

Pannala Pradeshiya Sabha
Kurunegala District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements of the year under review had been presented to audit on 10 June 2011 and the financial statements for the preceding year had been presented for the audit on 02 July 2010.

1:2 Opinion

In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Pannala Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

- (a) The interest payable to the Local Loans and Development Fund for the year under review had been understated by a sum of Rs.23,180.
- (b) The contribution to the Local Government Service Pension Fund amounting to Rs.197,556 and the Death Gratuity amounting to Rs.13,947 payable in respect of the year under review had not been included in the Revenue and Expenditure Account as expenditure for the year under review. The amount payable as at the end of the year under review had been understated by a sum of Rs.909,562.
- (c) Even though a sum of Rs.32,988,511 had been spent by the end of the year under review on the construction of the Health Services Centre at Makandura, such cost of buildings had not been posted to the Buildings Account.
- (d) A sum of Rs.626,023 had been debited to the Local Loans and Development Fund Account and credited a similar amount to the Accumulated Fund for the rectification of the difference between the

balances of the Local Loans and Development Fund Account and the balance confirmed by the Local Loans and Development Fund that had arisen in the year 2009. The loan balances had not been systematically recorded in the Register of Loans from the Local Loans and Development Fund maintained by the Sabha. The payments of installments and interest on the loan of Rs.3,000,000 obtained for the purchase of the Road Roller paid by the Bank had not been recorded in the register. The related advices had not been obtained from the Bank and filed. As such the difference arisen between the balances had been adjusted as referred to above by Journal No. 05 without investigating the reasons therefor.

- (e) Even though a sum of Rs.422,365 had been remitted as the Withholding Tax to the Commissioner General of Inland Revenue, those had not been brought to account under a Withholding Tax Account.

1:3:2 Unreconciled Control Accounts

The balances of 14 items of account according to the relevant Control Accounts totalled Rs.473,834,073 while the balances of those accounts according to the subsidiary registers . records totalled Rs.388,244,478.

1:3:3 Suspense Accounts

The debit balances of the accounts of suspense nature as at 31 December 2010 totalled Rs.37,167,993.

1:3:4 Accounts Payable

The balances of Accounts Payable older than 01 year as at 31 December 2010 amounted to Rs.16,919,078.

1:3:5 Lack of Evidence for Audit

Non – submission of Information to Audit

Transactions totalling Rs.152,232,983 could not be satisfactorily vouched in audit due to the non – submission of the required evidence to audit.

1:3:6 Non – compliances

Non – compliances with the provisions of the following laws, rules and regulations and the management decisions were observed during the course of audit.

According to the By - law in force in relation to the fragmentation and sale of coconut lands in the North Western Province, the prior approval of Coconut Cultivation Board should be obtained for the fragmentation of coconut lands. Nevertheless, the Sabha had approved the fragmentation plans of 06 coconut lands with an extent of about 20 acres. But there was no evidence of such approval obtained.

2. Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2010 amounted to Rs.10,882,295 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.36,317,152 for the preceding year.

2:2 Financial Control

The following financial control deficiencies were observed.

- (a) The outstanding capital grant balance of Rs.18,708,947 which remained over a number of years had not been settled even by the end of the year under review.
- (b) An unidentified balance of Rs.28,465 relating to a Bank Account of the Sabha brought forward from the year 2006 had not been identified and settled even by the end of the year under review.
- (c) A sum of Rs.656,234 relating to the period from 2001 to 2008 remaining under the sundry deposits had not been settled up to the end of the year under review. Advances amounting to Rs.119,374 granted in 17 instances

in the year 2006 had not been settled even up to the end of the year under review.

- (d) Seven cheques valued at Rs.15,142 issued from a Bank Account remained without been presented for payment for over 06 months.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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

Item of Revenue	Estimated	2010		Cumulative Arrears as at 31 December	2009	
		Actual	Cumulative Arrears as at 31 December		Estimate	Actual
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	4,287	6,371	2,083	4,347	4,612	264
(ii) Lease Rents	15,171	12,517	2,654	14,498	20,780	6,281
(iii) Licence Fees	3,506	1,215	2,291	3,226	3,153	73
(iv) Other Revenue	59,066	50,493	8,573	69,042	53,547	15,495
Total	82,030	70,596	15,601	91,113	82,092	22,113

2:3:2 Courts Fines

Fines amounting to Rs.16,529,058 recovered by a Magistrate's Court under various Ordinances up to 31 December 2010 remained receivable by the Sabha.

2:3:3 Stamp Fees

Stamp fees amounting to Rs.20,239,036 remained receivable as at 31 December 2010 from the Registrar General.

2:3:4 Rates and Acreage Tax

The arrears of rates and the acreage tax up to August of the year under review amounted to Rs.2,196,887 and Rs.570,441, respectively. Action in terms of Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 and as set out

in Rules 33 to 41 of the Pradeshiya Sabha (Financial and Administration) Rules – 1988 had not been taken for the recovery of these arrears.

2:3:5 Trade Stall Rents

Even though the key money payable on the trade stalls of the Public Trading Complex at Wetakeyawa belonging to the Sabha should have been fully paid by July 2005, key money amounting to Rs.455,330 payable by 03 of those trade stalls had been in arrears. According to the Circular No. 1980 / 46 dated 31 December 1980 of the Commissioner of Local Government, the lease rentals of trade stalls should be revised at least once in every five years. Nevertheless, the lease rent on 36 trade stalls of the Public Markets of the Sabha at Wetakeyawa and Pannala had been recovered at the assessed rent of the years 2003 and 2004 even up to the year under review.

2:4 Expenditure Structure

The budgeted and the actual expenditure of the Sabha for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	2010			2009		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	35,481	28,321	7,160	41,799	26,984	14,815
Others	34,168	31,394	2,774	31,202	18,791	12,411
Sub-total	69,649	59,715	9,934	73,001	45,775	27,226
Capital Expenditure	91,395	70,996	20,399	147,933	88,415	59,518
Grand Total	161,044	130,711	30,333	220,934	134,190	86,744

2:5 Human Resources Management

2:5:1 Approved and Actual Cadre

Information on the approved and the actual cadre of the Sabha as at 31 December 2010 had been as below.

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff	02	--
Secondary	25	22
Primary	84	67
Others (Casual / Temporary)	--	--

2:5:2 Staff Management

Even though two substitute employees had been recruited to the Compost Production Project implemented by the Sabha, the approval for recruitment had not been obtained from the Commissioner of Local Government.

2:6 Assets Management

2:6:1 Accounts Receivable

The value of balances of accounts receivable as at 31 Deember2010 amounted to Rs.Rs.149,958,370 and out of that the age analyze had been furnished only for prepayment of Rs.200,000 balances older than 03 years.

2:6:2 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.209,944 and the balances outstanding for over 01 year as well totalled Rs.209,944.

2:7 Operating Inefficiencies

The pensionary contributions payable to the Local Government Service Pension Fund on behalf of the employees of the Sabha who had retired from service had not been paid by the Sabha regularly and as such the balance payable to that Fund by the end of the year under review amounted to Rs.3,925,512. Even though the Fund had charged a sum of Rs.16,462 as the monthly installment, the particulars of the employees relating to that amount had not been notified to the Sabha.

2:8 Performance

- (a) Four welfare projects costing Rs.365,000 planned for implementation under the budget during the year under review had not been implemented while a sum of Rs.1,750,000 allocated for 05 such projects had been transferred to other Objects without being utilized for the intended activities.
- (b) Six capital projects costing Rs.5,050,000 planned for implementation under the budget during the year under review had not been implemented while a sum of Rs.6,300,000 allocated for 03 such projects had been transferred to other Objects without being utilized for the intended activities.
- (c) Out of the provision of Rs.2,350,000 allocated in the budget for construction works in the year under review, the balance 04 projects, other than, the construction of the library building at Giriulla costing Rs.900,000, had not been implemented in the year under review.

2:9 Internal Audit

An adequate in final audit of the institution had not been carried out.

3. Systems and Controls

Special attention is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Financial Control
- (c) Revenue Administration
- (d) Contract Administration
- (e) Assets Management