

Pannala 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 31 March 2014 and the financial statements for the preceding year had been presented on 28 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 05 December 2014.

1.2 Opinion

In view of the significant matters pointed out in paragraphs 1.3.4 and 1.3.6 of this report, I was unable to obtain appropriate and sufficient audit evidence, to provide a basis for audit opinion. Therefore I do not express an opinion on these financial statements.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a.) The sum of Rs.99,908 which should be debited to the accumulated fund in order to rectify the errors pointed out by Paragraph 2.3.2(a) of the Report of the Auditor General for the year 2012 had been debited to the Rent Out Through Tenders Account. Therefore, the revenue for the year had been understated by a similar amount.

- (b.) Billing of waste charges (2-13) for the year under review amounted to Rs.206,164 whereas it had been brought to account as Rs.12,255. Therefore, revenue from waste charges had been understated by Rs.193,909 and the debit balance of Rs.25,169 that should be prevailed as at end of the year had become a credit balance of Rs.168,740.

- (c.) The sum of Rs.126,875 which should be credited to the accumulated fund while refunding the environment deposits of the year 2012 had been credited to revenue from special licence fees account (5-36) and revenue from registration fees and certifying charges account (5-41) through Journal Entry No.64 and 65. Therefore, the revenue for the year had been overstated by Rs.253,750.
- (d.) Stamp fees amounting to Rs.3,494,504 received during the year under review in respect of year 2011 and 2012 had been brought to account as revenue for the year under review and as such, the revenue for the year had been overstated by a similar amount.
- (e.) Salary reimbursements amounting to Rs.982,285 received during the year under review in respect of the year 2012 had been accounted as revenue for the year and therefore, the revenue for the year under review and the revenue debtors had been overstated by Rs.945,806.
- (f.) The general supplies creditors as at end of the year under review had been understated by Rs.105,198 and the provision for loan interest payable account had been overstated by a similar amount.
- (g.) Interest expenses relating to the year under review paid for Asian Development Loan had been overstated by Rs.1,300,165.
- (h.) Salaries and traveling expenses payable as at end of the year under review Value Added Tax, Nation Building Tax and Stamp fees had been overstated by Rs.1,094,375 , Rs.596,666, Rs.101,001 and Rs.78,300 respectively and the general supplies creditors had been understated by Rs.1,870,342.
- (i.) Expenses on salaries and allowances had been understated by Rs.63,527 and the income from salary reimbursements also had been understated by Rs.109,726.

- (j.) Pre-payments amounting to Rs.2,224,901 received in respect of lease of stalls during the year under review had not been brought to revenue.
- (k.) Capital expenditure (309) amounting Rs.34,443,756 relating to the year under review had been accounted under repairs and maintenance of capital assets (304) through Journal Entry No.84. Therefore, expenditure on repairs and maintenance of capital assets had been overstated and the capital expenditure had been understated by a similar amount.
- (l.) The difference of Rs.9,987,147 between the final accounts as at 31 December 2011 and the Revenue Register in respect of 10 Revenue Heads had been debited to the accumulated fund and credited to the relevant revenue ledger accounts through Journal Entry No.12 to 21. As such, the revenue for the year had been overstated by Rs.9,987,146.

1.3.2 Contingent Liabilities

The contributions payable to the Local Government Pensions Fund in respect of the employees retired from the service of the Pradeshiya Sabha and liable to pay contributions to the said Fund had not been properly paid. As such, the balance payable to the above Fund as at end of the year under review was Rs.4,200,774.

1.3.3 Unreconciled Control Accounts

There were differences totaling Rs.31,580,825 between the corresponding values of the accounts and the relevant registers relating to 22 items of accounts under billing and closing balances of the year under review.

1.3.4 Suspense Accounts

There was a credit balance of Rs.73,766 in the suspense accounts as at 01 January 2013 and this had been written off against the accumulated fund during the year under review through Journal Entry No.102.

1.3.5 Accounts Receivable and Payable

The following observations are made.

- (a.) Accounts receivable as at 31 December 2013 amounted to Rs.126,950,367 and the age analysis relating to the above had not been submitted.

- (b.) Accounts payable as at 31 December 2013 amounted to Rs.101,203,572 and age analysis had not been submitted for Rs.8,053,839 of the above.

1.3.6 Lack of Evidence for Audit

Transactions totaling Rs.147,486,468 could not be checked 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.326,037 as compared with the excess of revenue over recurrent expenditure amounting to Rs.4,155,518 for the preceding year, thus indicating a deterioration of Rs.3,829,481 in the financial result. When the capital grants amounting to Rs.55,126,338 and the capital expenditure amounting to Rs.23,232,394 are adjusted to the said financial result, the excess for the year under review had been increased to Rs.32,219,981.

2.2 Analytical Financial Review

The following observations are made.

- (a.) Out of the total recurrent revenue amounting to Rs.129,397,018 of the Sabha for the year under review; Rs.85,291,078 representing 66% consists of non-generating income such as court fines, stamp fees, salary reimbursements etc. Further the total capital revenue of Rs.55,126,338 consists of funds received from other institutions for development works of the area under the Sabha.

(b.) Out of the total recurrent expenditure amounting to Rs.129,070,981 for the year under review; Rs.43,508,302 representing 34% was personnel emoluments and 61% of it equivalent to Rs.26,536,317 had been received from the Commissioner of Local Government as salary reimbursements and had been accounted under other revenue. Further, capital expenditure amounted to Rs.23,232,394 and only Rs.7,025,024 of this equivalent to 30% represents Sabha funds and the balance 70% equivalent to Rs.16,207,370 consists of development works carried out under the provisions of other institutions such a Gama Neguma, Maga Neguma, Wayamba Pubuduwa etc.

2.3 Revenue Administration

2.3.1 Performance of Collection of Revenue

Although statutory provisions had not been enacted for collection of revenue such as trade licence fees, stall rent, lease rent etc. at field, the revenue collectors of the Sabha had collected such revenue at field throughout the year.

2.3.2 Rates and Taxes

Arrears of rates and taxes as at end of the year under review amounted to Rs.3,006,576 and the annual billing amounted to Rs.3,947,631. The process of preparation of lists of arrears quarterly and recovery of rates and taxes in arrears by confiscating property after issuing warrants had not been implemented in terms of Pradeshiya Sabha (Financial and Administrative) Rules 32-42 of 1988.

2.3.3 Lease Rent

There were arrears of Rs.27,721 relating to 02 items of assets leased out for the year 2013 and arrears relating to the previous years amounted to Rs.154,999 as at end of the year under review.

2.3.4 Stall Rent

There was a balance of stall rent in arrears amounting to Rs.189,178 for over a number of years and it includes monthly installments within a range of 28-71. Further, there was a balance of stall rent in arrears amounting to Rs.427,674 in respect of other 20 stalls.

2.3.5 Business Tax and Trade Licence Fees

A survey had been carried out within the area of authority of the Sabha and a list of industries and trading entities had been prepared and submitted to the Secretary. However, it had not been informed the industry owners and traders to pay the tax levied by the Sabha within 07 days. Further, the persons who had failed to obtain the licence had not been identified and sent notices to make payments or action had not been taken in terms of the relevant rules.

2.3.6 Payments in Advance

Payments in advance amounting to Rs.255,294 were outstanding as at end of the year under review in respect of stall No.05 and 08 of the Wetakeyyawa Shopping Complex which consists of 24 stalls. Agreements had not been entered into with the lessees in respect of 06 stalls and as such the Sabha had deprived of rent amounting to Rs.909,100 which should have been recovered since 2008. Water and electricity had not been provided to the Wetakeyyawa Shopping Complex even as at end of the year under review even though this building had been completed by 20 December 2011 at a cost of Rs.7,204,172.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

- (a.) The Sabha had approved 612 building applications during the period 2010-2012 whereas only 94 conformity certificates had been issued. The Sabha had not taken action in respect of non-obtaining conformity certificates for 518 applications or non-obtaining extension of time for building licences. The Sabha could have earned an income of Rs.259,000 on building conformity certificates in terms of by-laws of the Sabha; if all the buildings had been completed and if the relevant buildings had not been completed, the Sabha could have earned an income of Rs.588,000 as charges for granting extension of time for building licence.

- (b.) Fines amounting to Rs.733,662 had been paid from the Sabha funds for the period up to third quarter of 2013 due to non-payment of installments and interest promptly in respect of loans amounting to Rs.59,133,328 obtained for road development projects and library developments projects on Asian Development Bank loan facilities. Loan installments and interest payable as at end of the year under review stood at Rs.7,030,558 due to non-payment of loan instalments since fourth quarter of 2013 and there is a possibility of charging fines for non-payment of above money.

3.2 Irregular Transactions

With regard to the purchase of furniture for the Makandura Library; the Manager of State Timber Corporation (Kaldemulla Complex) had agreed by his letter No.ර.අ.ස/4/කල්.සං/මල ගණන්/xi dated 18 December 2010 to supply 173 items valued at Rs.1,867,479 under 18 categories of goods and by even number letter dated 05 January 2011 he had agreed to allow a 15% discount on the price indicated in the purchase order. However, it could not be ascertained whether the discounts had been obtained and although a sum of Rs.1,269,885 had been paid for the order, 19 items valued at Rs.311,570 under 05 categories had not been supplied even by end of the year under review as agreed.

3.2 Implementation of Projects

The following observations are made.

- (a.) The Makandura Library and the Health Centre constructed by spending a sum of Rs.85,254,744 under Asian Development Bank credit facilities and a sum of Rs.6,251,000 from Sabha funds consist of a library and 25 stalls and the contractor firm had handed over the building to the Sabha on 22 December 2010. Tenders had been called for lease out the 25 stalls of the Trade Complex at 03 instances during the 2012 and at 02 instances during 2013 on key-money basis. However, the 24 stalls in the ground floor; the minimum bid of which was Rs.39,063,000 and the gymnasium in the upper floor; the minimum bid of which was Rs.11,106,000 had not been leased out even by the end of the year under review. Further, the Sabha had deprived of an estimated income of Rs.126,500 monthly due to non-leasing out these stalls. The Sabha has to pay loan installments and interest about Rs.1,368,000 monthly in respect of loan obtained from the Local Loans and Development Fund.
- (b.) Computers, computer tables and 12 chairs had been purchased at a value of Rs.882,063 under the Provincial Specific Development Grant of Rs.1,000,000 of 2012 in order to establish an Information Technology Centre. This Computer Information Technology Centre had not been established even by end of the year under review and 09 computer packages had been lying idle. The guarantee period of 03 years allowed for these computer and accessories also is being lapsed.

4. Accountability and Good Governance

4.1 Budgetary Control

The following observations are made.

- (a.) According to the budgeted for the year under review, the provision for recurrent expenditure amounted to Rs.103,951,000 whereas the actual expenditure amounted to Rs.127,771,000 thus indicating an excess of 23% equivalent to

Rs.23,820,000. Further, there was an estimate of Rs.106,011,000 under capital expenditure out of which only a sum of Rs.22,504,000 equivalent to 21% had been spent.

- (b.) According to the budget, a recurrent revenue of Rs.128,519,660 had been estimated and the revenue achieved amounted to Rs.86,887,918 only representing 68%. The estimated revenue under income generation of the Sabha itself amounted to Rs.30,923,660 and the income recovered amounted to Rs.27,554,287.
- (c.) Five welfare activities valued at Rs.2,150,000 and 04 development activities valued at Rs.231,687 planned to carry out during the year under review by the Sabha had not been carried out.

4.2 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
- (e.) Assets Management
- (f.) Contract Administration