

Ja – Ela Pradeshiya Sabha
Gampaha District

01. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 29 March 2011 and the financial statements for the preceding year had been presented for audit on 30 March 2010.

1:2 Opinion

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

1:3 Comments on Financial Statements

1:3:1 Accounting Policies

The accounting policies adopted in the preparation of the financial statements for the year under review had not been disclosed in the financial statements.

1:3:2 Accounting Deficiencies

- (a) The monetary unit had not been shown in the financial statements.
- (b) The value of the “Micro” model double cab motor vehicle purchased during the year under review had been understated by a sum of Rs.100,000.
- (c) Five finger printing machines valued at the 325,000 purchased during the year under review had been brought to account as Rs.390,000 and the expenditure on the installation of the machines and wiring amounting to Rs.15,000 had not been brought to account.
- (d) A sum of Rs.1,898,492 spent in the year 2011 for the construction of the Pre-school Building on the land of Walpola Vidya Niwasa Pirivena

Temple which is not a property of the Sabha had been capitalized in the year under review.

- (e) The estimated cost of 04 construction works not completed in the year under review amounting to Rs.1,282,090 had been capitalized.
- (f) The value of books amounting to Rs.10,000 and furniture valued at Rs.100,000 purchased for Niwandama Ketawala Library had been brought to account under lands and buildings.
- (g) Even though estimates amounting to Rs.1,549,582 had been made in the year under review for the construction of buildings and the purchase of library books, furniture and equipment a sum of Rs.1,549,582 had been paid for that purpose in the year 2011, without making provision for creditors in the year under review.
- (h) Provision for audit fees in respect of the year under review had not been made in the accounts.
- (i) A difference of Rs.8,775 was observed between the value of the fixed assets and the Revenue Contribution to Capital Outlay Account.
- (j) The cash balance appearing in the financial statements amounted to Rs.55,087,793 whereas the balance according to the main cash book amounted to Rs.55,456,690. Thus a difference of Rs.368,897 was observed.
- (k) Temporary pensions amounting to Rs.12,649 recovered in January 2010 had not been eliminated from that account.
- (l) The revenue debtors as at 31 December 2010 amounted to Rs.62,610,137 whereas according to the Statement of Arrears of Revenue, the balance amounted to Rs.53,952,916. Thus a difference of Rs.8,657,221 was observed.

1:3:3 Unreconciled Control Accounts

The balances of 16 items of account according to the Control Accounts totalled Rs.231,403,101 whereas according to the subsidiary registers/ records the balances totalled Rs.157,765,524.

1:3:4 Suspense Accounts

Action had not been taken even during the year under review to settle the credit balance of Rs.236,425 brought forward in the Suspense Accounts over a number of years..

1:3:5 Accounts Payable

The refundable deposits older than 01 year and the expenditure creditors as at 31 December 2010 amounted to Rs.33,604,224 and Rs.42,463,428 respectively. As an age analysis of expenditure creditors had not been furnished the balances older than 01 year could not be ascertained.

1:3:6 Lack of Evidence for Audit

(a) Unanswered Audit Queries

A reply to one audit query had not been furnished by 31 December 2010.

(b) Information not furnished to Audit

Transactions totalling Rs.6,281,754 could not be satisfactorily vouched in audit as the required information was not furnished to audit.

1:3:7 Non-compliance with Laws, Rules and Regulations

Non-compliance with the provisions of the following laws, rules and regulations were observed during the course of audit.

Reference to Laws, Rules and Regulations

Non-compliance

(a) Pradeshiya Sabha Act, No. 15 of 1987

(i) Section 24(1)

According to the Section under reference, a Register of Names of Roads and Paths belonging to the Sabha along with plans thereof should be prepared. But the Registers of Roads maintained by the Sabha had not been updated over a number of years.

(b) Financial Regulation of the
Republic of Sri Lanka

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| (i) Financial Regulations
103(1)(f) and 760 | Action in terms of the Regulations under reference had not been taken on the stock shortages revealed at the stock verification carried out as at 31 December 2010. |
| (ii) Financial Regulation
104(1) | Inquires had not been commenced on the accident on 15 February 2010 and damage caused on 12 January 2011 to the double cab motor vehicle No. PB 8666. |
| (iii) Financial Regulation 110 | A Register of Losses and Damage had not been maintained. |
| (iv) Financial Regulation
425(1) | The audit queries received during the period from 12 June 2006 to 04 October 2010 had not been recorded in the Register of Audit Queries. |

2. Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of recurrent expenditure over the revenue of the Sabha for the year ended 31 December 2010 amounted to Rs.51,258,757 as compared with the corresponding excess of recurrent expenditure over the revenue amounting to Rs.9,317,559 for the preceding year.

2:2 Bank Reconciliations

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- (i) Action in terms of Financial Regulation 396(d) of the Republic of Sri Lanka had not been taken on 03 cheques older than 06 months totalling Rs.100,947 appearing in the Bank Reconciliation Statement for December 2010 of the Bank Account No. 175-1-001-74237296 maintained at the Kandana Branch of the People's Bank.

- (ii) Two entries of Rs.1,150 each, being unrealized deposits brought forward from the preceding year had been shown in the Bank Reconciliation Statement and no follow-up action had been taken thereon. In addition, the dates of deposits and their numbers had not been shown to identify whether those related to Money Orders or cheques.
- (iii) Action had not been taken to examine and account for 17 instances of direct debits totalling Rs.23,132 and under-debits amounting to Rs.253 and other credits amounting to Rs.10 relating to the year under review and 03 preceding years.
- (iv) The balance of unrealized deposits of Batuwatta, Dandugama and Ragama Sub-Offices appearing in Form P.S.5 did not reconcile with the balances appearing in the Bank Statements of the Collection Accounts.
- (v) Differences were observed at a reconciliation of cash in hand of the Batuwatta and Ragama Sub –Offices according to a Bank Reconciliation Statement with the From P.S.5.
- (vi) According to the balance sheet (Note 6) the value of dishonoured cheques amounted to Rs.219,620 and the value according to the Schedule amounted to Rs.232,073 thus revealing a difference of Rs.12,453. The balance of Rs.232,073 included balances not relating to dishonoured cheques and those could not be identified separately as the cheque numbers and the dates had not been indicated. In addition, action in terms of Financial Regulation 189 of the Republic of Sri Lanka had not been taken on the dishonoured cheques while the balances of most of the cheques had been brought forward from the year 1988.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Chairman is given below.

Item of Revenue	2010			2009		
	Estimated	Actual	Cumulative Arrears as at 31 December	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
i. Rate and Taxes	73,891	31,713	41,709	70,909	29,581	41,328
ii. Lease Rents	13,285	3,018	10,598	13,791	2,513	11,278
iii. Licence Fees	2,148	1,362	543	2,299	1,859	440
iv. Other Revenue	7,811	5,066	2,737	9,184	6,350	2,834

Reconciliation with the financial statements for the years 2009 and 2010 revealed that the above information is not correct.

2:3:2 Arrears of Revenue

According to the following information relating to the year under review and the 03 years immediately preceding, an increasing trend in the arrears of revenue is observed. The Sabha had not taken action for the recovery of the arrears of revenue in terms of the provisions in the Pradeshiya Sabha Act, No. 15 of 1987.

As at 31 December	Rates and Taxes	Others	Total
	Rs.	Rs.	Rs.
2007	49,468,068	15,813,626	65,281,694
2008	44,589,002	17,967,732	62,556,734
2009	43,525,842	22,839,092	66,364,934
2010	41,647,007	24,823,233	66,470,240

2:3:3 Arrears of Electricity Charges

Action had not been taken for the recovery of the arrears of electricity charges amounting to Rs.2,193,448 and penalty amounting to Rs.27,282 brought forward under revenue debtors over a number of years. The parties from whom the balance of arrears should be recovered and how the balances were created were not made available to audit.

2:4 Expenditure Structure

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

Item of Expenditure	2010			2009		
	<u>Budgeted</u> Rs.'000	<u>Actual</u> Rs.'000	<u>Variance</u> Rs.'000	<u>Budgeted</u> Rs.'000	<u>Actual</u> Rs.'000	<u>Variance</u> Rs.'000
<u>Recurrent Expenditure</u>						
Personal						
Emoluments	51,501	41,416	10,085	40,393	39,913	480
Others	91,365	243,853	(152,488)	72,377	136,932	(64,555)
Sub-total	142,866	285,269	(142,403)	112,770	176,845	(64,075)
Capital Expenditure	9,340	3,019	6,321	71,620	56,741	14,879
Grand Total	152,206	288,288	(136,082)	184,390	233,586	(49,196)

2:5 Human Resources Management

2:5:1 Approved and Actual Cadre

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

Category of Posts	Approved	Actual
Staff	03	03
Secondary	41	31
Primary	137	97
Other (Substitute)	--	13

2:6 Assets Management

2:6:1 Idle Physical Resources

Audit test checks of the idle and underutilized physical resources revealed that 15 items of motor vehicles and machinery had been idle for 01 to 02 years.

2:6:2 Accounts Receivable

The value of the balances of Accounts Receivable as at 31 December 2010 amounted to Rs.9,266,308 and the value of the balances older than 01 year could not be correctly computed as the age analysis and the schedules relating to prepayments and receipts in advance of the Sabha were not made available.

2:6:3 Staff Loans Recoverable

The staff loans and advances recoverable as at 31 December 2010 totalled Rs.12,908,397 and the balances of account older than 01 year totalled Rs.222,470.

2:7 Irregular Transactions

According to the Circular No. 04/2000 dated 02 June 2000 of the Commissioner of Local Government, telephone charges of Rs.2,500 per month can be reimbursed to a Vice Chairman. Nevertheless, telephone charges at Rs.5,000 per month had been paid on 02 December 2010 for October and November 2010 on an approval bill submitted in the name of Secretary. Ja-Ela Pradeshiya Sabha / “Vice Chairman” by an institution supplying hiring motor vehicles.

2:8 Contentious Transactions

A Private Property Sales Company had submitted Plan No. 1709 in the year 2007 seeking approval for blocking out and auction of the land called Thimbirigahawatta and Weralabada Kumbura, 03 acres 01 rood and 34 perches in extent situated in Ragam Pattu Batagama North. The following observations are made in this connection.

- (i) The Sabha had informed the relevant company on 13 May 2011 to submit the approval of the Commissioner of Agrarian Services for reclaiming the paddy field and to transfer an extent of 47.29 perches by a deed to the Sabha for common facilities, for granting approval for the plan.

- (ii) According to the report for the Technical Officer who carried out a site inspection in this connection, he had stated that the paddy field had been reclaimed without approval and recommended to the Chairman on 27 March 2007 that approval cannot be granted as the land is unfit for occupation. The Chairman had approved the plan on 29 March 2007 despite the above conditions remaining without being fulfilled. The Secretary had also made a similar recommendation.
- (iii) A block of land for the common facilities had not been allocated even in the approved plan. The Company had, by letter dated 12 March 2008, informed that block Nos., 35 and 36 would be allocated to the Sabha for that purpose.
- (iv) A physical inspection carried out on 11 May 2011 revealed that the 02 blocks were a marshy land not reclaimed and even without an access road. It was observed that it had not been legally transferred to the Sabha even up to the date of audit.

2:9 Operating Inefficiencies

The following observations are made.

- (a) Standing Orders had not been made for the transfer of money in the Collection Accounts of the Dandugama, Ragama and Batuwatta to the main Bank Account. According to the Form P.S.5 Reports (Summary Cash Books) it was observed in audit that surplus cash that could be invested at least on short term basis, was available in the Collection Accounts.
- (b) Action had not been taken to assess the value of 08 blocks of land 08 roods 36.51 perches in extent transferred to the Sabha for common facilities from the year 2005 to 2008 and account for under lands and buildings.

03. Systems and Controls

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

- (a) Accounting
- (b) Internal Audit
- (c) Revenue Administration
- (d) Assets Management
- (e) Stores Control