money method. However, it had failed to give these stalls even up to the end of the year under review. Further, all together a sum of Rs.90 million including Rs.5 million spent by the Sabha to provide common amenities had been spent for this project as at end of the year under review. Although loan interest amounting to Rs.2,419,131 had been paid in 2011 and loan installments and interest amounting to Rs.2,380,920 had been paid in 2012 for three quarters relating to the loan obtained from the Asian Development Bank for this Project; the building had not been used for the intended purposes or leased out.
- (i.) Construction of the Wetakeyyawa Trade Complex with 24 stalls had been commenced in 2004 at a cost of Rs.9 million funded by key-money and funds of the Sabha. Of this 08 stalls had not been leased out on key money method even up to the end of the year under review. Further, a sum of Rs.745,330 had been due in respect of 03 stalls given on key money method. However, this Trade Complex had not been opened and rent had not been recovered even up to end of the year due to non-supply of electricity and common amenities.

#### **2.3.4 Business Tax and Trade Licence Fees**

- (a.) The Sabha had not carried out surveys in respect of business tax and trade licence fees in terms of Rules 59 to 67 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988.
  
- (b.) According to the provisions of Section 149 of the Pradeshiya Sabha Act No.15 of 1987 a fee not exceeding 1% of the turnover of the hotel or restaurant can be charged for hotels registered at the Ceylon Tourism Promotion Authority. However, only a fee of Rs.3,000 had been charged for the year 2012 from one institution which had been so identified by the Sabha.

#### **2.3.5 Vehicle Parking Charges**

Although there is a by-law regarding to vehicle parking within the area of the Sabha, a survey had not been carried out annually or periodically in respect of parking three wheelers an action had not been taken to register the three wheelers of the area and provide parking places.

#### **2.3.6 Court Fines and Stamp Fees**

Court fines and stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2012 had not been identified and brought to account.

#### **2.4 Human Resources Management**

- (a.) The approved cadre of the Sabha was 111 and the actual cadre was 95. The number of vacancies was 23 and the excess cadre was 07. One out of 04 Technical Officers posts, 02 out of 04 Librarians posts and the 04 approved posts of Revenue Inspectors had remained vacant. In addition to this, 85 employees had been employed on casual and substitute basis as at end of the year under review and their salaries had been paid from the Sabha fund.

- (b.) The approved cadre for the Library Assistant post by the end of the year under review was 06 and there were 04 permanent employees under this category and 17 had been employed on casual and substitute basis as at end of the year under review. Further, the approved cadre of the Montessori Wardress post by the end of the year under review was 04 and there were no permanent employees under this category and 42 had been employed on casual and substitute basis as at end of the year under review.

## **2.5 Legal Matters Initiated Against or By the Sabha**

The following observations are made.

- (a.) Two cases were being in process at the Kuliyaipitiya District Courts and Kuruegala Appeal Courts respectively in the year 1998 and 2012 in respect of the ownership of the Damminna Gahamula Watta, Yakwila that had been purchased by the Sabha at the period of Development Councils.
- (b.) A court case was being in process during 2011 in respect of a person's death occurred while an employee of the Sabha was operating a Motor Grader owned by the Machinery Authority.
- (c.) A court case was being in process during 2008 due to objections made by private land owners against laying water pipes for a drinking water project within the area of the Hamangalla Sub-office.

## **2.6 Contract Administration**

### **Works Done on Direct Labour Method**

During the year 2012, the Sabha had implemented 158 works on direct labour method that is 11 works at an estimated cost of Rs.4,279,700 under Provincial Specifics Grants and Provincial Investments and 147 works out of Sabha funds. The information required in terms of Section 07 of the Circular No.7/6/8 dated 09 December 2003 on "Procedures to be followed in carrying out civil engineering works" issued by the Commissioner of Local Government; had not been properly included in the files maintained on the said works.



**2.7 Operating Inefficiencies**

The following observations are made.

- (a.) A corporate plan for the Sabha and an annual action plan for the year under review had not been prepared.
- (b.) Contributions payable to the Local Government Pension Fund had not been duly paid and the balance payable to the said Fund as at end of the year under review amounted to Rs.4,188,492.

**2.8 Solid Waste Management**

A sum of Rs.2,226,000 had been spent as at the year under review to operate a waste management centre for producing compost, and there was a monthly compost production of 01 Metric Ton. In addition a land to the extent of about 05 acres situated at Wilagedara area had been used for disposal of waste collected within the area of authority of the Sabha and there is a school and there is a school and a home for elders near that land and the Ma-oya also is closed by.

**2.9 Performance**

According to the budget for the year under review, a sum of Rs.1,210,000 had been allocated for 06 welfare activities and of this; 01 Gama Neguma Project, the estimated value of which was Rs.979,422 and 08 Projects of which the estimated value was Rs.202,124 and funded from other provisions had not been carried out during the year.

**3. Systems and Controls**

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

- (a.) Accounting
- (b.) Financial Control
- (c.) Revenue Administration
- (d.) Human Resources management