

## **Pannala Pradeshiya Sabha**

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### **Kurunegala District**

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#### **1. Financial Statements**

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##### **1.1 Presentation of Financial Statements**

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Financial Statements for the year under review had been submitted to Audit on 29 March 2016 while Financial Statements relating to the preceding year had been submitted on 30 March 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 27 September 2016.

##### **1.2 Qualified Opinion**

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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 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**

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###### **1.3.1 Accounting Deficiencies**

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Following accounting deficiencies are observed.

- (a) Although the sum of Rs. 1,200,000 paid out of the balance of arrears of the Local Government Pension Fund and installments of Rs. 24,565 for November and December of the preceding year should be credited to the Pensions, Pension Benefits and Gratuity Expenditure Account having debited the Accumulated Fund Account, a sum of Rs. 1,224,565 had been adjusted to the Pensions Account and the Pension Payable Account through Journal Entry 17. Due to that, expenditure for the year and Creditors had been overstated to that extent.

- (b) In spite of indicating a sum of Rs.4,400,396 as the amount payable to the Local Government Pension Fund at the commencement of the year, a sum of Rs. 1,724,961 had been accounted as Pension Payable at the end of the year under review, through Journal Entry No. 59. Due to that, expenditure for the year and Expense Creditors had been overstated to that extent.
- (c) Although the balance payable at the end of the year under review according to the pension bill was Rs. 1,974,091, pension balance payable shown in the ledger account was Rs. 5,225,357. Due to that, Creditors had been overstated in a sum of Rs. 3,251,266.
- (d) Stamp Fees Revenue relevant to past years amounting to Rs. 21,185,555 received during the year under review had been accounted as revenue for the year. Due to that, revenue for the year and Revenue Debtors had been overstated to that extent.
- (e) Although the Courts Fines revenue relevant to the year under review was Rs. 8,459,063, it had been accounted as Rs. 7,805,142. Due to that, revenue for the year and Revenue Debtors had been understated in a sum of Rs. 653,901.
- (f) The sum of Rs. 1,700,000 received as a part of reimbursement receivable during the year under review on account of officers who were made permanent on the grounds of completing 180 days service, had not been accounted as revenue for the year.
- (g) The total sum of Rs. 41,780 received as Interest for 04 Fixed Deposits made in favor of the Sabha amounting to Rs. 28,340 and Interest Receivable amounting to Rs. 13,440 had not been accounted as Interest Income.
- (h) The sum of Rs. 186,788 being the balance of 2 Fixed Deposits made in the Kuliypitiya Branch of the National Savings Bank had not been accounted under Fixed Deposits.

- (i) Although the balances of the Employees Security Deposits and the Staff Security Deposits Investment Account, according to bank confirmation certificates at the end of the year under review were Rs 448,039, it had been shown as Rs. 362,196 in the financial statements. Due to that, Staff Security Deposits and the balance of the Staff Security Deposits Investments had been understated in a sum of Rs. 85,843.
- (j) The Gas Stock valued at Rs. 80,652 at the beginning of the year under review had not been credited to the Stock Account having transferred to the relevant expenditure accounts. Due to that, balance of the Closing Stock had been overstated and the Supplies and Equipment Expenditure had been understated to the extent of that value.
- (k) In computation of the Closing Stock at the end of the year under review, the balance stock of Compost Yard and the value of the balance concrete posts of the Concrete Posts Project as at 31 December 2015 amounting to Rs. 150,000 and Rs. 213,750 respectively, had not been shown in the accounts.
- (l) A fictitious balance of liabilities amounting to Rs. 1,268,631 in the Value Added Tax Account had been shown under Creditors at the end of the year under review.
- (m) Key Money Receivable at the end of the year under review amounting to Rs.1,523,934 relevant to 08 stalls in the two trading complexes in Vetakeyawa and Kadane Gedera had not been accounted as Debtors.
- (n) Discount allowed for Rates amounting to Rs. 298,321 during the year under review had not been accounted as expenditure of the year.
- (o) Rates amounting to Rs. 117,290 received during the year under review in respect of the ensuing year had not been shown in the accounts as Rates Received in Advance. Due to that, The balance of Rates in arrears for the year under review had been understated to the extent of that value.

### **1.3.2 Non-reconciled Control Accounts**

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Non-reconciliations in a sum of Rs. 59,906,714 were observed between the value of balances shown in the financial statements and the balances according to schedules relevant to 13 items of accounts.

### **1.3.3 Accounts Receivable and Accounts Payable**

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Following observations are made.

- (a) While there was a balance of Rent in arrears amounting to Rs. 1,031,551 not specifically identified in the Balance of Accounts Receivable, that amount had been a balance which was being brought forward since the year 2009.
- (b) While a balance of Fixed Deposits Interest Receivable amounting to Rs. 11,000 and a balance of Capital Grants Receivable amounting to Rs. 18,708,948 were being brought forward since the year 2009, action had not been taken to recover those amounts.
- (c) While there was a balance of Works Debtors amounting to Rs. 55,826,625, in the Accounts receivable, a sum of Rs. 22,372,856 had been received as at 31 March 2016. There was a balance of Rs. 10,963,860 outstanding since a period prior to the year 2013.
- (d) Magollhena Land and the Building had been given on rent to the Giriulla Police and revenue of Rs. 312,918 had been billed since the year 1989. However the right to use this land had been entrusted to the Police by the Divisional Secretary and therefore it was not possible to recover the balance in arrears.
- (e) Although it had been proposed during the year 2013 to write-off revenue in arrears amounting to Rs. 378,785, outstanding to be recovered for the land called Imbulgahamula Watta and the Building situated in Giriulla given for carrying on a cinema hall, that amount had been shown as Revenue in arrears in the accounts.

- (f) There was balance of Acreage Tax in arrears amounting to Rs. 669,016, which cannot be specifically identified.
- (g) A proper course of action had not been taken to recover a sum of Rs. 100,353 due to be recovered from 60 deceased and retired officers included in the Staff Loans balance of R.2,528,588.

#### **1.3.4 Lack of Evidence for Audit**

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 A satisfactory examination could not be made with regard to 07 items of accounts valued at Rs. 86,034,616, due to non-submission of detailed schedules.

#### **1.3.5 Non-compliance with Laws, Rules and Regulations.**

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 Following instances of non-compliance with Laws, Rules and Regulations were observed in audit.

Reference to Laws, Rules Regulations etc.	Non-compliance
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(a) Pradeshiya Sabha (Financial and Administrative) Rules. Rule 59	A survey had not been carried out at at the beginning of every year in the area of authority of the Sabha, a list had not been prepared with regard to the industries and not submitted to the Secretary before 31 March of the relevant year.
(b) Financial Regulations of the Republic of Sri Lanka -----	
(i) F.R. 171 (2) (a)	The balance of the Un-settled Advance Account as at 31 December 2015 was Rs. 321,978.
(ii) F.R. 571 (2)	The balance of the Miscellaneous Deposits made during the period from the year 1997 to 2013 amounting to Rs. 19,819 had not been taken to revenue.

## **02 Financial Review**

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### **2.1 Financial Results**

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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.40,298,822 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 17,530,159 for the preceding year. After taking into account the Capital Revenue amounting Rs. 30,051,802 and Rs. 242,443,846 and Capital Expenditure amounting to 25,937,319 and Rs. 219,895,405 during the year under review and the preceding year respectively, surplus of the year for the year under review had been Rs. 44,413,305 while surplus of the preceding year had been Rs. 40,078,600.. Accordingly, financial result of the year under review indicated an improvement of Rs. 4,334,705 when compared with the preceding year.

### **2.2 Analytical Financial Review**

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- (a) While the overall operational gain of the Sabha for the year under review was Rs. 152 million, when compared with overall operational gain of Rs. 126 million for the preceding year there had been an increase of Rs. 26 million.
  
- (b) While the Capital Expenditure during the year under review amounted to Rs. 26 million, when compared with the Capital Expenditure of Rs. 220 million for the preceding year there had been a decrease of Rs. 194 million.
  
- (c) While the surplus for the year due to above position had been Rs. 44 million, when compared with the surplus of Rs. 40 million for the preceding year there had been an improvement of Rs. 04 million in the financial result.

## 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 as furnished by the Secretary are shown below.

Item of Revenue	2015			2014		
	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual	Accumulated Arrears as at 31 December
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Rates and Taxes	8,115	7,870	3,164	8,115	7,726	3,789
Lease Rent	21,425	20,400	1,759	21,425	19,318	3,587
License Fees	1,536	1,243	--	1,536	989	--
Other Revenue	120,029	122,168	--	120,029	103,706	--
<b>Total</b>	<b>151,105</b>	<b>151,681</b>	<b>4,923</b>	<b>151,105</b>	<b>131,739</b>	<b>7,376</b>

### 2.3.2 Revenue Billed and Revenue Collected

Information furnished relating to Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review are shown below.

Revenue Head	Billings from Revenue			Collection from Revenue				Arrears of Revenue		
	Arrears as at 01.01.2015	Billings during the year	Total	Collection From arrears	Collection From billing	Amount Received For ensuing Years	Amount Collected	Balance out of arrears	Arrears out of Billings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.
Rates	3,085,240	3,772,254	6,857,500	1,541,580	2,522,178	298,321	4,362,079	1,543,666	951,775	2,495,441
Acreage Tax	648,910	77,420	726,530	25,404	31,909	0	57,313	623,506	45,511	669,017
Lease Rent	490,410	12,735,291	13,225,701	367,389	12,390,377	0	12,757,766	123,021	344,914	467,935
License Fees	--	880,960	880,950	--	880,950	0	880,950	0	0	
Stalls Rent	1,150,567	4,373,501	5,524,068	341,345	3,925,360	0	4,266,705	809,222	448,141	1,257,363
Others	805,454	15,369,620	16,175,074	--	15,424,224	0	15,424,224	750,730	120	750,850
Stamp Fees	--	20,000,000	20,000,000	22,636,556	0	0	22,615,556	--	20,000,000	20,000,000
Court Fines	--	3,000,000	3,000,000	4,570,901	0	0	4,570,901	--	3,000,000	3,000,000
<b>Total</b>	<b>6,180,587</b>	<b>60,209,036</b>	<b>66,389,623</b>	<b>29,463,175</b>	<b>35,174,998</b>	<b>298,321</b>	<b>64,936,494</b>	<b>3,850,145</b>	<b>24,790,461</b>	<b>28,640,606</b>

**(a) Rates**

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Following matters are observed.

- (a) While Rates in arrears at the end of the year under review was Rs. 2,495,421, it was approximately about 66 percent of the annual billings. Out of that a sum of Rs. 868,818 had been recovered up to July 2016.
- (b) A list of defaulters in payment of Rates had not been prepared and warrants for seizure of properties at the end of each quarter had not been submitted for the signature of the Secretary by the Rates Clerk in terms of Rule 33 of the Pradeshiya Sabha (Financial and Administrative) Rules Series of 1988.
- (c) Although the all lands and buildings situated in the area of authority of the Sabha should be assessed once in 05 years in terms of Rule 143 (i) of the Pradeshiya Sabha (Financial and Administrative) Rules Series of 1988, the Rates assessment existing in the Pradeshiya Sabha had exceeded 09 years.
- (d) Although the Rates or Acreage Tax of all lands and buildings situated in the area of authority of the Sabha and belong to the Sabha given on lease should be paid to the Sabha by the lessees in terms of Section 136 of the Pradeshiya Sabha Act No. 15 of 1987, action had not been taken in terms of provisions in the Act with regard to 245 properties belong to the Sabha.

**2.3.4 Lease Rent**

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The Sabha had not been taken Steps in terms of Section 129 (2) (a) (f) of the Pradeshiya Sabha Act No. 15 of 1987 for proper recovery of Lease Rent receivable.

**2.3.5 Court Fines**

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Court Fines amounting to Rs. 4,888,657 were receivable as at the end of the year under review from the North Western Province Chief Secretary. Out of that, a sum of Rs. 1,222,165 had not been recovered as at 31 May 2016.



### **2.3.6 Stamp Fees**

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Value of Stamp Fees to be recovered from the North Western Province Chief Secretary was Rs. 9,430,769. Out of that, a balance of Rs. 6,490,861 had not been recovered as at 10 May 2016.

## **03. Operating Review**

### **3.1 Management Inefficiencies**

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Following matters are observed.

- (a) While Fixed Assets Register of the Sabha had not been maintained including all assets belong to the Sabha, in that particulars of deeds available in the safe only had been included and particulars of lands for which deeds are not available had not been included.
- (b) While key-money amounting to Rs. 383,590 for 05 stall rooms in the Wetakeyava Trade Complex had not been recovered even up to the end of the year under review, these stalls had been given in various occasions since the year 2004. Approximately, a rent of more than Rs.2,000,000 that could be billed by the Sabha , had been lost due to failure in taking action to supply water and electricity facilities for this trading complex.
- (c) While tenders had not been submitted for 07 stalls out of 10 stalls in the Shopping Complex in Kandane Gedera, constructed having spent a sum more than Rs. 13 million, stalls for tenders were received too had not been opened . Accordingly, any income had not been derived from this trade complex since a period more than 04 years.

### **3.2 Identified Losses**

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Following observations are made.

- (a) A surcharge of Rs. 93,283 had been paid out of the Sabha Fund due to non-payment of contributions on the specified date to the Employees Provident Fund. Out of that only a sum of Rs. 7,000 had been recovered from the relevant officers.
- (b) A surcharge of Rs. 8,558 had been paid to the Employees Trust Fund No. 46 of 1980. Out of that a sum of Rs. 1,720 had been recovered by the Sabha.

## **04. Accountability and Good Governance**

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### **4.1 Action plan**

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Although an Action Plan should be prepared incorporating activities aiming at accomplishment of objectives mentioned in the Act, with a long term vision, in terms of Public Finance Circular No. PFD/RED/01/04/214/01 dated 17 February 2014, an action plan different to that had been prepared.

### **4.5 Human Resources Management**

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#### **Approved and Actual Cadre**

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Although 36 officer had been recruited for 06 posts in the preliminary grade in terms of Public Administration Circular No. 25/2014 dated 12 November 2014, action had not been taken to update the cadre.

## **05. Systems and Controls**

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

- (a) Accounting
- (b) Revenue Administration
- (c) Debtors and Creditors Control
- (d) Staff Loans Control.