

Polgahawela Pradeshiya Sabha

Kurunegala District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements of the year under review had been presented to audit on 30 March 2011 and the financial statements for the preceding year had been presented for the audit on 31 March 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Polgahawela Pradeshiya Sabha had maintained accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:3 of this report the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Polgahawela Pradeshiya Sabha as at 31 December 2010 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

- (a) The value of the carbonic fertilizer sifter purchase in the year under review amounting to Rs.110,000 had not been capitalized under the Revenue Contribution to Capital Outlay Account.
- (b) A stock of 150 compost barrels valued at Rs.180,000 and 09 fish sales boards valued at Rs.169,740 at the end of the year under review had not been brought to account under the closing stocks.

- (c) A balance of 277 kilogrammes of gas at the crematorium as at the end of the year under review valued at Rs.45,384 had not been disclosed in the accounts.
- (d) Lands valued at Rs.1,188,000 acquired by the Sabha in the year under review had not been brought to account under lands and buildings.
- (e) The sum of Rs.23,100,447 received as salary reimbursements for the year under review had been brought to account under Programme 01 – General Administration instead of allocating among the respective Programmes.

1:3:2 Unreconciled Control Accounts

The balances of 17 items of account according to the relevant Control Accounts totalled Rs.63,056,555 whereas according to the subsidiary registers/ records, the balances of those accounts totalled Rs.63,178,298.

1:3:3 Unexplained Differences

An unexplained difference of Rs.634,704 existed between two (General Supplies Creditors and Library Books) items of account.

1:3:4 Accounts Payable

The value of accounts payable older than 01 year as at 31 December 2010 amounted to Rs.37,521,522.

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.22,596,661 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.4,301,910 for the preceding year.

2:2 Financial Control

The following matters were observed.

- (a) According to Provincial Financial Rule 274, whenever payments are made by cheques, the paying officer should always ensure that the cash balance is adequate to meet all the payments and sign the cheques only if the balance is adequate. Due to the failure to take action in compliance with that requirement, an overdraft of Rs.464,344 had arisen in the cash book relating to one Bank Account for May of the current year.

Action in terms of Financial Regulation 396(d) had not been taken on 16 cheques valued at Rs.39,869 issued but remaining without being presented for payment for over 06 months relating to one Bank Account as at 31 December 2010.

- (b) A sum of Rs.66,475 deposited in 03 instances during the years 2006 to 2008 had remained under the deposits even up to the year under review without being settled.

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		Estimated	2009	
		Actual	Cumulative Arrears as at 31 December		Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	4,404	3,622	5,561	4,289	1,873	4,772
Rents	469	3,573	3,079	3,301	294	1,930
Licence Fees	1,342	1,344	--	1,217	1,214	2
Other Revenue	51	25	322	58	34	305

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Total	6,266	8,564	8,962	8,865	3,415	7,009
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2:3:2 Courts Fines

 Courts fines receivable by the Sabha had not been computed and brought to account.

2:3:3 Stamp Fees

 The amount receivable had not been computed and brought to account.

2:3:4 Trade Stall Rents

 An outstanding balance of trade stall rents amounting to Rs.1,258,063 existed under 54 instances relating to the period from the year 2004 up to the end of the year under review due to the failure of the Sabha to effect proper recovery of the lease rents under long leases granted. Cases had been filed for the recovery of a sum of Rs.326,850 relating to 03 instances out of that amount. Even though the Chairman informed me on 01 October 2010 that action would be taken before 30 November 2010 for filing cases for the recovery of the balance arrears, there was no evidence of such action taken even up to the end of the year under review.

2:3:5 Lease of Assets

 Arrears of Lease rent amounting to Rs.1,478,910 under 30 instances existed in relation to the period from the year 1998 up to the end of the year under review due to the failure of the Sabha to effect proper recovery of lease rents on the lease of assets of the Sabha on annual lease basis. Cases had been filed for the recovery of a sum of Rs.633,696 relating to 09 instances out of that amount. Even though the Chairman informed me on 01 October 2010 that action would be taken to recover the arrears before 15 December 2010 and in the event of failure cases would be filed before 31 December 2010 for the recovery of all arrears, there was no evidence of such action taken.

2:3:6 Rent of Godawela Weekly Fair

The Godawela Weekly Fair had been leased out for Rs.554,150 in respect of the year under review and a sum of Rs.181,939 remained in arrear by the end of the year under review after setting off the security deposit due to the non-payment of the lease rent by the lessee. In terms of Clause 25 of the lease rent agreement, the lessee should settle the electricity bills of the Weekly Fair and the electricity supply had been disconnected on two occasions due to the failure of the lessee to settle the electricity bills. The Sabha had paid a sum of Rs.15,729 out of his deposit in the year under review as the charges for reconnection of the electricity supply.

2:3:7 Rates

According to the reports furnished by the Sabha, the arrears of rates of the Sabha by the end of the year under review amounted to Rs.2,150,823. As compared with the value of the bills raised for the year under review amounting to Rs.438,283, that represented the value of bills raised for 05 years approximately. Action in terms of Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 and Rules 33 to 41 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988 had not been taken for the recovery of the arrears.

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	42,290	35,178	7,112	41,085	33,559	7,526
Emoluments						
Others	12,422	12,117	305	16,830	14,727	2,103

Sub-total	54,712	47,295	7,417	57,915	48,286	9,629
Capital	6,700	13,320	(6,620)	12,250	13,887	(1,637)
Expenditure	-----	-----	-----	-----	-----	-----
Grand Total	61,412	60,615	797	70,165	62,173	7,992
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2:5 Human Resources Management

----- Approved and Actual Cadre -----

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

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff Grades	03	02
Secondary Grades	28	25
Primary Grades	99	74
Other (Casual, Temporary)	--	72

2:6 Assets Management

----- 2:6:1 Accounts Receivable -----

The value of the balances of 02 accounts receivable as at 31 December 2010 amounted to Rs.54,125,225 and the balances older than 01 year amounted to Rs.37,916,218.

2:6:2 Staff Loan Recoverable -----

The balances outstanding older than 01 year as at 31 December 2010 totalled Rs.106,900.

2:6:3 Non-moving Current Assets -----

The balance of stocks unusable and the debtor balance that remained for over 03 years as at the end of the year under review amounted to Rs.154,670 and Rs.275,687 respectively.

2:7 Uneconomic Transactions

The following matters were observed in connection with the deposits made in the year 1980 for the payment of compensation for acquisition of lands for widening of the road to the Central College, Polgahawela.

- (a) According to the decision of the District Court, Kurunegala dated 02 April 1984 on this matter started in the year 1980, it had been decided to pay compensation to the owners of the lands, demolish the buildings and widen the road. As such a sum of Rs.100,000 being the assessed value of 02 blocks of land according to Assessment Report dated 27 February 1984 of the Chief Valuer of the Department of Valuation had been deposited with the District Secretary, Kurunegala on 01 January 1985. According to the Notification published in the Gazette Extraordinary dated 29 June 1987, the lands had been acquired by the Government.
- (b) Either the payment of compensation to the owners of lands or the execution of the work had not been done even up to the year 2002. According to the letter dated 02 May 2002 of the Divisional Secretary, Polgahawela a fresh assessment had been called for as 03 blocks of land. According to the report of the Chief Valuer dated 12 April 2005 the value of the land had been assessed again as 03 blocks as Rs.796,000. The land had been acquired again by the Government by Notification published in the Gazette Extraordinary dated 31 May 2002.
- (c) Either the payment of compensation or the execution of the work had not been done even up to the year 2008. According to the letter dated 29 June 2008 of the Divisional Secretary, Polgahawela, a sum of Rs.1,966,120 comprising the assessed value of Rs.796,000 according to the second valuation and a sum of Rs.1,170,120 as the interest from the date of acquisition of the land on 29 June 1987 to 29 June 2008.
- (d) Action as stated at (c) above had not been taken even up to the year 2009 and the Divisional Secretary Polgahawela had, by his report dated 02 March 2009 informed that up to that date a sum of Rs.2,003,368 was required for the acquisition of the land. As such the Pradeshiya Sabha had deposited a sum of Rs.1,903,368, after setting off the sum of Rs.100,000 deposited in the year 1984, with the Divisional Secretary Polgahawela on 14 May 2009.

- (e) Either the payment of compensation or the execution of the work had not been done up to the end of the year under review. In view of the failure to carry out the work within the specified periods the Sabha had to incur an additional expenditure of Rs.1,903,368 as shown below.

Activity	Additional Expenditure
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	Rs.
Adoption of the Assessed value of the year 2002 instead of the assessed value of the year 1984	696,000
Interest paid due to the non-payment of compensation despite the acquisition of the land in July 1987	1,207,368

	1,903,368
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2:8 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 as at the end of the year under review amounted to Rs.7,427,835. Even though the Fund had charged a sum of Rs.15,611 as the monthly installment of the Sabha, the particulars of the employees relating to that amount had not been notified to the Sabha.

2:9 Performance

- (a) Even though a provision of Rs.1 million had been made in the year under review for the construction of the Weerambagedara Children Park, that Project had not been implemented in the year under review.
- (b) The work on 49 projects costing Rs.14,263,829 under the Jathika Saviya Gama Neguma had been half completed by the end of the year under review.

- (c) Six projects under the Maga Neguma costing Rs.2,800,000 had not been completed as at the end of the year under review.

2:10 Internal Audit

An adequate internal 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
- (a) Financial Control
- (b) Revenue Administration
- (c) Assets Management
- (d) Contract Administration