

Morawewa Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 25 July 2011 and the financial statements for the preceding year had been presented for audit on 03 February 2011.

1.2 Opinion

So far as appears from my examination and to the best of my information and according to the explanations given to me, I am of opinion that the Morawewa Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.3 of this report, the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Morawewa Pradeshiya Sabha as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The value of fixed deposits had been understated by Rs.184,111 for the year under review.
- (b) Interest income on fixed deposits had been understated by Rs.22,449 due to erroneous calculations.
- (c) Court fines of Rs.2,157,350 had not been brought to accounts.
- (d) Rent income receivable had been overstated by Rs.10,617 whereas it has been recorded as opening balance of the year under review.
- (e) Provision for audit fees had not been made in the financial Statements for the years 1998 to 2009 in term of Section 172(2) of the Pradeshiya Sabha Act. The audit fees payable amounted to Rs.116,297.

1.3.2 Accounts Payable

Balances of accounts payable for over a period of 1 year as at 31 December 2010 amounted to Rs.660,118.

1.3.3 Bank Accounts

Information revealed at the analysis of adjustments shown in the Bank Reconciliation Statements appear in the following statements.

Age Analyses

<u>Particulars</u>	<u>No .of Instances</u>	<u>Age Analyses</u>			<u>Total Rs</u>
		<u>Over 6 Months and less than 12 Months Amount Rs</u>	<u>1 – 3 Years Amount Rs</u>	<u>Over 3 years Amount Rs</u>	
i. Cheques issued, but not presented for payments	19	875	13,260	-	14,135
ii. Unidentified amount	01	12,062	-	-	12,062

The Pradeshiya Sabha has not made any entries in its books with regard to direct collections by the Bank which amounted to Rs. 3,484,815

1.3.4 Lack of Evidence for Audit**Un – replied Audit Queries**

Replies for 08 audit queries had not been furnished as at 31 December 2010 while the quantifiable value of transactions referred to in those audit queries amounted to Rs. 767,725

1.3.5 Non - Compliance

The following non compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions**Non - Compliance****(a) Pradeshiya Sabha (Financial and Administrative) Rules of 1989**

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|---|--|
| i) Part II Section 16 (1) | The Pradeshiya Sabha had not maintained a register of movable and immovable properties. |
| ii) Chapter I Section 5 (xi) | Insurance coverage had not been obtained in relation to cash, stores, etc |
| iii) Chapter I Section 5 (xii) | Adequate security had not been obtained from officers who were entrusted with custody of cash, stores etc. |
| v) Chapter XII Section 217 | A register of land and buildings had not been maintained. |
| (b) Section 153 of the Inland Revenue Act No. 10 of 2006 | Withholding Tax totaling Rs. 11,108 had not been recovered from the payments made for construction works and goods |

purchased.

(c)

Financial Regulation

- i) Financial Regulation No. 395 The bank reconciliations should have been prepared monthly and rendered for audit before 15th of the following month. However, the Sabha had not prepared monthly reconciliations.
- ii) Financial Regulations No. 394 and 396 Action had not been taken with regard to 19 unrepresented cheques amounting to Rs. 27,862 issued during 2009 and 2010.
- iii) Financial Regulation No. 383 A sum of Rs. 773,209 directly received by the bank from December 2008 to November 2010 had not been taken to revenue.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Pradeshiya Sabha for the year ended 31 December 2010 amounted to Rs. 1,084,191 as compared with the excess of revenue over recurrent expenditure amounting to Rs. 1,390,750 of the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information with regard to the estimated revenue, actual revenue and arrears of revenue for the year under review and the preceding year, as presented by the Chairman is given below.

<u>Item of Revenue</u>	<u>Estimated</u>	<u>2010</u>	<u>Accumulated</u>	<u>Estimated</u>	<u>2009</u>	<u>Accumulated</u>
		<u>Actual</u>	<u>Arrears as at</u>		<u>Actual</u>	<u>Arrears as at</u>
			<u>31 December</u>			<u>31 December</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
	<u>'000'</u>	<u>'000'</u>	<u>'000'</u>	<u>'000'</u>	<u>'000'</u>	<u>'000'</u>
i) Rates and taxes	25	67	--	06	--	06
iii) Licence fees	90	42	48	58	43	15
iv) Others	5,847	2,696	3,151	3,690	1,968	1,722

2.2.2 Court Fines

Action had not been taken to recover courts fines amounting to Rs. 2,157,350 collected and remitted to the Chief Secretary / Provincial Commissioner of Revenue up to 31 December 2010 by the Trincomalee Magistrate's Courts under various Ordinances. Court fines receivable by the Sabha had not been computed and accounted for.

2.2.3 Stamp Fees

Stamp fees recoverable from the Registrar General had not been computed and accounted for.

2.3 Expenditure Structure

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

<u>Item of Expenditure</u>	<u>Budgeted</u>	<u>2010</u>	<u>Variance</u>	<u>Budgeted</u>	<u>2009</u>	<u>Variance</u>
		<u>Actual</u>			<u>Actual</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
	<u>000</u>	<u>000</u>	<u>000</u>	<u>000</u>	<u>000</u>	<u>000</u>
<u>Recurrent Expenditure</u>						
Personal Emoluments	2,813	2,746	(67)	3,600	2,948	(652)
Other	1,072	1,266	194	1,234	1,702	468
Sub Total	3,885	4,012	127	4,834	4,650	(184)
Capital Expenditure	150	261	111	280	521	241
Grand Total	<u>4,035</u>	<u>4,273</u>	<u>238</u>	<u>5,114</u>	<u>5,171</u>	<u>57</u>

2.4 Human Resources Management

2.4.1 Approved and Actual Cadre

Particulars of the approved and actual cadre of the Sabha as at 31 December 2010 are given below.

<u>Category of Post</u>	<u>Approved</u>	<u>Actual</u>	<u>Shortage/ Excess</u>
Staff Grade	01	-	01
Secondary Grade	09	04	05
Primary Grade	08	08	-
Total	<u>18</u>	<u>12</u>	<u>06</u>

2.5 Assets Management

2.5.1 Accounts Receivable

Balances of accounts receivable as at 31 December 2010 amounted to Rs. 131,234 while the balances of accounts receivable for over a period of 01 year amounted to Rs.46,454.

2.5.2 Staff Loans Recoverable

Balances of staff loans recoverable as at 31 December 2010 totalled Rs. 1,124,535 while the balances outstanding for over a period of 01 year amounted to Rs. 715,635.

2.5.3 Assets not verified

The value of assets computed on book balances as at 31 December 2010, and not supported by physical verifications / board of survey reports amounted to Rs. 27,598,220.

2.6 Identified Losses and Damages

According to the information maintained by the Sabha and matters revealed at audit test checks, the value of losses and damages amounted to Rs.32,944.

2.7 Internal Audit

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

3. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Budgetary Control
- (c) Advance
- (d) Collection of Revenue