

**Pannala Pradeshiya Sabha**  
**Kurunegala District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 30 March 2014 while Financial Statements relating to the preceding year had been submitted on 31 March 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 13 August 2015.

**1.2 Opinion**

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Pannala Pradeshiya Sabha at 31 December 2014 and its financial performance for the year then ended in accordance with Public Sector standards of Sri Lanka.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

Following accounting deficiencies were observed.

- (a) Although a sum of Rs. 997,784 had been received in January 2014 as arrears of salary reimbursements for the year 2013, it had been accounted as revenue for the year under review. Due to that, revenue for the year and the debtors had been overstated to that extent.
  
- (b) In spite of the fact that a sum of Rs. 825,000 being salary reimbursements for November 2014 in respect of the newly recruited officers during the year 2013 had been received during December 2014, it had been accounted again as Salary Reimbursements Receivable, through the journal Entry No. 90. Due to that, revenue and revenue debtors for the year had been overstated to that extent.

- (c) Although the amount of Court Fines Receivable as at the end of the year under review was, Rs.1,000,496, it had been shown as Rs. 5,315,663 in the financial statements. Due to that, revenue and revenue debtors for the year had been overstated in a sum of Rs. 4,315,167.
- (d) Out of the balance in arrears of Local Government Pension Fund Payable Account a sum of Rs. 900,000 had been paid since January of the year under review. Instead of debiting it to the Local Government Pension Fund Payable Account, it had been debited to (108), the Pension, Pension Benefits and Gratuities Expense Account. Due to that, expenditure for the year and creditors had been overstated to that extent.
- (e) A sum of Rs. 200,000 provided under creditors was included in the balance payable to the Local Government Pension Fund at the beginning of the year under review. It had been again accounted as creditors through the journal entry No. 83 during the year under review. Due to that, expenditure for the year and creditors had been overstated to that extent.
- (f) The Penalty Interest amounting to Rs. 1,569,421 recovered for the loan obtained from the Local Loans and Development Fund had been accounted as a repayment of loan. Due to that, creditors had been understated to that extent.
- (g) Pre-payments (Key Money) amounting to Rs. 1,523,934 in respect of 08 stalls in the two market complexes at Wetakeyawa and Kandane Gedera receivable as at the end of the year under review had not been accounted as debtors.
- (h) Settlement of advances amounting to Rs. 430,718 had been credited to expenditure account without crediting the advance account. Due to that, expenditure for the year had been understated to that extent.

### **1.3.2 Contingent liabilities**

The Contributions Payable to the Pension Fund on behalf of the employees retired after serving the Sabha had not been made properly. Due to that, the balance payable to that Fund as at the end of the year under review had been Rs.3,312,679.

### **1.3.3 Unreconciled Control Accounts**

Non-reconciliations in a sum of Rs. 18,294,387 were observed between the accounts and relevant registers relating to 13 items of accounts under final balances of the year under review.

### **1.3.4 Accounts Receivable and Payable**

Following matters are observed.

- (a) The total of the value of Accounts Receivable balances as at 31 December 2014 was Rs.224,704,174. While an age analysis had not been furnished for Rs.72,345,233, out of that, the balance of Rs. 152,358,941 for which age analysis were received, a sum of Rs.1,523,589, as 1 per cent approximately were balances that had been bought forward over more than 03 years.
- (b) While there was Other Revenue in Arrears amounting to Rs. 66,220,140, a balance of Capital Grants amounting to Rs. 18,708,947 brought forward since the year 2009 was included therein, there was another sum of Rs. 31,094,572 as Stamp Fees Receivable.
- (c) While Work Debtors balance amounting to Rs. 151,873,068 was included in the Amounts Receivable, out of that a sum of Rs. 10,963,860 were balances existing since a period prior to the year 2013.
- (d) The value of Account Payable as at 31 December 2014 was Rs. 183,017,168, Out of that a sum of Rs.19,602,537 as 11 per cent approximately, were balances existing during more than 03 years.

- (e) While General Creditors amounting to Rs. 12,683,768 were included in the Amounts Payable, a sum of Rs. 4,400,395 as 35 per cent approximately, had been the balance payable to the Local Government Pension Fund.
- (f) While a balance of Works Creditors amounting to Rs. 145,756,327 were included in the Amounts Payable, out of that a sum of Rs. 21,469,732 as 15 per cent approximately were balances existing since a period prior to the year 2013.

### **1.3.5 Lack of Evidence for Audit**

A detailed examination could not be made with regard to transactions totaling Rs.25,505,584 due to non-submission of required information to audit.

## **2. Financial Review**

### **2.1 Financial Results**

According to the Financial Statements presented, operational surplus of the Sabha for the year ended 31 December 2014 had been Rs.17,530,159 as compared with the corresponding surplus amounted to Rs. 326,037 in the preceding year indicating an improvement of 17,204,122 in the financial results. When Capital Grants of Rs.242,443,846 and Capital Expenditure of Rs. 219,895,405 are adjusted to this operational result, financial result relevant to the year under review had become a surplus of Rs. 40,078,600.

### **2.2 Analytical Financial Review**

Following matters are observed.

- (a) Out of the total Recurrent Revenue of Rs.125,644,344 relevant to the year under review, a sum of Rs. 92,437,977 was consisting revenue not falling under a nature generated in the Sabha such as Court fines, Stamp Fees and Salary Reimbursements. It was approximately 74 per cent. Similarly, the entire Capital Revenue of Rs. 242,443,845 was consisting funds provided for development activities of the area of authority through other institutions from sources such as Gama Neguma and Maga Neguma.

- (b) Out of the total Recurrent Expenditure of Rs. 108,114,185 relevant to the year under review, a sum of Rs. 56,800,964 as 53 per cent approximately was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 47,772,908 as 82 per cent approximately, had been provided by the Commissioner of Local Government as salary reimbursements. That value had been accounted under Other Revenue.

## **2.3 Revenue Administration**

### **2.3.1 Rent**

While the balance of Rent in Arrears as at the end of the year under review was Rs.1,031,551, a balance of Rs. 341,525 outstanding over a number of years was included therein.

### **2.3.2 Pre-payment Money**

Pre-payment Money amounting to Rs.539,236 and Rs.991,727 relevant to Wetakeyawa and Kandane Gedera market Complexes were in arrears respectively.

### **2.3.3 Court Fines and Stamp Fees**

Court Fines amounting to Rs. 5,315,663 and Stamp Fees amounting to Rs.31,094,572 were receivable from the Chief Secretary to the Provincial Council as at the end of the year under review. These arrears had been decreased to Rs. 4,914,998 relevant to Court Fines and to Rs. 12,421,641 relevant to Stamp Fees as at 30 June 2015.

### **3. Operating Review**

#### **3.1 Management Inefficiencies**

Following matters are observed.

- (a) While action had not been taken to obtain the water supply and electricity supply for the Wetakeyawa Market Complex constructed at a cost of Rs. 7,204,172 during the year 2014, recovery of rent too had been problematic due to failure in entering into rent agreements with regard to 06 stalls.
  
- (b) Although quotations had been called for leasing out 10 stalls in the down floor of the Kandane Gedera Market Complex for the years 2012 and 2013, completed during the year 2011, quotations had been submitted only for 03 stalls as at 31 December 2014.
  
- (c) While it had been informed to recover a sum of 50% from the Chief Management Assistant who was in charge of money with regard to the cash fraud of Rs. 206,869 took place in the Sabha on 07 June 2007, it had not been clarified as to how the balance 50% should be recovered.

### **4. Systems and Controls**

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

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Vehicles Control