

Kotapola Pradeshiya Sabha

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Matara District  
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01. 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 presented to audit on 21 October 2011 and the financial statements for the preceding year had been presented for the audit on 14 December 2010.

1:2 Opinion  
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In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Kotapola Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements  
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1:3:1 Accounting Deficiencies  
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- (a) The value of tractor trailer purchased on 05 November of the year under review amounting to Rs.345,000 had not been capitalized.
- (b) Courts fines receivable for September and October of the year under review had not been computed and brought to account.
- (c) According to the confirmation of the balance as at the end of the year under review of the loan of Rs.5,000,000 obtained from the Local Loans and Development Fund on 24 December of the preceding year, amounted to Rs.4,384,219 and that loan had not been brought to account.
- (d) Annual Summaries of Revenue (PS 19) had not been prepared.

- (e) The contribution to the Local Government Service Pension Fund payable as at the end of the year under review amounting to Rs.3,783,084 had not been brought to account.

1:3:2 Unreconciled Control Accounts  
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The balances of 06 items of accounts according to the financial statements totalled Rs.36,592,465 whereas according to the subsidiary registers those balances totalled Rs.23,387,327 and the difference amounted to Rs.13,205,138.

1:3:3 Suspense Accounts  
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The credit balance of the Suspense Account amounting to Rs.1,154,043 as at the end of the year under review appearing in the financial statements had not been settled.

1:3:4 Accounts Payable  
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The balances of Accounts Payable older than one year as at 31 December 2010 amounted to Rs.4,883,747.

1:3:5 Lack of Evidence for Audit  
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Transactions amounting to Rs.40,331,317 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

1:3:6 Non-compliances  
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Non-compliances with the provisions of the following laws, rules and regulations and the Management Decisions were observed during the course of audit.

Reference to Laws, Rules and  
Regulations and Management  
Decisions

Non-compliances

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

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Financial Regulations 1645 and  
1646

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Even though the Daily Running Charts  
of motor vehicles should be properly  
completed and furnished along with the  
Monthly Performance Summaries to  
the Auditor General before the 15<sup>th</sup> day  
of the month following, it had not been  
so done in respect of 07 motor vehicles  
of the Sabha.

(b) Circular No. 1A1/2002/02 dated  
28 November 2002 of the  
Secretary to the Treasury.

A Register of Fixed Assets for  
Computer Accessories and Software  
had not been maintained.

(c) Circular No. 2005/8 dated 31  
March 2005 of the Secretary to  
the Ministry of Public  
Administration.

According to paragraph 11.5 of the  
Circular, the difference between the  
interest recovered on property loans  
and the interest at 4 per cent recovered  
from the officer should be borne by the  
Government. But a sum of Rs.149,089  
receivable by the Sabha for the 04  
preceding years had not been  
recovered.

## 2. Financial and Operating Review

### 2:1 Financial Result

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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 to Rs.5,111,988 as against the excess of recurrent expenditure over  
revenue amounting to Rs.14,095,883 for the preceding year.

2:2 Revenue Administration  
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2:2:1 Estimated Revenue, Actual Revenue and Arrears of Revenue  
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Even though a request was made to the Chairman by my letter dated 14 March 2011 to furnish information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year in a specified format, such information had not been furnished. Nevertheless the position of arrears of revenue as at 31 December 2010 according to the statement arrears of revenue presented with the financial statements summarized and compared with the preceding year is given below.

Particulars -----	Arrears of Revenue -----		Increases of Percentage -----
	<u>2010</u> Rs.'000	<u>2009</u> Rs.'000	%
Rates and Taxes	432	301	43.5
Lease Rents	356	340	4.71
Others	28,140	20,373	38.12

2:2:2 Arrears of Taxes and Charges  
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Action had not been taken in terms of Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 for the recovery of the taxes and charges amounting to Rs.432,085 relating to the year under review and the preceding years.

2:2:3 Trade Stall Rents  
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(a) The Sabha had 21 trade stalls in its bus stand at Deniyaya and the following matters were observed at the physical examination of the lease of those trade stalls carried out as 03 November 2011.

- (i) Contrary to clause No. 10 of the lease agreement, 04 lessees of trade stalls had sub-leased the trade stalls at a rate higher than the monthly lease rent charged by the Sabha.
- (ii) Contrary to clause No. 12 of the lease agreement unauthorized constructions had been done on 05 trade stalls.
- (iii) Action on the leased out trade stalls had not been taken in terms of the Circular No. SLG/CLG/2010/01 dated 27 December 2010.

- (b) Action in terms of clause No. 4 of the lease agreement had not been taken on the lease rent of Rs.48,705 recoverable as at 31 December 2010 from 06 trade stalls at the bus stand.

2:2:4 Entertainment Tax  
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Action had not been taken up to 31 December 2010 for the recovery of entertainment tax amounting to Rs.419,132 due from a cinema in respect of the years 1995 to 2000.

2:2:5 Courts Fines  
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Fines amounting to Rs.671,365 recovered by a Magistrate's Court under various Ordinances up to 31 December 2010 remained receivable by the Sabha from the Chief Secretary.

2:2:6 Stamp Fees  
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Stamp fees amounting to Rs.1,268,588 remained receivable as at 31 December 2010 from the Registrar General.

2:3 Expenditure Structure  
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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
Recurrent Expenditure						
Personal Emoluments	12,258	13,117	(859)	12,777	11,514	1,263
Others	8,186	7,792	394	8,353	5,801	2,552
Sub-total	20,444	20,909	(465)	21,130	17,315	3,815
Capital Expenditure	10,637	11,491	(854)	25,330	14,771	10,559
Grand Total	31,081	32,400	(1,319)	46,460	32,086	14,374

2:4 Human Resources Management  
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2:4:1 Approved and Actual Cadre  
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Information on the approved and the actual cadre of the Sabha as at 31 December 2010 is given below.

	Grades of Employees -----	Approved -----	Actual -----
(i)	Staff Grades	01	01
(ii)	Secondary Grades	13	08
(iii)	Primary Grades	35	21
(iv)	Others (Casual, Substitute, Temporary)	--	13
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		49	43
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- (a) Even though the staff salary cost of the year under review amounted to Rs.13,116,868, the Commissioner of Local Government had reimbursed only a sum of Rs.8,337,500. As such the difference of Rs.4,779,368 had become an additional expenditure of the Sabha Fund.
- (b) According to the Management Services Circulars No. 14 of 03 January 2002 and No. 28 of 10 April 2006 of the Secretary to the Treasury all recruitments of the Local Authorities on casual, temporary, substitute and contract bases had been suspended. contrary to such stipulation 13 employees had been recruited on contract basis and a sum of Rs.213,899 had been paid from the Sabha Fund as their salaries. It had been emphasized that if recruitment is made surpassing the instructions of the circulars, the Head of the institution is personally responsible in that connection.

2:5 Assets Management

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Staff Loans Recoverable  
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The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.2,165,117 and the outstanding balances older than 01 year totalled Rs.46,662.

2:6 Backhoe Loader

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A Backhoe Loader (No. SPZA-0063) had been purchased for Rs.8,000,000 in the year 2009.

The matters observed in this connection are as follows.

- (i) As pointed out in the audit query issued on 12 January 2011 in connection with the purchase of the machine, the officers of the Sabha responsible in this connection had not taken action to obtain the Backhoe Arm including the multi-bucket and the dip even by 08 November 2011.
- (ii) According to the letter dated 24 December 2010 of the Secretary of the Sabha it was revealed that the parts dismantled and removed by the supplier had not been received by the Sabha. According to the letter dated 19 August 2011 of the Chairman addresses to the supplier, he had informed that the welded parts of the Backhoe Arm had cracked and fallen off and that the machine could not be used . Thus it was observed that the machine was not in working order.
- (iii) The machine had run 1,380 machine hours during the period of 16 months from 01 July 2010 to 30 September 2011 and the operating loss amounted to Rs.437,597.
- (iv) The specified accessories had not been supplied in accordance with the clauses in the agreement entered into with the supplier. No legal action had been taken against the supplier for the delays in the supply of spare parts and carrying out repairs to the machine as well as the non-receipt of the expected benefits from the machine.

2:7 Unauthorised Constructions  
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The physical inspection of unauthorized constructions carried out on 08 November 2011 revealed that no other legal action had been taken apart from the issue of notices on the reported unauthorized constructions.

A sum of Rs.496,800 recoverable on the grant of covering approval in terms of paragraph 6(ii) of the Notification of the Urban Development Authority published in the Gazette No. 1597/8 of 17 April 2009 for a building with a floor area of 284.4 square metres situation at No. 35 Rakwana Road, Deniyaya, had not been recovered.

2:8 Operating Inefficiencies  
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(a) Action had not been taken even up to date to acquire the lands on which the Community halls at Kudaludeniya, Yahalwalakade and Pinnadeniya, repaired at a cost of Rs.547,382 are situated, despite the matter being pointed out in the preceding year.

(b) Action had not been taken in the year under review for obtaining a refund of a sum of Rs.20,300 from the Ceylon Electricity Board.

2:9 Internal Audit  
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An adequate internal audit of the Sabha had not been carried out.

03. Systems and Controls  
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Special attention of the Sabha is drawn to the following areas of systems and controls.

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

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