

**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 19 April 2013 and the financial statements for the preceding year had been presented on 09 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 Panduwasnuwara 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.) The revenue head of other revenue shown in the financial statements presented included capital receipts amounting to Rs.1,518,913 and therefore, other revenue had been overstated by Rs.1,518,913 and the capital revenue also had been understated by a similar amount.
- (b.) Court fines relating to the year had not been identified and brought to account and court fines amounting to Rs.3,076,853 received for 02 months of 2012 and stamp fees amounting to Rs.1,725,418 had been treated as court fines received for the year. Although court fines had not been received in respect of the previous years; Rs.600,000 had been deducted as arrears received for the previous years and a sum of Rs.4,202,271 had been brought to account as court fines relating to the year. Further, out of the court fines amounting to Rs.6,538,956 received during the year 2013 in respect of year 2012 and January 2013; the amount receivable for the year under review had not been identified and provided under debtors.

- (c.) Stamp fees relating to the year had not been identified and brought to account. According to the relevant registers, a sum of Rs.2,000,000 for the year 2010 and a sum of Rs.281,750 for the year 2011 had been received during the year 2013 and the amounts had not been shown as debtors. Further, the stamp fees relating to the year also had not been shown as debtors. Furthermore, stamp fees amounting to Rs.1,725,418 received during the year had been brought to account as court fines and therefore court fines had been overstated and stamp fees had been understated by similar amounts.
- (d.) A sum of Rs.72,556 had been credited to the stamp fees for the year and of this , a sum of Rs.5,000,000 had been deducted as receivables for the previous years and as such a minus balance of Rs.4,927,444 had been arisen in the stamp fees revenue. Therefore, the service charges revenue of the income and expenditure account shows a minus balance of Rs.2,102,532.
- (e.) According to the registers billing for water charges amounted to Rs.1,551,996; but, only the sum Rs.592,054 received during the year had been taken to the financial statements and therefore, water charges income had been understated by Rs.959,942. The arrears as per the register of water charges amounted to Rs.1,545,788 and the said arrears had not been shown in the financial statements.
- (f.) The projects relating to the amount of Rs.4,852,150 provided for the capital works as per budget had not been separately identified and the entire amount of Rs.4,852,150 had been brought to account as creditors.
- (g.) The creditor balance of Rs.53,951,615 shown in the financial statements included a sum of Rs.3,740,585 relating to the year 2009 and a sum of Rs.9,417,761 relating to the year 2010 and a sum of Rs.7,513,060 relating to the year 2011 which had been settled as at end of the year 2012. Therefore, the creditors as at end of the year under review had been overstated by Rs.20,671,406.
- (h.) Capital aid and capital expenditure had not been separately identified and only a sum of Rs.53,533,107 received and a sum of Rs.63,511,186 paid during the year had been shown in the financial statements as capital aid and capital expenditure.

### **1.3.2 Lack of Evidence for Audit**

Transactions totaling Rs.124,864,827 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 recurrent expenditure revenue over of the Sabha for the year ended 31 December 2012 amounted to Rs.10,042,545 as against the excess of revenue over recurrent expenditure amounting to Rs.1,690,504 for the preceding year.

### **2.2 Financial Control**

The following deficiencies in financial control were observed.

- (a.) There were 21 employees' loan balances amounting to Rs.161,144 outstanding as at end of the year and even though persons relating to 02 loan balances amounting to Rs.65,250 of the above had been identified; the recovery was questionable. The place of work of the persons relating to the other 19 loan balances amounting to Rs.95,894 had not been identified at present.
- (b.) There was a long outstanding balance of Rs.1,389,432 payable by the Sabha to the Water Supply and Drainage Board and it had not been examined and settled.

### **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	1,072	673	587
(ii.) Lease Rent	13,951	13,073	498
(iii.) Licence Fees	1,245	14,799	-
(iv.) Other Revenue	45,512	25,318	40,388

### **2.3.2 Lease Rent**

The arrears of lease rent amounting to Rs.418,047 as at end of the year included a sum of Rs.273,284 brought forward since 2006 and 2007.

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

- (a.) A survey had not been carried out within the area of authority of the Sabha with a view to recover business tax and trade licence fees in terms of Rule 59 of the Pradeshiya Sabha Rules-1988 and a list of industries had not been prepared in terms of Section 150(1) of the Pradeshiya Sabha Act No.15 of 1987.
- (b.) According to Section 149 of the Pradeshiya Sabha Act No.15 of 1987, a charge not more than 1% of the turnover can be recovered from the hotels within the area of authority of the Sabha that have been registered at the Tourist Board. However, only a fees at Rs.3,000 had been charged since year 2010 from only one hotel so identified by the Sabha.

### **2.3.4 Water Charges**

- (a.) Water charges in arrears as at end of the year amounted to Rs.1,545,788. According to a sample check carried out in respect of the water consumers of the Kurunegala Road, a sum of Rs.402,004 had been due from 18 water consumers. But, the Sabha had not taken action to recover the dues or to disconnect the water supply. It had been difficult to recover the arrears as agreements had not been properly entered into.
- (b.) A sum of Rs.1,904,835 had been spent for purchase of water to the Water Division of the Sabha during the year and the annual water billing amounted to Rs.1,551,996 and the Sabha had to incur an additional amount of Rs.352,839 for bulk purchase of water. Although water connections had been given to 475 water consumers, water meters relating to 42 water connections had been out of order. Registers of water charges had not been properly balanced and therefore the Sabha was unable to obtain age analysis of water charges amounting to Rs.1,545,788 outstanding as at end of the year under review. 32 water meters had

not been provided to consumers and water charges had been billed at Rs.50 per month without taking into consideration the average water consumption of these consumers.

### **2.3.5 Processing Charges for Telephone Transmission Towers**

Information on 02 telephone transmission towers within the area had been recorded and processing charges at Rs.200,000 had been charged for those towers and credited to the deposits accounts; but, business tax or trade licence fees had not recovered. Further, periodical surveys had not been carried out with a view to identify the telephone transmission towers installed within the area.

### **2.3.6 Vehicle Parking Charges**

Although there is a by-law regarding the vehicle parking within the area of the Sabha, a survey had not been carried out annually or periodically in respect of parking three wheels and the three wheels within the area had not been registered.

### **2.3.7 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.

### **2.3.8 Lease of Stalls**

(a.) Two quotations at Rs.776,000 and Rs.693,100 had been received with regard to the lease of stall No.12 of the Hettipola New Trade Complex and at the awarding of tenders, the Sabha had accepted the second quotation of Rs.693,100 without giving a specific reason. But, the agreement entered into by the Sabha in respect of the payment of key-money had been signed in the name of the lessee who had submitted the bid for Rs.776,000. As the Sabha had obtained key-money and rent from persons extraneous to the parties to whom the tender awarded, problems had been arisen at present regarding the agreements of the said stalls.

- (b.) Multipurpose building at Panduwasnuwara had been completed by end of year 2011 at a cost of Rs.41,128,218 under Asian Development Bank- Project Grants - 2010 and the stalls of the building had not been leased by calling for tenders due to non-assessment of the stalls through the Department of Valuation during the relevant period. Four stalls had been given at a monthly rent of Rs.30,000-50,000 based on a decision of the Sabha, but, no written agreements had been entered into. As such it may be difficult to recover the relevant charges when a proper assessment is done. A sum of Rs.1,198,391 had been paid as loan instalments and interest during 2012.

#### **2.4 Assets Management**

- (a.) According to the financial statements the value of land and buildings as at end of the year under review amounted to Rs.94,823,211. A verification had not been carried out on all the lands and buildings in terms of Rule No.218 of the Pradeshiya Sabha (Financial and Administrative) Rules-1988.
- (b.) Although a verification of furniture and fittings had been carried out, the said assets had not been valued as per the Board of Survey Reports. The value of above assets as per ledger accounts amounted to Rs.4,368,612. It could not be ascertained whether plant and machinery amounting to Rs.15,036,700 and motor vehicles and carts amounting to Rs.10,309,035 as per ledger accounts had been verified.

#### **2.5 Human Resources Management**

The approved cadre of the Sabha is 81 and the actual cadre was 69 and therefore there were 12 vacancies and 01 out of 02 posts of Librarians had been vacant. In addition, 19 persons had been recruited on temporary or contract basis and salaries are being paid from the Sabha funds.

## **2.6 Legal Matters Initiated By the Sabha**

The following observations are made.

- (a.) According to the verbal explanations submitted, the Fiscal had been ordered in the year 2011 by the verdict given in respect the case for recovery of arrears amounting to Rs.151,125 of the beef stall, Hettipola for the year 2006 to sell the lessees property and recover the dues. But, action had not been taken accordingly and recovered the dues.
- (b.) It was revealed that the lessee involved in the court case regarding the arrears of Rs.146,020 for the years 2006 and 2007 in respect of the beef stall at Madige Anukkane had gone abroad and the Sabha had not taken any follow up action in this regard.
- (c.) It had been ordered to the lessee of the poultry shop at Hettipola to pay to the Sabha by instalments at Rs.5,000 according to the verdict of the court case with regard to the arrears of Rs.71,975 for the year 2007. But, the lessee had defaulted payment since August 2012 after paying 06 instalments. Action had not been taken to recover the balance of Rs.41,975.
- (d.) A case had been filed in year 2010 in respect of carrying out an unauthorized business by an outside person in a building of a land vested with the Sabha by the Wayamba Regional Transport Board in 1993. However, the current position of the said court case had not been made available to audit.

## **2.7 Operating Inefficiencies**

- (a.) Value Added Tax amounting to Rs.4,395,219 included in the contract value amounting to Rs.41,022,051 of the Multipurpose Building, Panduwasnuwara which had been completed by end of the year under review under the aid received from the Provincial Infrastructure Development Project had not been considered as tax paid in computing tax by the Sabha.
- (b.) A sum of Rs.3,856,035 and Rs.2,009,447 respectively had been paid to the contractor company during 2011 and 2012 in respect of the Office Building of the Sabha constructed during the period 2008-2011 out of the Sabha funds. The Value

Added Tax amounting to Rs.485,467 and Rs.574,226 included in the above had not been taken in to consideration in computing tax for those years.

- (c.) The Department of Local Government had granted a sum of Rs.400,000 for the Concrete Blocks Project of the Sabha and of this 02 concrete blocks manufacturing machines had been purchased on 25 November 2011 at an expense of Rs.275,500 and wooden slabs for producing blocks had been purchased on 10 July 2012 at an expense of Rs.124,500. However, the project had not been commenced and the Sabha had purchased concrete blocks valued at Rs.250,000 in respect of 20 roads during the year 2012 under Maga Neguma, Programme itself.

## **2.8 Solid Waste Management**

The waste collected within the area of the Sabha had been dumped into the pits dug in a private land to the extent of 10 Acres and the Sabha had not implemented a waste management project or a compost production project.

## **2.9 Performance**

Eight welfare and capital projects valued at Rs.26,573,000 planned to be carried out during the year had not been implemented.

## **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
- (f.) Human Resources Management
- (g.) Vehicle Utilization.