

**Mahara Pradeshiya Sabha**

**Gampaha District**

1. Financial Statements

1:1 Presentation of Financial Statements to Audit

The financial statements for the year under review had been presented for audit on 30 March 2011 and the financial statements for the preceding year had been presented on 31 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 statements of the Mahara Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements

1:3:1 Accounting Policies

(a) Even though the accounting policies for accounting for receipts of stamp fees and Courts fines on cash basis had been stated, the stamp fees and Courts fines amounting to Rs.34,326,698 received in the year had been credited to the Accumulated Fund Account instead of being brought to account as revenue for the year 2010.

(b) According to the accounting policy of the Sabha, expenditure payable but not paid is brought to account as accrued expenses. Nevertheless, provision for creditors had not been made for the expenditure payable as at 01 January 2010 amounting to Rs.57,164,844.

1:3:2 Accounting Deficiencies

(a) The provision of Rs.2,214,552 made for constructions had been brought to account instead of accounting for the actual expenditure on lands and construction of buildings amounting to Rs..2,032,487, thus resulting in an overstatement of Rs.182,065.

(b) The stock in hand amounting to Rs.814,049 brought forward from the year 2008 without any change had been brought to account as the closing stock for the year under review as well instead of conducting a Board of Survey

of the general, stationery, electrical and ayurveda stocks and accounting for such value as the closing stock.

- (c) The value of 06 lands relating to the year 2003 amounting to Rs.3,536,074 of the Mahara Sub-Office had been included in the Schedule of Lands and Buildings in the year 2008. As such the value of lands and buildings shown in the schedule had been overstated by that amount.
- (d) The value of Land, 04 acres, 37.4 perches in extent belonging to the Sabha had not been assessed and brought to account.
- (e) The value of two tractors No. RB 227 and 270-0618 and the tractor trailer No. 67-2095 had not been assessed and brought to account.
- (f) Nine blocks of land 04 acres 01 rood and 8.26 perches in extent taken over by the Sabha in the year 2003 and the Suriyapaluwa Estate Mathewwatta, the extent of which was not stated appearing in the Schedule of Lands and Buildings had not been assessed and capitalized.
- (g) The security deposits of 34 officers totalling Rs.116,362 as at 31 December 2010 had not been brought to account.
- (h) The credit balance of the Interest Account as at 31 December 2010 amounting to Rs.40,549 had been shown as a deduction from the Other Outstanding Revenue Account.
- (i) The interest on property loans receivable in respect of November and December 2010 amounting to Rs.46,266 had not been included in the Reimbursable Account.
- (j) Payments amounting to Rs.57,494,543 made to the creditors relating to the preceding years had been debited to the Accumulated Fund Account.
- (k) Even though a sum of Rs.57,494,543 had been debited to the Accumulated Fund Account, the payments made amounting to the cash book amounted to Rs.57,271,543. Thus a difference of Rs.223,000 was observed.
- (l) According to the Stores Ledger, the balance stocks of electrical goods and the other equipment as at 31 December 2010 amounting to Rs.1,672,077 and Rs.3,011,050 respectively had not been brought to account. In addition, stocks of stores received and issued during the year valued at Rs.22,174,717 and Rs.18,624,831 respectively had not been brought to account.

- (m) The members' allowance amounting to Rs.121,500 receivable in respect of December 2010 had not been brought to account.
- (n) The revenue in respect of the year 2009 amounting to Rs.25,234,235 received in the year 2010 had been credited to the Accumulated Fund Account instead of being credited to the Outstanding Revenue Account.
- (o) The value of 06 dining tables purchased in the year under review amounting to Rs.5,910 had not been capitalized.
- (p) The cost of construction of a section of the boundary wall of the Maternity Clinic at the Eldeniya Library Road in the year under review amounting to Rs.56,986 had not been capitalized.

1:3:3 Unreconciled Control Accounts

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- (a) The balances of 02 items of account according to the Control Accounts totalled Rs.164,407,187 whereas according to the relevant subsidiary registers, the balances totalled Rs.146,905,393, thus indicating a difference of Rs.17,501,794.
  - (b) According to the Schedule of Staff Loans, the balances of loans and advances relating to 15 officers totalled Rs.1,730,631 whereas according to the Register of Staff Loans, the balances of those loans and advances totalled Rs.1,820,105. As such a difference of Rs.89,474 was observed.

1:3:4 Unexplained Differences

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A difference of Rs.1,780,234 existed between the Monthly Statement of Arrears of Advance and the balance sheet as at 31 December 2010.

1:3:5 Suspense Accounts

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The debit balances of the Suspense Account as at 31 December 2010 totalled Rs.45,570.

1:3:6 Accounts Payable

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The creditors balance as at 31 December 2010 amounted to Rs.66,796,205 and the balances older than 01 year totalled Rs.18,111,959. An age analysis of the refundable deposits amounting to Rs.30,057,867 had not been furnished.

1:3:7 Lack of Evidence for Audit

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(a) Unanswered Audit Queries

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Replies had not been furnished for two audit queries.

(b) Non-submission of Information to Audit

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(i) Transactions totalling Rs.97,450,436 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

(ii) Even though a sum of Rs.206,570 had been paid on 24 December 2010 as the daily salaries of 77 labourers the particulars of approval for recruitment of casual and temporary labourers and the number of labourers recruited had not been furnished for audit.

1:3:8 Maintenance of Registers

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The following registers required to be maintained in terms of the Pradeshiya Sabha (Financial and Administrative) Rules 1988 had not been maintained.

Reference to Rule	Register
169	Estimates Ledger (PS 40) Materials Returned Ledger (PS 41)
217	Metal and Gravel Ledger (PS 42) Register of Lands and Buildings (PS 46)

1:3:9 Non-compliances with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations	Non-compliance
(a) Pradeshiya Sabh Act, No. 15 of 1987	
----- Section 24(1)(b)	A list of Names of Roads and Lanes owned by

the Sabha had not been prepared and published in the Gazette.

(b) Pradeshiya Sabha (Financial and Administrative) Rules – 1988.

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- (i) Rule 31 Action in terms of the Rule had not been taken for the recovery of the value of 02 Money Orders amounting to Rs.1,740 and cheques amounting to Rs.26,336 dishonoured as at 31 December 2010.
- (ii) Rule 59 A survey of the works had not been conducted.
- (iii) Rules 143 and 145 The Individual Deposit Accounts had not been reconciled with the Main Ledger Accounts. A Detailed Statement of Deposits had not been prepared at the end of each year.
- (iv) Rule 168 Confirmations of the balances of the Current Account and the Environmental Account with the Bank of Ceylon amounting to Rs.31,894,931 and Rs.25,700 respectively had not been obtained.
- (v) Rule 178 The Sabha should ensure that provision is available for the procurement of a service or supply. Nevertheless, payments for the purchase of planks amounting to Rs.1,417,986 in the year 2009 and water, electricity and telephone bills of that year totalling Rs.74,382 had been made without obtaining additional provision or making provisions under the creditors and debited to the Accumulated Fund Account.
- (vi) Rule 212 Purchases of ¾” metal, cement and 1”x6” rubber planks had not been recorded in the stock books.
- (vii) Rule 218 A survey of the lands and buildings had not been conducted in respect of the year under

review.

(c) Financial Regulation of the  
Democratic Socialist Republic of  
Sri Lanka  
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(a) Financial Regulation  
396(d)

Action in terms of the regulation referred to had not been taken on 17 cheques valued at Rs.364,605 lapsed for more than 06 months from the date of issue.

(b) Financial Regulation  
1647

The officer in charge of motor vehicles had not maintained a register containing all information of the motor vehicles.

2 Financial and Operating Review  
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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. 32,429,299 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.23,951,750 for the preceding year.

2:2 Bank Reconciliations  
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(a) The Bank charges, deposits in excess and under-deposits not brought to account/settled over long periods had been brought forward in the Bank Reconciliations continuously.

(b) Even though the value of 02 Money Order valued at Rs.1,740 dishonoured and the postage relating thereto had been included in the Bank Reconciliation as dishonoured cheques, the date of deposit and the relevant debtors had not been stated.

(c) Even though a Money Order for Rs.840 had been shown as unrealized deposits, the name of the sender of the Money Order and the reason for obtaining a Money Order had not been stated.

2:3 Revenue Administration  
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2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue  
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Even though a request was made to the Chairman by my letter No. WN/LG/AR/2011-1 of 07 February 2011 to furnish information on 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, such information relating to the year under review and the preceding year had not been furnished to audit.

2:3:2 Other Revenue Outstanding  
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(a.) When the arrears of revenue for the year under review and the 03 immediately preceding years are taken into consideration an increasing trend in the arrears of revenue is indicated. Thus the absence of a satisfactory state of affairs with regard to the collection of revenue was observed.

As at 31 December -----	<u>Arrears of Revenue</u>		
	Rates ----- Rs.	Other Revenue ----- Rs.	Total ----- Rs.
2010	9,214,819	97,610,982	106,825,801
2009	10,433,889	41,230,961	51,664,850
2008	9,368,427	47,788,002	57,156,429
2007	11,158,541	2,455,544	13,614,085

(b) The total arrears of rates as at 31 December 2010 amounting to Rs.9,214,819 included 230 balances relating to the Mahara and Naranwala Sub-offices, each exceeding Rs.5,000 in arrears. Those totalled Rs.2,675,384. Action in terms of Section 158(1) of the Pradeshiya Sabha Act No.15 of 1987 had not been taken for the recovery of the arrears of revenue.

2:4 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
<u>Recurrent Expenditure</u>						
Personal Emoluments	39,597	34,911	4,686	33,914	31,132	2,782
Others	47,032	56,633	(9,601)	39,919	40,027	(108)
Sub-total	86,629	91,544	(4,915)	73,833	71,159	2,674
Capital Expenditure	44,500	127,390	(82,890)	13,900	66,741	(52,841)
Grand Total	131,129	218,934	(87,805)	87,733	137,900	(50,167)

2:5 Human Resources Management

Approved and Actual Cadre

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

Grades of Staff	Approved	Actual
Staff	05	05
Secondary	38	31
Primary	90	78
Others (Casual and Temporary)	--	16
	133	130

2:6 Identified Losses

Action had not been taken to recover from the officers responsible, the value of stock shortages of 03 three wheeler tyres and 03 tubes as at 31 December 2010 valeud at Rs.8,346.

2:7 Assets Management



2:7:1 Idle and Underutilised Assets

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The audit test checks of physical resources revealed that 101 items of assets had been lying idle or underutilized. The value of those assets were not made available to audit.

2:7:2 Staff Loans Recoverable

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The balances of staff loans and advances that remained receivable as at 31 December 2010 amounted to Rs.15,082,352 and the account balances outstanding for more than 01 year amounting to Rs.173,469 had not been included.

2:7:3 Non-moving Current Assets

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The value of non-moving assets remaining for over 01 year as at 31 December 2010 amounted to Rs.834,768.

2:8 Irregular Transactions

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The following observations are made.

(a.) Purchase of Cement

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(i) Quotations had not been called for the purchase of cement from January 2009 to December 2010 and 28,504 cement bags of 50 kilogrammes at Rs.800 per bag and 4,485 cement bags at Rs.775 per bag had been purchased during that period. The average price per bag of cement during the relevant period had not exceeded Rs.740 and as such the Sabha had incurred an estimated loss of Rs.1,867,215 from the purchase of cement.

(ii) Even though a sum of Rs.715,550 had been paid in the year under review for 909 bags of cement, the receipt of that stock by the store had not been established. The Goods Received Note as well had not been issued.

(b) Purchase of Sand

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Quotations had been called for the purchase of sand during the years 2009/2010 and the Procurement Committee had approved the purchase at the lowest prices of Rs.6,721 (2375 X 2.83) per cube. Nevertheless, prices of Rs.8,645 and Rs.7,947 per cube of sand had been paid. A sum of

Rs.17,431,048 had been paid for 2,033 cubes of sand during this period and the Sabha had incurred a loss of Rs.3,767,255 due to the purchases made disregarding the prices decided by the Procurement Committee.

(c) Payment of Hire Charges for Backhoe Machine  
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(i) Even though a sum of Rs.8,739,543 had been paid in the year 2009 for using the backhoe machine, the estimates of machine hours for each road had not been prepared by identifying the items of work to be done in respect of each road.

(ii) A backhoe machine had been hired at Rs.1,200 per running hour for concreting of roads. Even though the transport of the machine to the work sites should have been done by the contractor, a sum of Rs.165,000 had been paid for that purpose for 55 days at Rs.3,000 per day.

(d) Purchase of Sawdust  
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A sum of Rs.175,000 had been paid for the purchase of 100 cubes of Sawdust at Rs.1,750 per cube in December 2010 for concreting of roads. Even though sawdust had not been used in the other works, the reasons for the use of sawdust for this work were not explained to audit.

(e) Hire Charges for Concrete Mixers  
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Even though the Sabha had concrete mixers, a sum of Rs.68,000 had been paid in 06 instances in the preceding year for the concrete mixers procured on hire basis. According to a test check carried out in December of the year under review, a sum of Rs.24,000 had also been paid in 04 instances. According to the decision of the Gampaha District Price Fixing Committee, the daily hire charge for a concrete mixer amounted to Rs.2,250 and as payments had been made at Rs.4,000 per day, overpayments amounting to Rs.29,750 and Rs.9,375 respectively had been made.

2:9 Operating Inefficiencies  
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The following observations are made.

- (a) Action had not been taken for the recovery of a sum of Rs.929,906 paid by the Sabha as temporary pension to the retiring officers from the Divisional Secretary, Mahara.
- (b) Action had not been taken to obtain the title deeds of 03 blocks of land 1 acre 18.92 perches in extent for the supply of common amenities transferable from lands approved for partition and sale in 02 instances.
- (c) Even though one-third of the Value Added Tax payable should be retained and remitted to the Commissioner General of Inland Revenue in terms of the Value Added Tax (Amendment) Act, No. 14 of 2007, a sum of Rs.234,669 which should have been retained from the payments made to contractors in 04 instances had not been retained.
- (d) The Sabha had spent a sum of Rs.8,500 in the year under review to fell and remove dangerous trees in 03 instances. Even though the persons concerned had been notified to pay a sum of Rs.14,100 within 07 days that amount had not been paid. Legal action in terms of provisions in Section 199 of the Pradeshiya Sabha Act, No. 15 of 1987 had not been taken for the recovery of the amount.
- (e) According to the service agreement for the software purchased for computerizing the process of recovery of rates a sum of Rs.30,000 had been paid. A software compatible for the purpose should have been purchased and as such the need for servicing the software was not observed in audit.

2:10 Contract Contractors

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- (a) Construction of the Malwathuhiripitiya Batepola Cemetery
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According to the final payment report dated 20 March 2009 in connection with this construction the total payment amounted to Rs.6,504,746 and a sum of Rs.7,104,746 had been paid to the contractor, thus resulting in an overpayment of Rs.600,000.

Even though this matter was pointed out by the Audit Query No. WN/GP/A/2009/20(i) of 17 August 2009, action had not been taken for the recovery of the overpayment at the settlement of the final bill.

(b) Works Register

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Information relating to commencement and completion of projects, method of payment and any further payments due could not be obtained as the Works Register had not been updated. The functions relating to the maintenance of the Works Registers, ordering for materials, issue of Goods Received Notes and the preparation of payment vouchers had not been distributed among several officers.

(c) Preparation of Estimates

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Instances of construction of the same road under different projects or stages were observed. The information on the starting point and the ending point relating to each project had not been specifically indicated in the estimates or the bills of quantities.

(d) Non-recording of Project References

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Even though each project had been assigned a project number and a file number, both project numbers and file numbers or one specific number out of those two had not been recorded in the payment vouchers, cash book, expenditure ledger, stock book, Goods Received Notes, Purchase Orders, Works Registers, etc. As such the examination of the information recorded therein had been an extremely difficult task.

(e) Payments to Constructors

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(i) The Works Division had prepared the vouchers for payment to contractors and suppliers and forwarded to the Payment Division and the Works Division had noted as payments had been made. But the information on the payment vouchers retained by the Payment Division had not been communicated to the Works Division.

(ii) Even though the Divisional Secretary had reimbursed the money relating to the works completed under the Gama Neguma Projects, action had not been taken to pay such money to the contractors/suppliers. Instances of use of such money for other expenditure of the Sabha were observed in audit.

2.11 Stores Control

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The following observations were made.

- (a.) The dates of receipts and issues had not been recovered in the stock books in which Cement, Metal, Sand, etc. had been recovered. In addition, the dates had not been recorded in the Issue Orders and the Goods Received Notes.
- (b.) The page numbers of this stock Book and the dates of issue had not been recorded in the Goods Received Notes and the Issue Orders which the Secretary or the Chief Clerk of the Sabha had not signed. It was observed in audit that instead of recording at the time of receipts and issue, those had been recorded subsequently.

2.12 Public Complainants

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The register for recording the complaints made by the public to the Sabha had not been unpaid. Instances failures to record and refer the complaints to the respective decisions were observed. In addition, information on the action taken on complaints has been recorded in the register.

2.13 Internal Audit

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

3. Systems and Controls

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

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