

Mathugama Pradeshiya Sabha

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Kalutara 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 02 May 2011 and the financial statements for the preceding year had been presented for the audit on 09 June 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 Mathugama Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comment on Financial Statements  
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1:3:1 Accounting Deficiencies  
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The following observations are made.

- (a) The balance of Revenue Contribution to Capital Outlay Account had been understated by a sum of Rs.35,180 and the balance of the Accumulated Fund Account had been overstated by a sum of Rs.35,000 in the extraction of the opening balances for the year under review.
- (b) Out of the value of machinery and equipment amounting to Rs.22,340 not brought to account according to the Report of the Auditor General for the preceding year, a sum of Rs.9,750 only had been brought to account and as such the value not brought to account further amounted to R.12,590.
- (c) Even though the library books valued at Rs.707,617 purchased in the year under review had been debited to the Library Books Account, the Revenue Contribution to Capital Outlay Account had not been credited. In addition

the value of library book written off amounting to Rs.270 had not been eliminated from the account.

- (d) The outstanding other revenue as at the end of the year under review amounting to Rs.28,910,570 according to the ledger had been shown as Rs.28,914,610 in the balance sheet.
- (e) The Trade Stall Rents Account had been balanced as Rs.4,036,184 to indicate the outstanding trade stall rents as at the end of the year as Rs.2,778,239. As the totals of the debit side and the credit side amounted to Rs.6,385,008 and Rs.3,178,297 respectively the balance observed in audit amounted to Rs.3,206,711.
- (f) The balance of Rs.199,181 debited to the Outstanding Trade Stalls Account could not be identified. That balance had been debited to the Accumulated Fund Account as well.
- (g) A sum of Rs.23,900 had been debited to the Trade Licence Account without a Journal Entry.
- (h) The balance of the Unpaid Salaries and Wages Account according to the ledger amounting to Rs.994,627 had been shown as Rs.922,872 in the balance sheet.
- (i) The staff loans balance of Rs.9,196,055 as at 31 December 2010 according to the ledger account had been shown as Rs.9,687,386 in the balance sheet.
- (j) The balance of the fixed deposits amounting to Rs.20,369,580 according to the financial statements of the year under review had been shown as Rs.19,651,578 in the confirmation of balances by the Bank.
- (k) In the rectification of the error of crediting the service charges recoverable received in the year under review amounting to Rs.72,600 in the Building Rent Account, the Accumulated Fund Account had been credited instead of debiting the Building Rent Account and crediting the Outstanding Revenue Account.

- (l) The value of balance of 35 barrels of bitumen as at the end of the year under review according to the Stock book amounting to Rs.589,365 had not been included in the closing stock.
- (m) Revenue amounting to Rs.520,990 credited to a Current Account and payments amounting to Rs.75,248 made on Standing Orders as at 31 December 2009 had not been brought to account.
- (n) The expenditure on the repair of capital assets under Programme 03 accrued as at 31 December 2010 according to the Summary of Expenditure amounting to Rs.2,133,282 had been posted to the Creditors Account as Rs.3,143,282 thus overstating the Creditors Account by a sum of Rs.1,010,000.
- (o) Capital expenditure amounting to Rs.41,096,572 according to the Summary of Expenditure had been shown in the Revenue and Expenditure Account as Rs.41,788,000.
- (p) Even though the expenditure under 05 items of account accrued as at the end of the year under review totalled Rs.1,890,724 the expenditure posted to the Creditors Account in that connection totalled Rs.2,203,749.
- (q) The value of furniture and equipment purchased in the year under review amounted to Rs.188,148 had been capitalized without a Journal Entry.

1:3:2 Unreconciled Control Accounts

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The following observations are made.

- (a) The balances of 06 items of account according to the financial statements totalled Rs.20,214,215 whereas according to the relevant subsidiary registers the balances totalled Rs.19,913,966.
- (b) The other revenue of Programme 01 amounting to Rs.1,246,840 according to the Summary Register of Revenue had been recorded as Rs.1,379,060 in the Revenue and Expenditure Account thus indicating a difference of Rs.132,220.

1:3:3 Maintenance of Accounting Records

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The following observations are made.

- (a) The names of persons to whom advances had been paid had not been recorded in the Register of Advances while only the purpose and the amount had been noted.
- (b) The accounts of the General Ledger had been carelessly totalled and the totals recorded were incorrect. Certain entries in the accounts had been tippexed and written over.
- (c) The balances in the Journal Entries did not reconcile with the balances brought to account. There were instances of adjustments of accounts without Journal Entries.

1:3:4 Accounts Payable

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Action had not been taken even up to 02 December 2010 for the payment of the contribution to the Local Government Service Pension Fund payable as at 30 October 2010 amounting to Rs.6,922,295.

1:3:5 Lack of Evidence for Audit

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Non-submission of Information to Audit

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Transactions totalling Rs.212,315,896 could not be satisfactorily vouched in audit due to the non-submission of required evidence to audit.

1:3:6 Non-compliance with Laws, Rules, Regulations etc.

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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 (Financial and Administrative) Rules 1988	
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Rule No. 140	Action in terms of the Rule referred to had not been taken on the advances amounting to Rs.6,841,590 paid during the years 2003 to 2010.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 396(d)	Action in terms of the Financial Regulation referred to had not been taken on 06 cheques valued at Rs.202,244 issued but not presented for payment for more than 06 months appearing in the Bank Reconciliation Statement prepared as at 31 December 2010 for one Bank Current Account.
(ii) Financial Regulation 571 and 572	Action in terms of the Financial Regulations referred to had not been taken on deposits amounting to Rs.3,487,420 made in the General Deposit Account from the year 1986 to 2006.
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 recurrent expenditure over the revenue of the Sabha for the year ended 31 December 2010 amounted to Rs.11,872,407 as against the excess of revenue over recurrent expenditure amounting to Rs.3,233,020 for the preceding year.	

2:2 Financial Control

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- (a) Favourable variances ranging from 7 per cent to 90 per cent were revealed between the estimated revenue and expenditure of 02 items of revenue and 06 items of expenditure, while adverse variances ranging from 07 to 319 per cent were revealed between the estimated and the actual revenue and expenditure of 02 items of revenue and one item of expenditure, thus indicating that the budget had not been made use of as an effective instrument of control.
- (b) Even though provision of Rs.1,500,000 had been made in the budget estimate for the year 2010 for the expenditure item (304-4) Repair and Maintenance of Thoroughfares, a sum of Rs.3,490,455 exceeding the estimate had been spent by 23 November 2010. The Supplementary Estimate of Rs.6,000,000 for covering the excess expenditure had been submitted to the Sabha only on 30 November 2010.

2:3 Revenue Administration

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

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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	Estimated	<u>2010</u>			<u>2009</u>		
		Actual	Cumulative Arrears as at 31 December	Estimated	Actual	Cumulative Arrears as at 31 December	
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	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
(i) Rates and Taxes	4,518	2,251	7,435	6,163	2,697	9,243	
(ii) Lease Rents	428	1,869	3,960	5,433	3,703	4,074	
(iii) Licence Fees	225	176	211	267	180	187	
(iv) Other Revenue	18,553	5,454	22,196	--	--	--	

2:3:2 Recovery of Revenue

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The following observations are made.

- (a) Action in terms of Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 had not been taken and the balance of revenue outstanding as at 31 December 2010 amounting to Rs.28,910,570.
- (b) The beef stall of the Sabha had been leased out in the year 2009 under the Procurement Procedure and an agreement had not been entered into with the lessee.As security deposits of the 288,832 had not been made the arrears of lease rent amounting to Rs.100,000 as at 30 November 2009 could not be recovered. Despite such situation, the beef stall had been leased out in the year 2010 to the same lessees through the Procurement Procedure. The security deposit of Rs.96,277 for one month remained outstanding up to November 2010, the date of audit.
- (c) Action had not been taken for the recovery of the arrears of entertainment tax amounting to Rs.14,404, a sum of Rs.1,206,567 recoverable from 62 trade stalls of the Market, rent amounting to Rs.86,000 recoverable on a building rented out to maintain an office, a sum of Rs.33,550 recoverable for the removal of waste of a private institution and a sum of Rs..27,000 recoverable on the hire of a boat belonging to the Sabha in the years 2008 and 2009 remaining without being recovered over a number of years even as at November 2010.
- (d) The one per cent tax recoverable on the turnover on the sale of lands in terms of Section 154(1) of the Pradeshiya Sabha Act, No. 15 of 1987 had been recovered on the estimated sale price. Accordingly, the Sabha had recovered tax revenue amounting to Rs.1,938,229 in the years 2004, 2005, 2006 and 2008.

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	39,829	36,379	3,450	37,437	32,989	4,448
Others	21,102	32,476	(11,374)	19,555	26,920	(7,365)
Sub-total	60,931	68,855	(7,924)	56,992	59,909	(2,917)
Capital Expenditure	2,150	42,463	(40,313)	4,025	14,841	(10,816)
Grand Total	63,081	111,318	(48,237)	61,017	74,750	(13,733)

2:5 Assets Management

2:5:1 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.9,687,386.

2:5:2 Assets not Surveyed

A survey of the properties of the Sabha had not been conducted in terms of Rules 203 and 218 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988.

2:5:3 Dormant Accounts

Money deposited in the Collection Accounts of the Sub-offices at Welipenna and Horawala had not been remitted to the Main Account and as such the cash balance of Rs.2,283,882 remained idle as at 31 December 2010.



2:5:4 Inventory Control  
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- (i) Issues had not been recorded in connection with 267 units of goods of 17 categories received from the Ministry of Disaster Management on 28 February 2008, and a shortage of 11 Units of 03 categories was observed on 30 November 2010.
- (ii) Eight gas ovens included in those goods remained in the stores without being used.
- (iii) Out of the water tanks purchased and received from the Disaster Management Centre, shortages of one tank of 1,000 litre capacity and 03 tanks of 500 litre capacity were observed as at 30 November 2010.

2.6 Transactions not supported by Adequate Authority  
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A sum of Rs.98,340 had been spent in the year 2010 for the procurement of motor vehicles on hire basis without obtaining the approval of the Commissioner of Local Government and without following the Procurement Procedure.

2:7 Operating Inefficiencies  
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The following observations are made.

- (a) The thoroughfares acquired by the Sabha after the year 1995 had not been published in the Gazette.
- (b) According to the Bank Reconciliation prepared as at 31 December 2010 for the Current Account with the Bank of Ceylon, two cheques valued at Rs.16,887 drawn on 10 December 2008 and 16 April 2009 in favour of the Navaththuduwa Farmers' Organisation and retained with the subject clerk even up to the date of audit in June 2011 without being handed over to the Farmers' Organisation concerned, had been shown as cheques issued that not presented to the Bank.
- (c) Even though the Monthly Advance Programmes should be submitted in the preceding month and approval obtained 03 officers had not submitted Advance Programmes in the performance of their duties. Four officers

had not furnished the revised Advance Programmes for charges made and the reports on work done.

- (d) Fixed assets valued at Rs.244,822 purchased in the year 2010 had not been recorded in the Register of Fixed Assets.

2:8 Contract Administration

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The following observations are made.

- (a) Construction of the Liquid Milk Sales Centre

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- (i) A Liquid Milk Sales Centre had been constructed in the year 2009 at a cost of Rs.139,570 met from the Sabha Fund and the Milk Stall had not been opened even by November 2010. Nevertheless, equipment valued at Rs.173,800 had been supplied to the Sabha I February 2010 by the Western Provincial Department of Animal Production and Health on condition of retaining the ownership of equipment by the Department.
- (ii) Even though a sum of Rs.3,219 had been paid under item No.15 of the estimate relating to the building for the application of paint on inner and outer sides of the walls, the physical inspection carried out on 22 November 2010 revealed that the work under that item had not been done.

- (b) Concreting of the First Byroad of Balika Road (Length 400 feet)

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- (i) A physical inspection of the road concreted under the direct labour basis at a cost of Rs.280,794 in the year 2009 carried out on 29 November 2010 revealed a huge crack 04 feet 07 inches long and 01 foot 09 inches wide 32 feet 08 inches away from the beginning of the road.
- (ii) Even though the beginning of the road is sloping and tilted to the right side, the road only had been designed and concreted without allowing for flows of water in a manner to withstand such condition. Therefore uncertainty of the durability of the concreting was observed.

(c) Concreting of First Byroad of Balika Road (Length 175 feet)  
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- (i) The project had been implemented in the year 2010 at a cost of Rs.151,267 and according to the estimate the thickness of the concrete should be 04 inches. Nevertheless the area 05 feet from the end of the road the thickness on the right side was 1.8 inches and the left side was 1.5 inches while the thickness of the right side 40 feet from the end of the road had been 1.5 inches.
- (ii) It was observed at the physical inspection carried out on 29 November 2010 that the concrete at the spot 14 feet from the beginning of the road section, had developed cracks to the length of 03 feet 06 inches and a width of 01 foot 04 inches.
- (iii) Even though a sum of Rs. 4,255 had been paid for fixing planks on both sides of the road, planks had not been fixed for the entire length of the road.

2:9 Internal Audit  
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An Internal Audit Unit to be maintained in terms of Sub-Rule 7 of Rule 5 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988 and the Circular No. WP/LPD/10/2008 dated 19 August 2008 of the Commissioner of Local Government, had not been maintained.

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Contract Administration
- (e) Assets Management