

Polpithigama 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 28 March 2014 and the financial statements for the preceding year had been presented on 20 June 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 September 2014.

1.2 Opinion

In my opinion, except for the effects of the matters referred to in Paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Polpithigama Pradeshiya Sabah 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.) Court fines amounting to Rs.1,214,500 received in the month of June of the year under review in respect of December 2012 had been taken into the financial statements as revenue relating to the year under review. Therefore, the revenue and the revenue debtors of the year had been overstated by a similar amount. The court fines receivable for the months of November and December had not been identified and brought to account.
- (b.) Income from salary reimbursements amounting to Rs.1,497,424 receivable as at end of the year under review had been accounted as Rs.1,208,475 by Journal Entry No.37 and therefore, the revenue and the revenue debtors of the year had been understated by Rs.288,949.
- (c.) The tractor valued at Rs.1,479,000 received by the Sabha as a donation had not been brought to account as capital received and capital expenditure

- (d.) The loan capital and interest amounting to Rs.134,643 paid for the Local Loans and Development Fund loan in June 2013 had been debited both the Dividends and Bonus Account (506) and the Repairs and Maintenance of Capital Assets Account (504). Therefore, the expenditure for the year had been overstated by Rs.134,643.
- (e.) A sum of Rs.84,967 accounted under deposits as at end of the year under review had also been accounted as expenditure payable for the year and therefore the expenditure for the year and the creditors had been overstated had been overstated by Rs.84,967.
- (f.) Works debtors amounting to Rs.27,579,375 as at end of the year under review had been brought to account as Rs.26,295,358 through Journal Entry No.55 and as such the revenue for the year and the revenue debtors had been understated by Rs.1,284,017.
- (g.) A sum of Rs.14,993,938 received during the year under review in respect of works under Provincial Specific Grants and the aid of the Ministry of High Ways for the year 2012 had been credited to the Capital Aid Account instead of being credited to the Accumulated Fund. Therefore, the revenue for the year had been overstated by a similar amount.

1.3.2 Unreconciled Control Accounts

The following observations are made.

- (a.) There were differences amounting to Rs.1,890,690 between the corresponding values of the account and the respective registers of two accounts under balances as at end of the year under review.
- (b.) A debit balance of Rs.3,044,376 of suspense nature had been shown in the financial statements as transfers between accounts as at 31 December 2013.

1.3.3 Accounts Receivable and Payable

- (c.) The value of the balances of accounts receivable as at 31 December 2013 amounted to Rs.29,485,897 and of this Rs.1,357,675 related to periods between 1 to 3 years.
- (d.) The value of the balances of accounts payable as at 31 December 2013 amounted to Rs.37,099,702 and of this Rs.3,547,395 related to periods over 03 years.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.2,122,758 could not be examined in detail due to 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.1,381,107 as compared with the excess of revenue over recurrent expenditure amounting to Rs.3,687,818 showing a deterioration of financial results by Rs.2,306,711. When the capital aid of Rs.83,385,023 and the capital expenditure of Rs.58,559,695 adjusted to the financial result, the excess for the year under review had been increased to Rs.26,206,435.

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.33,723,349 and 80% of this amounting to Rs.27,075,426 consists of non-generated income. The total capital revenue amounted to Rs.83,385,022 and the entire amount consists of the money received from other institutions for the development works of the authoritative area.
- (b.) The total recurrent expenditure for the year under review amounted to Rs.32,342,245 and 67% of this amounting to Rs.21,609,215 was personal emoluments. A sum of Rs.18,305,740 representing 85% of the above had been

received from the Commissioner of Local Government as salary reimbursements and brought to account under other revenue. The capital expenditure amounted to Rs.58,559,695 and of this; only 1% amounting to Rs.599,874 had been spent out of the Sabha funds. The balance of 99% amounting to Rs.57,959,821 consists of development activities carried out from the provisions of other institutions.

2.3 Revenue Administration

2.3.1 Performance of Revenue Collection

According to Section 158 of the Pradeshiya Sabha Act No.15 of 1987 and Rule No.33 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988, rates and taxes and the Acre Tax can be collected at field on a warrant for a specific period. However it could not identify instances where a clear delegation of powers to collect trade licence and stall rent at field as per the Pradeshiya Sabha Act or the Financial Rules.

2.3.2 Court Fines and Stamp Fees

The court fines receivable as at 31 December 2013 from the Chief Secretary of the Provincial Council and other authorities amounted to Rs.330,750.

2.3.3 Other Revenue

- (a.) A charge not exceeding 1% on the turnover of the hotels and canteens within the area of the Sabha registered at the Sri Lanka Tourism Promotion Authority had not been recovered according to Section 149 of the Pradeshiya Sabha Act no.15 of 1987.
- (b.) Processing charges had not been recovered in respect of the Telephone Transmission Tower which had been approved as at end of the year under review.

3. Operating Review

3.1 Performance Evaluation

The Sabha had not achieved 05 welfare activities which had been planned to carry out during the year under review at a cost of Rs.380,000.

3.2 Management Inefficiencies

- (a.) The Sabha had not maintained a register or files in respect of block-out of lands. The Sabha had received a sum of Rs.25,000 on 25 August 2011 for block-out of a land at Medagalle and it had been shown under sundry deposits even as at the date of audit examination. Information on block-out of lands had also not been submitted to audit.
- (b.) The Sabha had approved 191 building plans during 2010-2013 and of this, the conformity certificates had not been obtained for 176 locations even as at end of the year under review. Further, the Sabha had not taken any action on non-obtaining extension of the building permit or utilizing those buildings without obtaining conformity certificates. However, the Sabha had not enforced provisions for recovery of conformity certificate charges and charges for delay.

3.3 Irregular Transactions

The Sabha had incurred fuel expenses amounting to Rs.222,887 and hire charges expenses amounting to Rs.264,000 within 04 months of the year under review in respect of a van hired by the Sabha without following the provisions of the Government Procurement Guidelines. Further, a driver of the Sabha had driven this van.

3.4 Idle Assets

A concrete mixing machine valued at Rs.150,000 had been lying idle during the year under review.

4. Systems and Controls

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

- (a.) Accounting
- (b.) Financial Control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Control over Contracts