

# **Polgahawela 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 28 March 2016 while Financial Statements relating to the preceding year had been submitted on 31 March 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 14 July 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 Polgahawela 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.

Although a sum of Rs. 52,399,386 had been paid to the relevant construction firm for the building constructed and finalized during the year 2014, it had been accounted as Rs.53,585,041 in the financial statements. Accordingly, value of buildings had been overstated in a sum of Rs. 1,185,655 in the accounts.

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

Non-reconciliations in a sum of Rs. 8,286,350 were observed between the value of balances shown in the financial statements and the balances in the subsidiary registers relevant to 09 items of accounts.

#### **1.3.4 Accounts Receivable**

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While the value of Accounts Receivable as at 31 December 2015 was Rs. 76,257,948, there was a balance of Dishonored Cheques amounting to Rs. 11,140 being brought forward during a period of more than 03 years.

#### **1.3.4 Accounts Payable**

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Value of Accounts Payable as at 31 December 2015 was Rs. 69,979,154. Out of that, balances amounting to Rs. 9,167,828 or 13 percent were being brought forward over a period of more than 03 years.

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

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- (a) A satisfactory examination could not be made with regard to 05 items of accounts valued at Rs. 11,675,717 due to non-submission of Deposits Registers, Schedules etc., relevant to those items of accounts.
- (b) Although there were 98 lands according to the schedule submitted together with financial statements, only 52 lands had been recorded in the Register of Fixed Assets, while deeds of the other 46 lands were not available in the Sabha.

## **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.28,333,922 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 32,195,720 in the preceding year indicating a decline of Rs. 3,861,798 in the financial results. When Capital Grants amounting to Rs. 17,497,917 and Capital Expenditure amounting to Rs. 37,290,268 are adjusted to this operational result, the financial result relevant to the year under review had become a surplus of Rs. 8,541,571.

## 2.2 Analytical financial Review

Following matters are observed.

- (a) Variations relevant to actual revenue and expenditure between the year under review and the preceding year were as follows.

| 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 | 24,253         | • 15,309         | 8,944         | Personal Emoluments | 84,485        | 61,418        | 23,067        |
| (ii) Others           | <u>124,660</u> | • <u>101,558</u> | <u>23,102</u> | Others              | <u>36,094</u> | <u>23,253</u> | <u>12,841</u> |
| Sub total             | 148,913        | • 116,867        | 32,046        | Sub total           | 120,579       | 84,671        | 35,908        |
| (iii) Capital Grant   | 17,498         | • 58,738         | (41,240)      | Capital Expenditure | 37,290        | 102,535       | (65,245)      |
| Grand Total           | 166,411        | • 175,605        | (9,194)       | Grand Total         | 157,869       | 187,206       | (29,337)      |
| Operational Result    | =====          | • =====          | =====         | Surplus/ Deficit    | =====         | =====         | =====         |
|                       | 28,334         | • 32,,196        | ( 3,862)      |                     | 8,542         | (11,601)      | 20,143        |

- (b) Out of the total Recurrent Revenue of Rs.148,913,256 relevant to the year under review, a sum of Rs. 124,660,507 or approximately 83.7 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. 17,497,917 was consist of funds received for development works in the area of authority through other institutions from sources such as Gama Neguma and Maga Neguma. When it is compared with the preceding year, it amounts to a 70 per cent decrease.
- (c) Out of the total Recurrent Expenditure of Rs. 120,579,333 relevant to the year under review, a sum of Rs. 84,485,263 or approximately 70 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 75,006,692 or approximately 89 per cent had been received from the Commissioner of Local Government as salary reimbursements while that value had been accounted under Other Revenue. When compared with the preceding year, recurrent expenditure had taken high value of 42 per cent.

- (d) Out of the capital expenditure of Rs. 37,290,268, a sum of Rs.2,346,284 or approximately 6.3 per cent only had been spent from Sabha Funds, while the balance amount of Rs. 34,943,984 or 93.7 per cent were development works performed on the basis of provisions of other institutions such as Gama Neguma and Maga Nguma. When compared with the preceding year, investment of provisions for development works had decreased by 63 per cent.

## 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 are 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 | 9,352          | 11,177        | 7,025                                 | 8,352          | 6,183          | 6,198                                 |
| (ii) Lease Rent     | 7,898          | 6,160         | 2,304                                 | 6,619          | 5,446          | 3,205                                 |
| (iii) License Fees  | 3,126          | 487           | --                                    | 2,585          | 657            | --                                    |
| (iv) Other Revenue  | 91,242         | 56,083        | 55,546                                | 93,634         | 104,514        | 50,377                                |
| <b>Total</b>        | <b>111,518</b> | <b>73,907</b> | <b>64,875</b>                         | <b>111,190</b> | <b>116,800</b> | <b>59,780</b>                         |

### 2.3.2 Revenue Billed and Revenue in Arrears

Particulars are shown below.

| Revenue Item        | Balance as at 01.01.2015 | Billings for the year | Total          | Revenue collected out of arrears as at 01.01.2015 | Total          | Revenue collected out of billings | Balance in Arrears |               | Total Arrears |
|---------------------|--------------------------|-----------------------|----------------|---|----------------|-----------------------------------|--------------------|---------------|---------------|
|                     | Rs.000                   |                       |                | Rs.000  |                |                                   | Rs.000             | Rs.000        |               |
| Rates and Taxes(10) | 6,198                    | 9,628                 | 15,826         | 2,152   | 8,801          | 6,649                             | 4,046              | 2,979         | 7,025         |
| Lease Rent (20)     | 3,205                    | 5,638                 | 8,843          | 1,592   | 256            | 4,947                             | 1,613              | 691           | 2,304         |
| License Fees (30)   | --                       | 256                   | 256            | --  | 92,573         | 256                               | --                 | --            | --            |
| Other Revenue(70)   | 31,125                   | 116,994               | 148,119        | 36,409  |                | 62,164                            | 716                | 54,830        | 55,546        |
| <b>Total</b>        | <b>40,528</b>            | <b>132,516</b>        | <b>173,044</b> | <b>34,153</b>                                     | <b>108,169</b> | <b>74,016</b>                     | <b>6,375</b>       | <b>58,500</b> | <b>64,875</b> |

Following matters are observed.

- (a) Although a sum of Rs. 9,628,000 had been billed under Rates and Taxes relevant to the year under review, only a sum of Rs. 6,649,000 or 69 percent only had been recovered. Similarly, there was a sum of Rs. 7,024,887 in arrears at the end of the year under review.
- (b) Court Fines amounting to Rs. 596,334 and Stamp Fees amounting to Rs. 30,528,578 were receivable from the Chief Secretary to the Provincial Council as at the end the year under review.
- (c) In terms of Clauses 4 and 5 of the agreement with regard to lease of assets, it is required to pay the monthly installment for each month before 10<sup>th</sup> day of the ensuing month while an amount of 10 per cent fine should be paid in the event of delay in payment of installments. However, fine amounting to Rs. 28,517 to be recovered for the delays in payment of installment in respect of 03 assets had not been recovered.
- (d) In terms of Clauses 06 (a) of the agreement with regard to long term lease of 54 stalls in Polgahawela Public Market, it is required to pay the monthly rent for each month before 10<sup>th</sup> day of the ensuing month while an amount of 10 per cent fine should be paid in the event of delay in payment of installments. However, a warrant charges amounting to Rs. 21,000 to be recovered for the delays in payment of monthly rent for the year 2015 relevant to stalls No. 01 and 02 had not been recovered.
- (e) While the court case for the recovery of lease rent in arrears for the year 2004 amounting to Rs. 124,424 for the beef stall in Bandawa is not proceeding at present, it was not possible to ascertain the course of action taken for the recovery of that lease amount.
- (f) Although judgment had been given for the recovery of the sum of Rs. 117,104 to be recovered for the year 2007, for the beef stalls No. 45 and 46 in Public Market after fling the court case, recovery had been doubtful as it was not possible at present to identify the parties liable specifically.

- (g) Rent in arrears amounting to Rs. 41,250 for the properties given on lease during the year 1991 to Polgahawela Bank of Ceylon had not been settled even up to the year 2015.
- (h) While it is not possible to identify the parties specifically for the recovery Rs. 7,192 recorded as rent in arrears for the Electricity Duty Room, there was a doubt with regard to recovery of that arrears.

### **03. Operating Review**

#### **3.1 Management Inefficiencies**

Following observations are made.

- (a) Although the stalls No. 01 and 02 in the Polgahawela Public Market had been provided to the CWE Establishment for a monthly rent of Rs. 30,000 in terms of agreement dated 10 February 2011, Stall No. 47 too had been used by the CWE Establishment for a monthly charge of Rs. 850 in terms of pre agreed clause, but charges had not been recovered monthly.
- (b) Although a monthly assessed value of Rs. 850 had been made for the stall No. 47 according to Assessment Report No. Kuru/Kupu/1759 dated 27 September 2010, billing had been made for the stall No. 47 by the Sabha with effect from February 2011, but recoveries had not been made. Due to that revenue amounting to Rs. 50,150 had been lost to the Sabha.
- (c) Value of Deposit balances remaining unsettled since a period more than two years had been Rs. 1,029,509.
- (d) Employees Provident Fund payments valued at Rs. 440,517 received to the Sabha had been kept in deposit, without action being taken to settle those to relevant three beneficiaries.
- (e) In computation of 1 percent tax to be recovered to the Sabha with regard to sale of lands after making allotments, it had not been computed based on the correct selling price. Due to that, a sum of Rs. 323,398 relevant to 594 perches of Weerambagedera, Hanwella, Wagurupitiya Land, valued at Rs. 52,000 to 137,500 per perch and a sum of Rs. 93,239 relevant to 171.4 perches of Dambaghamulla

Watta, Piduruwella Land sold for a sum of Rs. 85,000 onward per perch, only had been recovered.

### **3.2 Improper Transactions**

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Although approval No. NWP/GOV/AD/2/24/5 dated 11 June 2012 of the Governor had been given for a fuel allowance subject to a maximum limit of Rs. 3,000 per month for travel by motor cycle to the representatives of Local Government Institutions who provide leadership for implementation of Regional Development Works in North Western Province, a sum of Rs. 111,000 had been paid from July 2012 to July 2015 to the Chairman to whom an official vehicle and fuel required for that is supplied by the Sabha.

### **3.3 Identified Losses**

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A surcharge of Rs. 20,119 had been paid on 02 March 2015 to the Employees Trust Fund for non-payment of money on the specified date.

## **04 Accountability and Good Governance**

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### **4.1 Assets Management**

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#### **Idle and Underutilized Assets**

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Tipper Vehicle No. 68-3676 valued at Rs. 1,255,000 and Bolero Jeep No. LF-4884 valued at Rs. 1,319,050 included in the Motor Vehicles and Carts Account of the year under review had been kept idle since the years 2013 and 2014 respectively.

## **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) Assets Management