

Polpithigama Pradeshiya Sabha

Kurunegala District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements of the year under review had been presented to audit on 30 March 2011 and the financial statements of the preceding year had been presented to audit on 31 March 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Polpithigama 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 Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Polpithigama Pradeshiya Sabha as at 31 December 2010 and the financial results of its operations for the year than ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

(a) The accounting policies adopted in the year under review had not been disclosed with the financial statements.

(b) In disclosing the cash balance in the financial statements as at the end of the year under review, the cash balance of the Concrete Project as appearing in the Cash Account of the ledger amounting to Rs.716,535 had been disclosed instead of the balance amounting to Rs.711,385 as appearing in the Summary Cash Book (PS 10) of the Concrete Project. Similarly, the balance according to the ledger had been taken for the

preparation of the Bank Reconciliation relating to the project instead of taking the cash balance according to PS 10.

- (c) The reimbursement of salaries amounting to Rs.15,036,390 received in respect of the year under review for 05 of the 06 Programmes of the Sabha had been shown only under Programme (1/71) of the Revenue and Expenditure Account.
- (d) The profit of the Concrete Project Account for the year under review amounting to Rs.67,826 had not been adjusted to the Revenue and Expenditure Account or the Accumulated Fund.
- (e) Fixed Assets valued at Rs.188,377 purchased during the year under review had not been shown in the balance sheet under the fixed assets.

1:3:2 Unreconciled Control Accounts

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The balances of 05 items of account according to the Control Accounts totalled Rs.20,624,168 whereas according to the Subsidiary registers / records those balances totalled Rs.16,739,438.

1:3:3 Unexplained Differences

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An unexplained differences of Rs.1,687,150 existed in 02 items of account.

1:3:4 Accounts Payable

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The value of the balances of accounts payable older than 01 year as at 31 December 2010 amounted to Rs.69,691,794.

1:3:5 Lack of Evidence

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- (a) Non-submission of Information to Audit

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The fixed assets valued at Rs.5,378,782 under 04 items of accounts could not be satisfactorily vouched in audit due to the non-submission of schedules and Register of Fixed Assets.

(b) Unanswered Audit Queries

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Replies to 02 audit queries had not been furnished up to 30 May 2011 and the value of quantifiable transactions relating to those audit queries amounting to Rs.3,343,625.

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.5,303,185 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.510,328 for the preceding year.

2:2 Financial Control

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The following financial control deficiencies were observed.

- (a) The adjustments amounting to Rs.1,445,364 under 18 instances relating to the Bank Reconciliation for the General Account and the Works Account had not been settled up to the end of the year under review.
- (b) Even though the lapsed deposits should be settled by taking action in terms of Financial Regulation 571(2), deposits balance of Rs.357,774 relating to 12 instances, on which such action had not been taken even by the end of the year under review remained as at the end of the year under review.
- (c) Out of the creditors amounting to Rs.68,058,969 a sum of Rs.65,338,631 represented creditors older than 01 year while a balance of Rs.38,400 shown under revenue received in advance over a period exceeding one year had not been settled even up to the end of the year under review.
- (d) Courts fines amounting to Rs.718,425 and interest on fixed deposits amounting to Rs.1,133,432 shown as other revenue under the Accounts Receivable had not been settled even up to the end of the year under review despite remaining for over 03 years.

- (e) Sixteen cheques valued at Rs.50,733 issued on 02 Bank Accounts remained without being presented for payment.

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) Rates and Taxes	10	10	--	10	09	01
(ii) Lease Rents	2,991	2,945	46	1,619	1,533	86
(iii) Licence Fees	700	700	--	652	732	--
<b>Total</b>	<b>3,701</b>	<b>3,655</b>	<b>46</b>	<b>2,281</b>	<b>2,274</b>	<b>87</b>

2:3:2 Courts Fines

Fines amounting to Rs.718,425 recovered by a Magistrate's Court up to 31 December 2007 under various Ordinances remained receivable by the Sabha. The Courts fines receivable from the year 2008 had not been computed and brought to account.

2:3:3 Stamp Fees

Stamp fees receivable from the Register General as at 31 December had not been computed and brought to account.

2:3:4 Trade Stall Rents

The balance of the arrears relating to trade stall No. 3 of the Public Marked relating to the year 2007 amounted to Rs.15,000. The Sabha had failed to lease out this trade stall for the year 2008 and up to March 2009.

## 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 variance are given below.

Item of Expenditure	2010			2009		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Personal Emoluments	21,370	16,418	4,952	18,107	15,655	2,452
Others	9,069	9,738	(669)	8,282	7,033	1,249
Sub-total	30,439	26,156	4,283	26,389	22,688	3,701
Capital Expenditure	18,550	62,520	(43,970)	72,050	260,265	(188,215)
Grand Total	48,989	88,676	(39,687)	98,439	282,953	(184,514)

## 2:5 Human Resources Management

### 2:5:1 Approved and Actual Cadre

(a) Information on the approved and the actual cadre of the Sabha as at 31 December 2010 had been as below.

<u>Grade of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff	01	--
Secondary	27	22
Primary`	38	37
Other (Casual, Temporary)	--	08

## 2:6 Assets Management

### 2:6:1 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.70,938,087 and the balances older than 01 year totalled Rs.2,833,189..

2:6:2 Staff Loans Recoverable

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The outstanding balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.44,696 and the balances that remained outstanding for over 01 year totalled Rs.40,696.

2:7 Identified Losses

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A sum of Rs.8,600 had been paid as penalty for the failure to remit the contributions due to the Employees' Trust Fund as at 31 December 2010 on the due dates.

2:8 Operating Inefficiencies

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The following observations are made.

- (a) The pensionary contributions payable to the Local Government Service Pension Fund on behalf of the employees of the Sabha who had retired from service had not been paid by the Sabha to that Fund regularly and as such the balance payable to that Fund by the end of the year under review amounted to Rs.1,695,509. Even though the Fund had charged a sum of Rs.5,698 as the monthly installment, the particulars of the employees relating to that amount had not been notified to the Sabha.
- (b) According to the budget prepared by the Sabha for the year under review there were particulars relating to 117 cemeteries. It was observed in audit that there were disputes relating to 35 of those cemeteries with an extent of about 40 acres. An annual survey of those cemeteries had not been conducted in terms of Rule 203 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988.
- (c) A sum of Rs.38,958 had been paid in the year under review for sawing 02 teak and satinwood trees which were in the Sabha premises. The approval of the authorities concerned had not been obtained before felling the trees. The quantity of timber that could be obtained had not been estimated before sawing. According to the reports on the sawing charges the existence of 605.3 linear feet of planks and 1,262.9 linear feet of rafters of different sizes was revealed. Those quantities of sawn timber had not been recorded in the stock books even up to the end of the year under review.

2:9 Performance

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Budgetary Control

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Even though revenue amounting to Rs.1,334,000 had been estimated under 06 Heads of Revenue in the budget for the year under review, no revenue whatsoever had been received thereunder.

2:10 Internal Audit

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

03. Systems and Controls

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

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