

Panduvassnuwara 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 2016 while Financial Statements relating to the preceding year had been submitted on 25 March 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 15 August 2016.

1.2 Qualified 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 Panduvassnuwara Pradeshiya Sabha as at 31 December 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies are observed.

- (a) Creditors totaling Rs. 4,786,065 had been written-off through Journal Entry No. 72 without approval. Due to that, Creditors had been understated while Accumulated Fund had been overstated to the extent of that value.

- (b) Revenue Debtors amounting to Rs. 4,406,666 had been written-off through Journal Entry No. 71 without proper approval. Due to that, Revenue Debtors and Accumulated Fund had been understated to the extent of that value.

- (c) Accrued interest on self renewed investments amounting to Rs. 278,317 for 03 Fixed Deposits of Rs. 7,455,000 had been credited only to the income for the year under review without being apportioned relevant to the year under review and the preceding year.
- (d) Supply Creditors, Sundry Creditors, Unpaid Salaries and Wages and Work Creditors had been identified as one ledger account called as Sundry Debtors. Due to that, it had not been possible to identify the balances relevant each account separately.

1.3.2 Non-reconciled Control Accounts

Non-reconciliations in a sum of Rs. 472,803 were observed between the balances relevant to 02 items of ledger accounts and the balances in the corresponding subsidiary registers.

1.3.3 Accounts Receivable and Payable

Following matters are observed.

- (a) While the balance of the Accounts Receivable as at 31 December 2015 amounted to Rs. 69,296,920, age analysis of balances amounting to Rs. 42,039,689 out that were not furnished to audit. Balances amounting to Rs. 291,678 were consisting balances not settled since a period exceeding 03 years.
- (b) While the balance of the Accounts Payable as at 31 December 2015 amounted to Rs. 61,351,950 age analysis of balances amounting to Rs. 16,477,660 out that were not furnished to audit. Balances amounting to Rs. 1,860,476 were being brought forward since a period exceeding 03 years.

1.3.4 Lack of Evidence for Audit

Approvals obtained before writing-off Creditors balances amounting to Rs. 4,786,065 and Debtors balances amounting to Rs. 4,406,665 during the year under review were not made available to audit.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.

Audit sample checks revealed that action had not been by the Sabha against the defaulters in payment of Rates in the area of authority of the Sabha, by seizure of properties in terms of Section 158 the Pradeshiya Sabha Act No. 15 of 1987 to recover the amounts in arrears.

02 Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 had been Rs.29,813,832 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 23,452,554 for the preceding year indicating an improvement of Rs. 6,361,278 in the financial result. After adjustment of the Capital Grant amounting Rs. 30,559,786 and Capital Expenditure amounting to Rs. 63,634,497 to this, operating result, financial result for the year under review had become a deficit of Rs. 3,260,879.

2.2 Analytical Financial Review

(a) Actual revenue and expenditure relevant to the year under review and the preceding year together with relevant variations are shown below.

Source of Revenue	Revenue			Expenditure Item	Expenditure		
	2015	2014	Variance		2015	2014	Variance
	Rs.000	Rs.000	Rs.000		Rs.000	Rs.000	Rs.000
(i) Generated Revenue (10,20,30,40)	59,103,	52,215	6,888	Personal Emoluments	56,398	44,303	12,095
(ii)Others (50,60,70)	<u>68,117</u>	<u>57,034</u>	<u>11,083</u>	Others	<u>41,008</u>	<u>41,493</u>	<u>(485)</u>
Sub total	127,220	1 09,249	17,971	Sub total	97,406	85,796	11,610
(iii) Capital Grant	30,560	58,291	(27,731)	Capital Expenditure	63,635	82,570	(18,935)
Grand Total	<u>157,180</u>	<u>167,540</u>	<u>(9,760)</u>	Grand Total	<u>161,041</u>	<u>168,366</u>	<u>7,325</u>
Operational Result	29,814	23,453	5,640	Deficit	(3,261)	(826)	2,435

Following matters are observed.

- (a) Out of the total Recurrent Revenue of Rs.127,219,571 relevant to the year under review, a sum of Rs. 68,116,715 or approximately 54 per cent were revenue not falling under a nature generated in the Sabha and were receipts in the nature of grants such as Court fines, Stamp Fees and Salary Reimbursements. Similarly, the entire capital revenue of Rs. 30,559,786 was consist of funds received for development works in the area of authority through other institutions from sources such as Provincial Criteria, Provincial Investments and Pradeshiya Sabha Strengthening Program.
- (b) Out of the total Recurrent Expenditure of Rs. 97,405,740 relevant to the year under review, a sum of Rs. 56,397,592 or 58 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 51,956,149 or 53 per cent had been received from the Commissioner of Local Government as salary reimbursements while that value had been accounted under Other Revenue. Similarly, out of the capital expenditure of Rs. 63,634,497, a sum of Rs. 29,373,085 or approximately 46 percent had been spent for acquisition of fixed assets f and the balance sum of Rs. 34,261,412 or 54 percent consisted with development works performed on the basis of provisions received from sources of other institutions such as Provincial Criteria, Provincial Investments and Pradeshiya Sabha Strengthening Program.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review and the preceding year were as shown below.

Item of Revenue	2015			2014		
	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual	Accumulated Arrears as at 31 December
	000	000	000	000	000	000
(i) Rates and Taxes	2,012	2,129	1,338*	2,007	2,194	1,450
(ii) Lease Rent	22,261	23,608	1,008	53,586	29,473	756
(iii) License Fees	2,161	2,231	--	2,106	1,953	--
(iv) Other Revenue	103,180	99,252	46,509	69,767	75,630	38,567
Total	129,614	127,220	48,855	127,466	109,250	40,773

- (a) Although revenue amounting to Rs. 2,012,000 had been estimated for the year under review under Rates and Taxes, annual billings had been Rs. 2,129,000. Similarly, there was an arrears sum of Rs. 1,337,571 as at the end of the year under review, a sum of Rs. 446,388 had been recovered out of arrears as at 31 March 2016.
- (b) Although revenue amounting to Rs. 22,261,000 had been estimated for the year under review under Lease Rent, annual billings had been Rs. 23,608,044. Similarly, there was an arrears sum of Rs. 1,007,697 as at the end of the year under review, a sum of Rs. 769,646 had been recovered out of arrears as at 31 March 2016.

2.3.2 Revenue Billed and Arrears of Revenue

Particulars are shown below.

Item of Revenue	Billings from Revenue			Balance of Arrears 31/12/2015			Collections of Revenue		
	Arrears as at 01.01.2015	Billings during the year	Total	Collection From arrears	Collection From billing	total	Out of Arrears as at 01.01.2015	Out of Billing	Total Arrears as at 31.12.2015
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs. 000	Rs.000	Rs.000
Rates and Taxes (10)	1,378	2,129	3,507	598	1,734	2,332	780	395	1,175
Lease Rent (20)	835	23,608	24,443	428	23,007	23,435	407	601	1,008
License Fees (30)	---	2,230	2,230	--	2,230	2,230	--	--	---
Others (40,50,60,70)	38,760	99,252	138,012	17,147	83,784	100,931	21,613	15,468	37,081
Total	40,973	127,219	168,192	18,173	110,755	128,928	22,800	16,464	39,264

Due to lapses in maintenance of Revenue Registers of the Sabha, balances according to computations as at 01 January 2015 and 31 December 2015 did not tally with the balances shown in the financial statements.

2.3.3 Rates

Following matters are observed.

- Follow up action had not been taken on plans approved for new constructions, issue Certificates of Conformity and recover Rates after revision. A charge of Rs. 25 only had been recovered for an annual value of Rs. 500 from the owners of for 49 buildings and properties which were being constructed during the period of making a fresh assessment of Rates for the last time during the year 2012.
- Although Rates No. 117/A, 119, 119/2 and 119/A, Building with 04 floors in extent of 694 square feet, situated in front of the Hettipola Bus stand had been completed and opened for business during the year 2013, Certificates of Conformity had not been obtained. The officers of the Sabha had not followed up in this connection and Rates had not been recovered after assessment.

- (c) Although Rates No. 153, Peoples' Bank Building had been used since the year 2014, the Sabha had not taken action to recover Rates. While a Rates Revenue of Rs. 12,150 had been recovered for the Bank of Ceylon Building annually, a similar revenue could have been earned for this building as well.

2.3.4 Lease Rent

Following matters are observed.

- (a) Although quotations had been called for four times for leasing out the Sabha assets relevant to the year 2015, under a minimum bid of Rs. 37,026 for 12 assets and a minimum bid of Rs. 455,626 for 12 assets, lessees had not come forward and therefore it had not been possible to lease.
- (b) A sum of Rs. 27,090 was outstanding to be recovered as at 31 December of the year under review, for the Fish Booth at the Kirimetiya Junction, billed up to September of the year under review. A sum of Rs. 10,043 was outstanding further as at 31 March 2016.
- (c) Although a sum of Rs. 49,500 had been billed during the year under review for the chicken stall in Mavee Ela Weekly Fair, action had not been taken to recover that money.
- (d) Although a total arrears sum of Rs. 84,007 as Rs. 60,300 for the Beef Stall at Madihe, Anukkane, and Rs. 23,707 for the Chicken Stall given on lease during the year 2007 Hettipola was outstanding as at 31 December, out of that a sum of Rs. 51,776 was outstanding as at 31 March 2016.
- (e) Although quotations were called for twice on the basis of Prepayment Tender Method for the stalls in Hettipola Bus stand, it had not been possible to lease 07 stalls of which minimum bid had been Rs. 16,225,000, even up to 05 October 2015, date of audit.

- (f) In giving stalls on the basis of prepayment method relevant to the year 2014, it is required to pay the pre-payment money within 14 days from the date of notification of acceptance of the bid. However, in spite of informing the acceptance of the tender on 06 March 2014, a sum of Rs. 16,435,465 was in arrears as at the end of the year under review for 11 assets.
- (g) In terms of Circular No. 1980/46 dated 31 December 1980 of the Commissioner of Local Government stalls rent should be revised at least once in 05 years. However, Vijaya Udagama Market Complex, Kamburapola Market Complex, Hettipola B. C and D Market Complex had not been revised during a period 14 to 27 years.
- (h) While Stalls No. 01 and 02 of the Hettipola Multi Purpose Building consist of 10 stalls, had been given to the Bank of Ceylon, Hettipola Branch in terms of conditions of the lease agreement signed on 14 May 2015 effective from 01 October 2014, specified lease money should be paid on the first day of each month. However, payment of relevant lease money had been delayed. Although conditions with regard to fines had been included in the other agreements signed by the Sabha with regard to lease rent, such a condition has not been included in this agreement and due to that; it had not been possible recover fines for that.
- (i) Although tenders were called for Hettipola Combined Beef Stall thrice of which the minimum bid amounts to Rs. 1,225,950 for the year 2015, any purchaser had not come forward. While the Commissioner of Local Government (North West) had given approval on 20 January 2015 to re-call for tenders by reducing 10 percent of the minimum bid, at the request of the Lessee of the year 2014 the stall had been continued from January to July 2015 on the basis of the 2014 quotation without an agreement. However, it had not been possible to recover Lease rent amounting to Rs. 92,884 and the fine relevant to that, due to nonpayment of installment for July 2015.

2.3.5 Other Revenue

Following matters are observed.

- (a) There was an arrears sum of Rs. 910,286 on account of Water Charges as at 31 December of the year under review. Out of that, a sum of Rs. 492,948 had been arrears relevant to past years.
- (b) There was an arrears sum of Rs. 90,462 on account of Acreage Tax as at 31 December 2015 of the year under review. Arrears relevant to past years amounting to Rs.77,331 was included in this.
- (c) While survey had not been carried out with regard to Telephone Transmission Towers erected in the area of authority of the Sabha, applications made for construction of 22 towers recorded in the building Applications Register had been kept in the file.

2.3.6 Court Fines and Stamp Fees

Court Fines amounting to Rs. 5,824,151 and Stamp Fees amounting Rs. 25,312,646 were receivable from the Chief Secretary to the Provincial Council as at the end of the year under review.

03. Operating Review

3.1 Management Inefficiencies

After revealing that the land Kebellawela Himalaya situated in Kebellawela and Meegahamula Hena in extent of 03 acres 01 rude and 20 perches had been auctioned and sales were finalized as at 22 April 2015 without approval of the Sabha, , it had been approved on 11 May 2015.

3.2 Operating Inefficiencies

Following matters are observed.

- (a) Concrete Block Stones Project implemented since the year 2012 having incurred expenditure amounting to Rs. 643,152 had been defunct. Due to that, about 712,500 Stone Blocks had been purchased and 80 roads had been developed by the Sabha during the year 2015.
- (b) Although there was a capacity for about 150 traders to the extent of properly separated 45 trading booths and open area in the Sunday Weekly Fair conducted in Maave Ela, average attendance of the traders had been 20 to 25 and income had been between Rs. 3,000 and Rs. 7,000.
- (c) Although there was a capacity for about 130 traders when taken into account the properly separated 96 trading booths including open area in the Malwanegedera Weekly Fair, any trader had not carried out business activities since the date of opening in 12 trading booths located in the part of the southern side to the extent of about 300 square feet as the consumers access path had been narrow. Although a new gate had been incurred having incurred expenditure amounting to Rs.7,800 by April 2015 as a solution to that, expected objective had not been accomplished.

3.3 Contracts Administration

Although a sum of Rs. 158,827 or 15 percent of the estimated amount had been allocated for spreading ABC Mixture on the surface of the road and compress with 8 - 10 Tons Roller in fixing block stones in stage 1 for development of Second Lane of Dolahamuna Watta on the basis of Provincial Criteria Based Provisions of Rs. 1,013,639 during the year 2015, in preparation of the estimate amounting to Rs. 500,000 of the balance part or second stage of that work, fixing of block stones on the surface of the road only had been done without spreading ABC Mixture and compressing with 8 – 10 Tons Roller.

04. Accountability and Good Governance

4.1 Annual Procurement Plan

An Annual Procurement Plan had not been prepared.

4.2 Internal Audit

An adequate internal audit had not been implemented for the year under review.

4.3 Assets Management

4.3.1 Idle and Under-utilized Assets

Although the Concrete Stones Manufacturing Project was commenced during the year 2012 having incurred expenditure amounting to Rs. 643,652, assets amounting to Rs.399,800 since a period of 04 years, a tank for strengthening the block stones amounting to Rs.44,149 and the Block Stone yard valued at Rs. 199,703 years had remained idle.

05. Systems and Controls

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

- (a) Accounting
- (b) Contracts Administration
- (c) Land Allotments and Auctions
- (d) Revenue Administration.