

Polgahawela 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 15 May 2013 and the financial statements for the preceding year had been presented on 28 June 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 09 October 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 Polgahawela 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.) A debit balance and a credit balance of Rs.27,906,616 had been shown as works debtors in the trial balance submitted along with the financial statements. Therefore, the debtors balance relating to the year was not realistic.
- (b.) Capital receipts and expenditure amounting to Rs.52,285,095 had been omitted from the financial statements due to accounting the capital aid and capital expenditure through the deposits account instead of being accounted under relevant revenue head and expenditure head.
- (c.) Capital expenditure amounting to Rs.17,393,876 shown in the financial statements included a sum of Rs.1,426,285 which should be accounted under repairs and maintenance of capital assets.
- (d.) Although works creditors balance amounting to Rs.25,562,523 had been shown in the financial statements, it had not been accounted as capital expenditure and had not been shown under debtors too.

- (e.) Salary reimbursements relating to the year amounted to Rs.28,227,887 whereas it had been shown in the financial statements as Rs.29,470,376 and therefore salary reimbursements for the year had been overstated by Rs.1,242,489. Further, salary reimbursements receivable amounting to Rs.111,500 had not been brought to account.
- (f.) Income from stamp fees shown in the financial statements amounted to Rs.680,324 and the actual stamp fees income amounted to Rs.9,788,059 thus understating stamp fees income by Rs.9,107,735. Further, stamp fees amounting to Rs.5,000,000 relating to the year 2010 and Rs.9,788,059 relating to the year 2012 totaling Rs.14,788,059 were receivable and these amounts had not been brought to account under revenue debtors.
- (g.) Income from court fines amounting to Rs.1,439,735 had been shown in the financial statements whereas the actual amount was Rs.2,273,080 and therefore, income from court fines had been understated by Rs.833,345. Further court fines receivable amounting to Rs.923,689 had not been accounted under revenue debtors.
- (h.) The income amounting to Rs.2,590,624 received during the year under review from the cement blocks project started by the Sabha had been accounted under recurrent revenue head and the expenditure amounting to Rs.2,493,499 had been shown in the financial statements under capital expenditure.309. Further, stocks in hand valued at Rs.855,667 as per stock registers of the said project had not been taken in to the financial statements.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.31,507,320 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.8,367,024 as against the excess of recurrent expenditure over revenue amounting to Rs.3,938,311 for the preceding year.

2.2 Financial Control

The following deficiencies in financial control were observed.

- (a.) The balance of employees loans amounted to Rs.8,696,633 as at end of the year and this included an unrecoverable balance of Rs.218,729 relating to 10 employees vacated their posts. Further, the balance of Rs.172,241 under 05 items of accounts had been brought forward for over a number of years and the position of these balances had not been identified and settled the same.
- (b.) A balance of Rs.1,301,680 had been removed from the Furniture and fittings account by Journal Entries in preparing accounts for the year; on the decisions of the Board of Survey. The information relating to the removal was not made available to audit.
- (c.) Balances carried forward from previous years had been written-off debiting a sum of Rs.46,730,587 to the accumulated fund at 10 instances and crediting a sum of Rs.22,364,028 at 13 instances by Journal Entries while preparing financial statements; without looking into the origin of the above accounts and without approval.
- (d.) A sum of Rs.85,882 paid as compensation for an accident included in the balance of advances should have been get reimbursed from the Department of Local Government. But this had not yet been reimbursed.

2.3 Bank Accounts

- (a.) The general cash account had been debited by Rs.3,150,144 and the accumulated fund had been credited by Rs.3,150,144 through Journal Entries in respect of the unidentified transactions of the month of December 2011 relating to the general

bank current account. There were overdrafts relating to the said account and according to the Bank Reconciliation Statement, the overdraft balance as at end of the year amounted to Rs.1,075,666. Further, an unidentified sum of Rs.91,900 had been shown in the Bank Reconciliation Statement as receipts are not available.

- (b.) According to the Bank Reconciliation Statement of the current account for works as at 31 December 2012 there were balances of Rs.613,583 under additions to the general account, Rs.195,000 as receivables and a sum of Rs.2,611,982 over-credited to the works account. These amounts had not been identified and settled.
- (c.) The Bank Reconciliation Statement of the employees loans current account as at end of the year shows a sum of Rs.12,161 as cheques not credited to the account but entered in the general bank account and a sum of Rs.27,709 as credited to the general account during the period March to December 2012. These amounts had not been settled.

2.4 **Revenue Administration**

2.4.1 **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	3,956	4,219	5,202
(ii.) Lease Rent	3,653	5,278	2,089
(iii.) Licence Fees	1,631	1,564	-
(iv.) Other Revenue	66,560	41,052	1,563

2.4.2 Rates and Taxes

Rates and taxes in arrears as at 31 December 2012 amounted to Rs.5,202,721 and action had not been taken in terms of Rules 32 to 42 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988 to recover these arrears and only the final notices had been issued. According to the sample checks carried out, the long over-due rates relating to 28 instances amounted to Rs.147,034.

2.4.3 Stall rent

- (a.) Lease rent in arrears as at 31 December 2012 relating to 08 instances of long-term lease amounted to Rs.65,124. Long over-due rent relating to 12 stalls amounted to Rs.145,527 and monthly billing also had been terminated in respect of the above. But, these stalls were functioning even as at end of the year under review and the reasons for termination of billing and non-recovery of arrears through legal action were not explained to audit.
- (b.) There were arrears of rent amounting to Rs.15,693 from 14 stalls demolished during the year 2011 and 03 cobblers' stalls in the town had been demolished during the same time and the arrears of Rs.69,780 as at that date had not been recovered. Long due arrears amounting to Rs.46,655 from 04 out of 08 permanent huts of the Godawela Weekly Fair had not been recovered.
- (c.) Twelve out of the 13 stalls of the General Market owned by the Pothuhera Sub-office had been closed for about 05 years and rent amounting to Rs.9,960 was due from the said stalls. These stalls need to be modified and the Sabha had not taken action on this and therefore, these stalls could not be leased out. Long due rent in arrears amounting to Rs.181,218 due from 05 stalls at Uhumiya owned by the Pothuhera Sub-office had been recoverable as at end of the year under review.

2.4.4 Lease Rent

- (a.) There were arrears of rent amounting to Rs.1,891,973 in respect of 23 instances for the period 2007-2011 relating to annual lease. Although it was reported that cases were filed in respect of certain arrears, the progress of the said cases could not be ascertained due to cases registers and files not been updated.

- (b.) A Bicycle care location had been leased out for the year 2012 at Rs.109,395 and the lessee had carried out the functions for 05 months from January to May 2012 and terminated the functions. A sum of Rs.56,250 had been due from the lessee and after setting off the deposits of Rs.43,758 there had been a further amount of Rs.12,492 in arrears. This care location had been functioned by the Sabha from August 2012.
- (c.) The last agreed monthly rent of the canteen of the Godawela Weekly Fair for the period January to December 2008 was Rs.1,250 and an expenditure of Rs.261,817 had been incurred for the repairs of this building. An agreement had not been entered since the beginning of 2009 up to end of the year under review. Legal action had been taken in the year 2008 against the lessee for functioning the canteen without a formal agreement and paying rent, but the case had not been finalized up to the end of the year under review.
- (d.) Lease rent amounting to Rs.499,558 had been outstanding from the canteen of the Bus Stand for the period 2007 to end of 2012 and action had not been taken to recover the outstanding rent.

2.4.5 Business Tax and Trade Licence Fees

Pradeshiya Sabha had not carried out surveys in terms of Rules 59-67 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988 with regard to billing of business tax and trade licence fees.

2.4.6 Processing Charges for Telephone Transmission Towers

Sixteen telephone transmission towers had been identified within the area of authority of the Sabha and processing charges amounting to Rs.400,000 had been charged for 02 towers for the period 2010 to 2012. Trade licence fees or business tax had not been charged.

2.4.7 Vehicle Parking Charges

By-laws were not available relating to vehicle parking within the area of the Sabha. An annual or periodical survey had not been carried out in respect of parking three wheelers and the three wheelers in the area of the Sabha had not been registered.

2.4.8 Court Fines and Stamp fees

Court fines/ stamp fees receivable for the year under review from the Chief secretary of the Provincial Council and other authorities had not been identified and brought to accounts.

2.5 Assets Management

According to Rule 218 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988, all the land and buildings should be verified once in every year. But the Sabha had not carried out a survey accordingly.

2.6 Human Resources Management

The approved cadre of the Sabha is 129 and the actual cadre was 100 and there were 29 vacancies and 01 excess. Acting arrangements had been done for the post of Secretary and 01 out of 04 posts of Librarian. Further, 62 employees had been recruited on casual and substitute basis by end of the year under review and salaries had been paid from the Sabha funds.

2.7 Legal Matters Initiated Against or By the Sabha

Although it had stated in the Register of stall rent that legal action had been taken to recover stall rent in arrears the Sabha had not maintained updated files or court case register in this connection. A sum of Rs.62,500 had been spent as legal charges for 03 cases filed during the year under review. Further 05 court cases filed in year 2007 and 2011 for recovery of revenue in arrears amounting to Rs.596,957 had not been finalized even up to the end of the year under review.

2.8 Contract Administration

Instruction of the Public Health Inspector had not been obtained for the construction of the Cattle Slaughter House at a total cost of Rs.597,879. The Public Health Inspector by his letter dated 21 July 2011 had informed that there are requirements to be fulfilled to function as a slaughter house. Nevertheless, the said requirements had not been completed and the cattle slaughter house not been used for the intended purpose even up to the end of the year under review.

2.9 Operating Inefficiencies

The following observations are made.

- (a.) Although it was expected to earn an income of Rs.31,935,000 under 02 items of revenue, only a sum of Rs.4,894,000 representing 15% had been earned.
- (b.) The Sabha had not duly paid the contributions payable to the Local Government Pension Fund, therefore the balance payable to the said Fund as at end of the year under review amounted to Rs.7,811,922. Although the said fund recovers a sum of Rs.15,610 from the Sabha as monthly installment the Sabha is not aware to which employees the recoveries are related to.
- (c.) Separate water meters had not been fixed for the stalls of the General Market of the Sabha and the Sabha had spent a sum of Rs.141,520 during the year under review for supply of water to the General Market. Further, a sum of Rs.37,744 had been spent during the year under review as electricity charges of the watch hut of the General Market and the reasons for spending such an amount for the watch hut could not be ascertained.

2.10 Solid Waste Management

A Solid Waste Management Centre had been constructed at an expense of Rs.9,709,224 for disposal of waste collected within the area of authority of the Sabha and a sum of Rs.50,788 had been earned during the year under review by sale of compost and waste. The salary expenses relating to the year under review for the above amounted to Rs.1,275,761.

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.) Assets Management
- (e.) Contract Administration