

**Polgahawela Pradeshiya Sabha**

**Kurunegala District**

**1. Financial Statements**

**1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 31 March 2014 and the financial statements for the preceding year had been presented on 15 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 09 December 2014.

**1.2. Opinion**

In view of the significant matters pointed out in paragraphs 1.3.2, 1.3.6 and 1.3.7 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) Though the work debtors balance at the end the year under review amounted to Rs.28,018,693, it had been shown in the financial statements as Rs.24,861,001, understating the amount by Rs.3,157,692.
- b) The value of Rs.50,644,722 shown as work aid under physical plans, roads, land and buildings programme, included a grant of Rs.4,187,200 received for a motor cab, though it should have been brought to account under general administration.
- c) Though the work aid relevant to the year under review amounted to Rs.32,204,419, it had been shown in the financial statements as Rs.46,457,522, overstating the amount by Rs.14,253,103.

- d) Though the work expenditure relevant to the year under review amounted to Rs.36,316,804, it had been shown in the financial statements as Rs.52,690,325, overstating the amount by Rs.16,373,521.
- e) The revenue from Paving Blocks Project amounted to Rs.3,368,060, and this value had been brought to account under recurrent revenue vote 3/62 of the physical plans, roads, land and buildings programme, and the relevant expenditure of Rs.4,695,567 had been credited to capital expenditure account-309. Therefore expenditure in the capital expenditure account-309 and the expenditure of the Paving Blocks Project had been understated by a similar amount.
- f) The sum of Rs.10,013,747 debited to the general supplies creditors account, during the year under review, included a sum of Rs.7,249,891, that should have been debited to work creditors account.
- g) Though the work creditors balance as at end of the year under review amounted to Rs.30,471,483, it had been shown in the financial statements as Rs.32,053,107, overstating the amount by Rs.1,581,624.
- h) Though the interest on fixed deposits relevant to the year under review amounted to Rs.3,133,050, it had been shown in the financial statements as Rs.5,983,541, overstating the amount by Rs.2,850,491.
- i) During the land block-out plans approval process during the year under review, the Sabha had received 41 perches of land valued at Rs.3,485,000, from a land named "Hathalispahuwa Boowelhena". Since this asset had not been brought to account, the value of land and buildings at the end of the year had been understated in the accounts by a similar amount.
- j) Though the value of motor cars and carts relevant to the year under review amounted to Rs.17,159,568, it had been shown in the financial statements as Rs.18,436,118, overstating the amount by Rs.1,276,550.

- k) The value of furniture at the end of the year under review amounting to Rs.1,148,501, had have been debited to furniture fixtures account and credited to the expenditure vote 103 under general administration programme, through Journal Entry No. 25, instead of being debited to the furniture account and credited to the revenue contribution to capital outlay account. Therefore the balance of the revenue contribution to capital outlay account of this programme, had been understated by Rs.1,148,501.
- l) A sum of Rs.1,485,974 expended for renovation of Children's Park of the Weerambagedara Sub Office and Rs.10,100,455 expended for the Office Building of the Pardeshiya Sabha, during the year under review, had not been capitalized.
- m) Though the stamp fees balance payable at the end of the year under review amounted to Rs.25,986, it had been shown in the financial statements as a debit balance of Rs.646,320.
- n) Though the Value Added Tax payable at the end of the year under review amounted to Rs.70,725, it had been shown in the financial statements as Rs.26,028, understating the amount by Rs.44,697.
- o) Though the salary reimbursements revenue relevant to the year under review amounted to Rs.29,581,274, it had been shown in the financial statements as Rs.28,616,403, understating the amount by Rs.964,871. Similarly, salary reimbursements receivable as at end of the year under review amounting to Rs.1,665,789 had not been brought to account.
- p) The rates and taxes revenue of the year under review amounted to Rs.6,649,817, and land sales taxes amounting to Rs.1,285,182 and industry taxes amounting to Rs.766,832 had also been included in this.
- q) Though the stamp fees revenue relevant to the year under review amounted to Rs.18,430,029, it had been shown in the financial statements as Rs.52,778,955, overstating the amount by Rs.34,348,926. Similarly, though the stamp fees receivable as at end of the year under review amounted to Rs.18,430,029, it had been shown in the financial statements as Rs.15,000,000, understating the amount by Rs.3,430,029.

- r) Though the court fines revenue relevant to the year under review amounted to Rs.2,556,876, it had been shown in the financial statements as Rs.2,949,814, overstating the amount by Rs.392,938. Similarly, though the court fines revenue receivable as at end of the year under review amounted to Rs.815,167, it had been shown in the financial statements as Rs.284,416, understating the amount by Rs.530,751.
- s) Though the fixed deposits balance as at end of the year under review amounted to Rs.28,635,788, it had been shown in the financial statements as Rs.27,435,788, understating the amount by Rs.1,200,000.

### **1.3.2. Suspense Accounts**

Cash transfers amounting to Rs.8,032,660 added to the cash balance under current assets at the end of the year under review, appeared as a suspense debit balance.

### **1.3.3. Contingent Liabilities**

The Sabha had not paid the contributions properly to the Local Government Pension Fund, with respect to the employees, who have served in the Pradeshiya Sabha and retired, and entitled for contributions towards the Local Government Pension Fund. Hence the balance payable to the Fund, as at end of the year under review amounted to Rs.8,003,966.

### **1.3.4. Unreconciled Control Accounts**

There were differences amounting to Rs.42,603,703, between the balances of 15 items of accounts, as at end of the year under review and the corresponding values in relevant registers.

### **1.3.5. Accounts Receivable and Payable**

The following observations are made.

- a) The value of balances of accounts receivable as at 31 December 2013 amounted to Rs.53,008,886, and of this, the relevant age analysis had not been presented for Rs.49,912,499.
- b) The value of balances of accounts payable as at 31 December 2013 amounted to Rs.53,877,213, and of this, Rs.1,990,610 represents balances for over 3 years.

### **1.3.6. Lack of Evidence for Audit**

Transactions totalling to Rs.21,757,567 could not be examined in detail, due to non-submission of required information to audit.

### **1.3.7. Transactions not Supported by Authority**

The following observations are made.

- a) The arrears in other work debtors of the preceding years, amounting to Rs.2,344,092, had been debited to the accumulated fund and written-off, through Journal Entry No.5, without identification of facts such as, the way it arisen, value and the composition, and without proper approval.
  
- b) According to the cash book, there had been an overdraft balance of Rs.1,075,666 in the general (current) bank account, as at 31 December 2012, and this value had been brought to the cash book as a debit balance of Rs.2,063,370 as at 01 January 2013. Similarly according to the bank reconciliation for the month of December 2012, there had been an unidentified payment of Rs.7,037,247 as an adjustment, and this adjustment had been taken-off from the bank reconciliation for January 2013. The reason for these amendments or the relevant approvals had not been submitted.

## **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. 48,748,066, as against the recurrent expenditure over revenue amounting Rs.8,367,024 for the preceding year. Therefore the financial result had been improved by Rs.57,115,090. When the capital aid of Rs.51,132,341 and capital expenditure of Rs.68,250,146 are adjusted to this financial result, the surplus for the year under review had been decreased to Rs.31,630,261.

## **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.115,246,362, and of this, Rs.95,819,356 representing 83% consists of non-generated revenue, such as court fines, stamp fees, and salary reimbursements. Similarly the entire capital revenue amounted to Rs.51,132,341, and of this Rs.32,204,419 representing 63% had been received from other institutions for development work in the area under authority, through sources such as Gama Neguma, Maga Neguma and Wayamba Pubuduwa.
  
- b) The total recurrent expenditure of the Sabha for the year under review amounted to Rs.66,498,297 and of this, Rs.47,754,183 representing 72% was expenditure related to personal emoluments. Of this, 60% amounting to Rs.28,616,403 had been received from the Commissioner of Local Government in the form of salary reimbursements, and it had been brought to account under other revenue. Similarly the capital expenditure amounted to Rs.68,250,146 and only 6% of this, amounting to Rs.4,112,385 had been spent from Sabha funds, and the balance 94% amounting to Rs.64,137,761 consists of development works carried out from provisions of other institutions.

## **2.3. Revenue Administration**

### **2.3.1. Performance on Revenue Collection**

Though the revenue collectors do not possess a clear authority to collect revenue such as trade licences, business taxes, stall rentals, lease rentals in the field, the revenue collectors of the Sabha had collected revenue such as rates and taxes, and trade licences in the field through-out the year.

### **2.3.2. Rates and Taxes**

The following observations are made.

- a) The annual rates and taxes of Rs.1,762,334 had been billed under 3360 units of the area under authority of the Head Office of the Pradeshiya Sabha, and at the beginning of the

year under review, there was an arrears of Rs.1,383,408 with respect to 1195 units. Of this, the list of arrears had been prepared only for Rs.147,330 relevant to 41 units.

- b) The annual rates and taxes of Rs.1,094,568, had been billed under 1900 units of the area under authority of Pothuhera Sub Office, and based on this billing, there had been an arrears of 127% amounting to Rs.1,437,698 at the end of the year. Similarly, there had been arrears of Rs.308,130 under 454 units in the area under the authority of Weerambagedara Sub Office, and further arrears of Rs.2,183,085 relevant to Hathalispahuwa Sub Office, as at end of the year under review.

### **2.3.3. Lease Rentals**

The following observations are made.

- a) There had been leaseholders who had defaulted the annual lease payments relevant to the annual lease from 2007-2012, and the lease rental in arrears as at the end of the year under review relevant to 18 instances, amounted to Rs.1,330,314.
- b) In the area under the authority of Pothuhera Sub Office, there had been arrears of Rs.28,149 on lease of assets carrying forward since the year 2011, and another sum of Rs.184,596 in arrears relevant to 12 instances, carrying forward since the year 1998.

### **2.3.4. Business Taxes and Trade Licence Fees**

The Pradeshiya Sabha (Finance and Administration) Rules 59-67 of 1988, stipulates the necessity of conducting a survey in the area under the authority. Sections 150 (1) and 152 (1) of Pradeshiya Sabha Act No. 15 of 1987, stipulates the necessity of preparing a list of industries and trade institutions, and submitting the list to the secretary. Similarly, the Sabha needs to take action to issue notices to the relevant parties through Form P.S.26, informing them to pay the taxes indicated by the Sabha within 7 days of receiving the notice, but the Sabha had not taken such action.

### 3. **Operating Review**

#### 3.1. **Performance Evaluation**

7192 street lamps had been fixed in the area under authority of the Sabha, and a sum of Rs.322,307 had been spent as equipment expenditure for maintenance of street lamps.

#### 3.2. **Management Inefficiencies**

The following observations are made.

- a) The Sabha had approved 853 building applications during the period from year 2009 to 2012, and even as at end of the year under review, Certificates of Conformity had not been obtained for 793 places. As per the by-laws of the Sabha, if all those buildings had been constructed, Sabha would have earned a revenue of Rs.222,040 on Certificates of Conformity, and if the construction work had not been completed, the Sabha would have earned revenue on charges for extension of the period of building permits.
- b) Though it had been indicated in the revenue registers that court cases had been filed to recover arrears amounting to Rs.246,335 under 3 instances of lease of assets, copies of court proceedings of the cases or the progress made had not been indicated in the case files. Similarly, though it had been shown in the revenue registers, that action had been taken to file court cases, on 4 instances in respect of Rs.469,138, it was not possible to establish that such court cases had been filed. Further, it was not possible to identify the action taken to recover arrears amounting to Rs.614,841 relating to 11 instances.
- c) Though the Sabha had filed an appeal in Appellant Courts in 2012 against the judgement, given by the High Courts of Kurunegala in the year 2011 which had been favourable to the plaintiff, in respect of a court case related to the lease of the canteen in the bus stand, the Sabha had not taken follow-up action with respect to the progress of the case. But a lease rental at the rate of Rs.7000 per month, is being billed by the Sabha and the arrears as at end of the year under review amounted to Rs.638,597.



- d) Though an agreement had not been entered into in the year 2008, to lease out the canteen in Godawela Sathi Pola, the relevant party had operated the canteen. Though it had been operated, the billings or payment of lease rentals had not been taken place. Similarly the lease rental of Rs.9,920 in arrears relevant to the year 2008 had not been settled. At the court hearing held on 29 January 2013, the Sabha as the complainant had made a request to withdraw the case, and the case had been dismissed subjected to an assessment charge. The Sabha had signed a fresh agreement with the leaseholder in May 2013 for a monthly lease rental of Rs.2000, and the lease rental arrears up to year 2008, amounting to Rs.9,920 had also been recovered. Since the court case which had been heard from the year 2008 to year 2013, was withdrawn, the lawyers charges of the case had become an unproductive expenditure. Similarly, this had prevented the Sabha earning a lease rental of Rs.60,000 for the period from the year 2009 to 2013.
- e) In the year under review a Value Added Tax of Rs.1,948,036 had been paid to the contractor for constructing the Sabha Office. This had not been deducted under allowable deductions, while computation of Value Added Taxes payable by the Sabha.

### **3.3. Assets Management**

The following observations are made.

- a) Sabha had not taken action to identify the properties of the Sabha and obtain the legitimate ownership. Due to this, several unauthorized houses and a Muslim mosque had been constructed in the land “Oruliyadda”. Similarly, an unauthorised person had occupied the block of land allocated for public purposes, on the auction of land “Pothuhera Kuripoththa Victor Range”.
- b) The Director of Land Reclamation Commission, by his letter dated 03 June 2003, had recommended the transferring of 3 acres of land of “Weerambagedara Pola”, to the Sabha. Since the Sabha had not taken action on this, the Land Reclamation Commission had vested the land to a private party in the year 2012, through a deed. The Sathi Pola had been operating in this premises, assuming that it was a property of the Sabha, and due to the loss of this property, the Sabha had faced a problem in operating the “Sathi Pola”, and in the final accounts of the Sabha, this property also had been included under assets.

- c) The advice of the Public Health Inspector had not been obtained during the construction of the slaughter house, at a total cost of Rs.597,879, and due to this, it was not possible to utilize the relevant building as a slaughter house.

**4. Systems and Control**

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

- a) Accounting
- b) Budgetary Controls
- c) Revenue Administration
- d) Assets Management
- e) Contract Administration