

Devinuwara Pradeshiya Sabha

Matara District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements for the year under review had been presented to audit on 26 July 2011 and the financial statements for the preceding year had been presented for the audit on 23 November 2010.

1:2 Opinion

In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Devinuwara Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comment on Financial Statements

1:3:1 Accounting Deficiencies

The following deficiencies were observed.

- (a) The credit balance of the Suspense Account amounting to Rs.821,986 brought forward over several years had been shown in the financial statements without taking action to settle and identify even during the year under review.
- (b) According to the Value Added Tax for the year under review the tax that can be set off amounted to Rs.78,362. The adjustment had not been made in the accounts and a sum of Rs.752,711 had been shown under the refundable deposits without identification as the Value Added Tax Deposits.
- (c) The sum of Rs.24,684 receivable for the year under review for the maintenance of street lights had not been shown in the accounts as receivables.

- (d) The sum of Rs.503,089 spent out of the Sabha Fund up to 31 December of the year under review on the property loans obtained by 09 officers of the Sabha had not been shown in the accounts as a receivable.
- (e) Eight account balances totalling Rs.160,405 had been shown in the financial statements without being identified.
- (f) Even though the stamp fees revenue for the year under review amounted to Rs.8,718,491 according to Journal Entry No. 47 it had been brought to account as Rs.6,899,274. As such revenue had been understated by a sum of Rs.1,819,217.
- (g) The contribution payable to the Local Government Service Pension Fund as at the end of the year under review amounting to Rs.2,255,260 had been omitted in the accounts.
- (h) Expenditure amounting to Rs.2,083,458 incurred on 06 lands and buildings in the year under review had not been capitalized.
- (i) According to the agreement for the collection of tax at the car park, the lessee should pay a sum of Rs.45,000 annually. But according to the Schedule of Revenue and Expenditure, the revenue received amounted to Rs.15,000. The arrears of revenue amounting to Rs.30,000 had not been brought to account.

1:3:2 Unreconciled Control Accounts

The balances of 04 items of account according to the Control Accounts totalled Rs.8,031,009 whereas according to the subsidiary registers the valances of accounts totalled Rs.6,663,387 and the difference was Rs.1,367,622.

1:3:3 Lack of Evidence for Audit

The balances of 08 items of account amounting to Rs.60,027,662 could not be satisfactorily vouched in audit due to the unavailability of documents in support of ownership, documents in support of existence and use by the Sabha, Schedule, properly maintained Registers of Fixed Assets, Age Analysis, Confirmation of Balances, Certificates of Confirmation of Balances by Bank, etc.

1:3:4 Non-compliances

Instances of non-compliance with laws, rules, regulations, etc. observed during the course of audit are given below.

Reference to Laws, Rules and Regulations ,etc.	Non-compliance
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(a) Pradeshiya Sabha (Financial and Administrative) Rules 1988 -----	
(i) Rule 17	A register in Form PS 21 containing details of counterfoil books had not been maintained.
(ii) Rule 101	Payment had been made on vouchers where the Sabha Resolution granting approval for payment had not been quoted.
(iii) Rule 145	A detailed statement showing the amounts under each category of deposits had not been prepared at the end of each year.
(iv) Rule 153	Even though the Statements of Arrears of Revenue should be prepared in Form PS 7 the Statements of Arrears of Revenue had not been prepared accordingly.
(v) Rule 164	The accounting documents of the Sabha had not been checked daily by the Secretary or an officer authorized by him and authenticated by initialling the documents.
(vi) Rule 193	A Statement of Excesses and Shortages prepared by reconciliation of the actual balances with the budgeted and the Supplementary Votes had not been presented to the Auditor General.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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| (i) | Financial Regulation 237 | The vouchers did not contain notes that the goods purchased during the year under review had been recorded in the Stock Book/ Inventory Register. |
| (ii) | Financial Regulation 395 | The Bank Reconciliation Statements of Bank Accounts No. 7189778 and No. 1246 maintained for staff loans for the year under review had not been prepared. |
| (iii) | Financial Regulation 396(d) | The Bank Reconciliation Statements of 02 Current Accounts from November 2010 had not been prepared and presented to audit. Action in terms of Financial Regulation had not been taken on 08 cheques of the General Account valued at Rs.41,663. |
| (iv) | Financial Regulation 507 | The stock in hand had not been physically verified on the last day of the year for inclusion of the value in the annual accounts. A statement o the existence of the fixed assets had not been furnished to the Auditor General. |
| (v) | Financial Regulation 880 | The officers in charge of the stores had not deposited security. The security deposits paid by 07 officers in installments amounting to Rs.3,850 had not been invested even up to the date of audit inspection on 12 August 2011. |

2. Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2010 amounted Rs.5,636,260 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.12,869,122.

2:2 Revenue Administration

2:2:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Even though a request was made to the Chairman by my letter dated 03 March 2011 to furnish the information relating to the estimated revenue, the actual revenue and the arrears of revenue in respect of the year under review and the preceding year in a specified format, the information furnished was observed in audit as incorrect. Nevertheless, the position as at 31 December 2010 according to the Statement of Arrears of Revenue presented with the financial statements as compared with the preceding year is given below.

Item of Revenue -----	Arrears of Revenue		Increases as a Percentage
	<u>2010</u> Rs.'000	<u>2009</u> Rs.'000	<u>%</u>
Rates	1,572	1,293	21.57
Acreage Tax	57	52	9.61
Licence Fees	103	102	0.98
Lease Rents	3,283	2,312	41.99

2:2:2 Arrears of Taxes and Charges

Action in terms of the provisions in Section 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 had not been taken for the recovery of the arrears of taxes and charges relating to the year under review and the preceding year amounting to Rs.1,629,000.

2:2:3 Courts Fines

Courts fines recovered under various Ordinances by a Magistrate's Court amounting to Rs.60,657 up to 31 December 2010 and remitted to the Chief Secretary remained recoverable by the Sabha.

2:2:4 Stamp Fees

Stamp fees amounting to Rs.220,740 and Rs.4,352,718 totalling Rs.4,573,458 remained receivable as at 31 December 2010 from the Treasury and the Provincial Council respectively.

2:3 Expenditure Structure

The budgeted and the actual expenditure of the Sabha for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	2010			2009		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	20,200	16,953	3,247	16,171	15,965	206
Others	9,580	9,798	(218)	6,264	8,583	(2,319)
Sub-total	29,780	26,751	3,029	22,435	24,548	(2,113)
Capital Expenditure	42,270	37,863	4,407	10,450	16,768	(6,318)
Grand Total	72,050	64,614	7,436	32,885	41,316	(8,431)

2:4 Human Resources Management

2:4:1 Approved and Actual Cadre

- (a) Information on the approved and the actual cadre of the Sabha as at 31 December 2010 is given below.

	<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
(i)	Staff	01	-
(ii)	Secondary Grades	18	19
(iii)	Primary Grades	23	19
(iv)	Others (Casual, Temporary)	--	24

- (b) According to the Revenue and Expenditure Account for the year under review salaries for the year under review amounted to Rs.16,952,540

whereas a sum of Rs.10,836,000 out of that only had been reimbursed by the Commissioner of Local Government. Thus it had resulted in an additional expenditure of Rs.6,116,540 to the Sabha Fund.

- (c) According to the Management Services Circulars No. 14 dated 03 January 2002 and No. 28 dated 10 April 2006 of the Secretary to the Treasury, the recruitment of employees by Local Authorities under the casual, temporary, substitute and contract basis had been suspended. Contrary to such stipulation 24 employees had been recruited and a sum of Rs.2,775,266 had been paid out of the Sabha Fund as their salaries and allowances for the year 2010. If recruitment had been made surpassing the instructions of these circulars, it had been emphasized that the Head of the institution is personally responsible in that connection.

2:5 Assets Management

2:5:1 Idle Physical Resources

It was observed that 04 items of assets of the Sabha valued at Rs.110,000 had been lying idle in the Sabha premises without being used.

2:5:2 Accounts Receivable

The value of the balances of Account Receivable older than 01 year as at 31 December 2010 amounted to Rs.1,294,911.

2:5:3 Staff Loans Recoverable

The balances of staff loans and advances older than 01 year that remained recoverable as at 31 December 2010 totalled Rs.3,230,507.

2:6 Operating Inefficiencies

Maintenance of Street Lights

The following information was revealed at an audit inspection of the street lights in the area of authority of the Sabha.

- (a) Even though the purchase of electrical accessories for the maintenance of the street lights should be made on the applications for requirements made by the Maintenance Electrician as approved by the Technical Officer such methodology had not been followed.
- (b) A system of numbers or codes had not been assigned to each street light maintained in the area of authority of the Sabha and a register had not been maintained to record the installation of bulbs and accessories installed at each street light.
- (c) Even though a sum of Rs.888,822 had been spent on the maintenance of street lights in the area of authority of the Sabha, a sum of Rs.53,252 only had been reimbursed by the Ceylon Electricity Board. As such a sum of Rs.835,570 had become a charge to the Sabha Fund.

2:7 Internal Audit

An adequate internal audit of the Sabha had not been carried out.

03. Systems and Controls

Special attention is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management

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