

Panduwasnuwara 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 26 March 2014 and the financial statements for the preceding year had been presented on 19 April 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 10 December 2014.

1.2 Opinion

In my opinion except for the effects of the matters to in Paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Panduwasnuwara Pradeshiya Sabha as at 31 December 2013 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a.) According to the registers, the actual stall rent billed for the year under review amounted to Rs.4,734,912 and this had been taken to the income and expenditure account as Rs.5,070,562. Therefore, the revenue for the year had been overstated by Rs.335,650.

- (b.) Revenue from environment deposits amounting to Rs.54,000 related to the preceding year had been brought to account as an income for the year under review and environment deposits amounting to Rs.74,375 relating to the year under review had not been brought to account.

- (c.) Instalment amounting to Rs.121,032 payable to the Local Government Pensions Fund for the year under review had not been brought to account thus understating the expenditure for the year by a similar amount. Further, according to the certificates of balances, the balance payable to the Pensions Fund as at end of the year amounted to Rs.3,222,798. But, it had been shown in the balance sheet as Rs.2,860,475 and as such the creditors for the year had been understated by Rs.362,323.
- (d.) The entire sum of court fines amounting to Rs.6,538,956 received in June 2013 in respect of the period from 01 November 2012 to 31 January 2013 had been credited to the accumulated fund without being identified separately the amounts relating to the preceding year and the year under review.
- (e.) The stocks physically existed as at end of the year had not been computed and the closing stock of Rs.1,963,213 as at end of the preceding year itself had been erroneously shown in the financial statements as the year end stock balance.

1.3.2 Contingent Liabilities

Contributions payable to the Local Government Pension Fund by the Sabha in respect of the employees served in the Pradeshiya Sabha retired and eligible to pay contributions had not been properly paid. Therefore, the balance payable to the said fund as at end of the year under review amounted to Rs.2,860,476.

1.3.3 Unreconciled Control Accounts

There were differences amounting to Rs.4,334,204 between the account and the relevant registers on 03 items of accounts under closing balances for the year under review.

1.3.4 Accounts Receivable and Payable

The following observations are made.

- (a.) The value of balances of accounts receivable as at 31 December 2013 was Rs.67,626,726 and of this, age analysis relating to Rs.65,251,726 had not been made available.
- (b.) The value of balances of accounts payable as at 31 December 2013 was Rs.55,105,798 and of this, Rs.8,353,385 were old than 03 years.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.12,021,201 could not be examined in detail due to the non-submission of required information to audit.

2. Financial 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 2013 amounted to Rs.13,902,422 as against the excess of recurrent expenditure over revenue amounting to Rs.10,042,545 for the preceding year thus indicating an improvement in the financial results by Rs.23,944,967. When the capital aid of Rs.42,697,236 and the capital expenditure of Rs.55,554,426 were adjusted to the financial result; the surplus for the year under review had been decreased to Rs.1,045,232.

2.2 Analytical Financial Review

The following observations are made.

- (a.) The total recurrent revenue of the Sabha for the year under review amounted to Rs.74,961,826 and 53% of this amounting to Rs.40,001,752 consists of non-generated income such as court fines, stamp fees, salary reimbursements etc. The entire capital revenue amounting to Rs.42,697,236 consists of money received for development works within the area of authority of the Sabha through other institutions under source such as Maga Neguma, Provincial investments, aid from the Ministry of Local Government and Provincial Councils etc.

- (b.) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.61,059,401 and 51% of this amounting to Rs.31,132,761 was expenditure on personal emoluments. A sum of Rs.21,872,469 representing 70% of the said expenditure had been received from the Commissioner of Local Government as salary reimbursements. Further, the total capital expenditure amounted to RS.55,554,426 and only a sum of Rs.9,898,685 representing 18% of this had been spent out the Sabha funds and the entire balance of 82% amounting to Rs.45,655,741 represents development activities carried out from the provisions of other institutions on sources such as Maga Neguma, Provincial investments, aid from the Ministry of Local Government and Provincial Councils etc.

2.3 Revenue Administration

2.3.1 Performance of Revenue Collection

There was no clear authority to collect revenue like trade licence fees, business taxes, stall rent, lease rent etc. at field. However, Revenue Collectors of the Sabha had collected revenue such as rates and taxes, trade licence fees etc. at field throughout the year.

2.3.2 Rates and Taxes

According to Rule 32-42 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988, lists of arrears should be prepared quarterly, the relevant warrant notices should be issued, restrain property in order to implement the procedure of recovery of rates in arrears. However only the distribution of rates notices and collection of revenue at field had been done.

2.3.3 Lease Rent

The following observations are made.

- (a.) Although quotations had been called thrice for 30 items of assets of which the lowest bid aggregated Rs.988,945; the Sabha had failed to lease out these assets during the year under review.

- (b.) There was a sum of sum of Rs.41,975 in arrears relating to 2007 in respect of the poultry shop at Hettipola.
- (c.) According to the verdict given for the case on the arrears amounting to Rs.151,125 of the beef stall at Hettipola for the year 2006, it had been ordered to sell the property of the lessee and recover the arrears. But, the money had not been recovered. According to the corresponding files, it had been reported the lessee with regard to the court case in respect of the arrears amounting to Rs.146,020 of the beef stall at Madihe, Anukkane for the years 2006 and 2007 had gone abroad. However, no follow up action had been taken in this regard.
- (d.) Stall rent amounting to Rs.63,259 was in arrears in respect of 03 out of 5 stalls at Pandukapura that had been leased out in year 2012 and the lessees of 03 stalls at Panduwasnuwara had abandoned the stalls by April 2012 and some other person had occupied these 03 stalls. But, there was no rent agreement between the above person and the Sabha. However the Sabha had billed the rent monthly and as such there was a balance in arrears amounting to Rs.63,255. Nevertheless, the Sabha had failed to take legal action on this as there were no written agreements regarding these stalls.
- (e.) Though two persons had quoted Rs.776,000 and Rs.693,100 for the stall No.12 of the Hettipola New Trade Complex, the Sabha had accepted the second quoted price of Rs.693,100 to award the tender without stating any specific reason. However, agreement on this stall had not been signed even as at end of the year 2012 and an agreement had been entered into during 2013 at Rs.693,100 with the tenderer who had quoted Rs.776,000 and rent had been recovered accordingly.
- (f.) A multi-purpose building had been constructed during 2011 at a cost of Rs.41,128,218 under Asian Development Project credit facilities. However, rent assessment reports had not been obtained for 09 stalls of this building even as at end of year 2013. Further, tender procedure had not been followed while leasing out these stalls. Agreements had not been signed and the security deposits had not been obtained in respect of 02 stalls given to the Bank of Ceylon and 01 stall given to the Sampath Bank as above. One stall with an area of 923 square feet had not been utilized for any specific purpose even as at end of the year under review.

2.3.4 Business Tax and Trade Licence Fees

A survey had not been carried out within the area of authority of the Sabha as required by Rule 59-67 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988. Notices in Format P.S. 26B had not been issued to the industry owners and traders in terms of Section 150(1) and 152(1) of the Pradeshiya Sabha Act No.15 of 1987 requesting them to pay the tax levied within 07 days.

2.3.5 Court Fines and Stamp Fees

Court fines receivable from the Chief Secretary of the Provincial Council as at 31 December 2013 amounted to Rs.2,683,995.

2.3.6 Water Charges

- (a.) The Sabha had purchased 93,415 units of water from the Water Supply and Drainage Board as at end of October of the year under review whereas the Sabha had billed only for 58,973 units for the said period. Therefore, a difference of 34,442 units was observed and the respective value amounted to Rs.619,956 based on the wholesale purchase price.

- (b.) The value of water billed for the year under review amounted to Rs.2,571,407 and the water charges in arrears as at end of the year amounted to Rs.1,277,940. According to a sample check carried out in audit, the above value included 20 balances of arrears over Rs.5,000 and the total value of those amounted to Rs.266,063.

3. Operating Review

3.1 Performance Evaluation

Five welfare activities valued at Rs.738,000 and 05 development activities valued at Rs.23,800,000 planned to be carried out by the Sabha during the year under review had not been done.

3.2 Management Inefficiencies

The following observations are made.

- (a.) An outside person had run a business using a building existed in a land which had been vested with the Sabha by the Wayamba Regional Transport Board in year 1993 and court case preceding on this had not been settled since 2010 up to date. It was further observed that the said person in carrying out business activities without paying any rent. In addition, the court case proceeded since year 1996 in respect of removing an unauthorized occupier in the block of land to the extent of 49 Perches of the Walawwatta owned by the Sabha had not been settled even as at the date of audit examination.
- (b.) The Sabha had approved 308 building applications during the period 2007-2009 and of this, conformity certificates had not been obtained for 298 locations even as at end of the year under review. The Sabha could have earn an income of Rs.894,000 on conformity certificates, if all the said buildings had been constructed and an income of Rs.785,500 on granting extension of time if the buildings had not been completed. However, the Sabha had not paid attention on this situation.
- (c.) Loan balances totaling Rs.134,956 of 18 employees not in service at present had been outstanding for over a number of years. Loan balances amounting to Rs.214,622 had remained unrecovered in respect of 04 employees gone on transfer.

3.3 Assets Management

The following observations are made.

- (a.) Two concrete blocks manufacturing machines purchased for Rs.275,500 during the year 2011 had been idling even up to the end of the year under review, without using for the intended purpose.
- (b.) Although the land on which the Hettipola, Milk Collecting Centre operated is owned by the Sabha; private parties had constructed a building on that land and carrying out businesses up to the year 2013. However, while calling for tenders for the year 2014 another party had obtained the tender for an annual lease rent of

Rs.14,550. But, the Sabha had failed to allow the new lessee to carry out businesses in that property and also the Sabha had not assured the ownership of the relevant land and building.

3.4 Solid Waste Management

The Sabha is not in process of a waste management project and the waste collected within the area is being buried in private lands.

4. Accountability and Good Governance

4.1 Budgetary Control

According to the budget for the year under review, there was a provision of Rs.74,435,000 for recurrent expenditure and 82% of this amounting to Rs.61,056,000 had been spent. Although capital expenditure estimate was Rs.73,910,000 only 75% of this amounting to Rs.55,554,000 had been spent.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Financial Control
- (d.) Revenue Administration