

Thihagoda Pradeshiya Sabha
Matara District

01. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 03 August 2011 and the financial statements for the preceding year had been presented for audit on 15 September 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 Thihagoda Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.690,444 had been debited to the Arrears of Lease Rent Account by Journal Entry No. 20 as the Lease rent revenue for the year 2010 a sum of Rs.782,683 had been debited according to the ledger. The difference amounted to Rs.92,239.
- (b) The sum of Rs.32,820 received as elections advance in respect of the preceding year had been debited to the Suspense Account by Journal Entry No. 17 instead of debiting the Accumulated Fund.
- (c) The Installment of Rs.55,420 paid in respect of the fourth quarter of the preceding year had been debited to the Creditors Account and credited to the Local Loans and Development Fund Account by Journal Entry No. 10 instead of debiting the Local Loans and Development Fund and crediting the Accumulated Fund.

- (d) Even though a sum of Rs.16,930 had been debited to the Capital Expenditure Account by Journal Entry No. 14 the capital assets purchased in the year under review, such entry had not been made in the Creditor Account. As such the Creditors Account had been understated by that account.
- (e) Even though the Sundry Creditors (Supplies) Account had been credited with a sum of Rs.402,316 by Journal Entry No. 09 for creating Creditors provisions for the year 2010, according to the ledger account a sum of Rs.385,386 only had been credited. The difference amounted to Rs.16,930.
- (f) The specified taxes payable on the works of preceding years amounted to Rs.99,630 brought to account under revenue under Journal Entry 16 had been erroneously credited to the Other Revenue Account instead of crediting the Accumulated Fund Account.
- (g) The value of the Ayurvedic Drugs as at 31 December of the year under review according to the financial statements amounted to Rs.68,835 whereas according to the Ayurveda Stock Book, that amounted to Rs.84,675. The difference amounted to Rs.15,840.
- (h) The sum of Rs.1,393,475 payable as at the end of the year under review to the Local Government Service Pension Fund had been omitted from the accounts.

1:3:2 Unreconciled Control Accounts

The balances of 07 items of accounts according to the Control Accounts totalled Rs.46,376,410 whereas the according to subsidiary registers, the balances of those accounts totalled Rs.37,001,249 and the difference amounted to Rs.9,375,161..

1:3:3 Unexplained Differences

A difference of Rs.5,821 was observed between the Monthly Receipts Summary (PS 16) as at 31 December 2010 and the Ledger Account.

1:3:4 Suspense Account

Even though the credit balance of the Suspense Account as at the end of the year according to the ledger amounted to Rs.775,092, the balance according to the financial statements amounted to Rs.2,331,789 and the difference amounted to Rs.1,556,697.

1:3:5 Accounts Payable

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- (a) The value of the balances of accounts payable as at 31 December 2010 amounted to Rs.35,759,006.
 - (b) Action had not been taken to settle the works creditors balance of Rs.8,984,628 existing from the year 2005 up to date.

1:3:6 Lack of Evidence for Audit

Balances valued at Rs.54,943,815 relating to 08 items of account could not be satisfactorily vouched in audit due to the unavailability of documents such as Board of Survey Reports, Register of Fixed Assets, documents supporting ownership and existence, stock books, confirmation of balances, age analysis and Registers of Debtors and Creditors.

1:3:7 Non-compliances

Instances of non-compliance with the laws, rules, regulations, etc. observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc	Non-compliance
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(a) Pradeshiya Sabha (Financial and Administrative) Rules - 1988	

(i) Rule 143	A detailed report of deposits classified under different categories had not been prepared at the end of each year.
(ii) Rule 164	The Secretary or an officer authorized by him had not intialled the accounting documents of the Sabha as evidence of checking them daily.
(iii) Rule 180	Six officers in charge of cash and stores and collecting revenue had not furnished security.
(iv) Rule 193	A statement of reasons for excesses and deficits prepared by reconciling the budget

and Supplementary Votes with the actual expenditure of the Objects had not been furnished to audit.

- (v) Rule 206
The Board of Survey Reports had not been furnished to the Auditor General.
- (b) Financial Regulations of the Republic of Sri Lanka

(i) Financial Regulation 262(2) “Paid Seal” had not been stamped on the payment vouchers and the related bills. Action in terms of the Regulation had not been taken on 13 cheques valued at Rs.19,314 issued but lapsed for more than 06 months.
(ii) Financial Regulation 396(d)
- (c) Circular No. 1A1/2002/02 dated 28 November 2002 of the Secretary to the Treasury
A Register of Fixed Assets not been maintained for the software of 08 computers.
- (d) Chapter xxiv, Section 4.2.3 of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.
Contrary to the regulation Loans amounting to Rs.482,420 had been paid in the year under review on application which had not been prepared properly.

1:3:8 Deficiencies in the Maintenance of Registers

The following registers had not been maintained in the proper and updated manner.

- (i) Register of Fixed Assets
- (ii) Register of Staff Loans
- (iii) Register of Deposits
- (iv) Register of Debtors
- (v) Register of Creditors

02. Financial and Operating Review

2:1 Financial Result

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.3,585,636 as against the excess of recurrent expenditure over revenue amounting to Rs.149,861 for the preceding year..

2:2 Revenue Administration

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

Even though a request was made to the Chairman by my letter of 03 March 2011 to furnish the 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, it was observed in audit that the information presented was not correct. Nevertheless, the position as at 31 December 2010 according to the Statement of Arrears of Revenue presented with the financial statements as compared with the preceding year is given below.

Item of Revenue	Arrears of Revenue as at 31 December		Increase %
	<u>2010</u> Rs.'000	<u>2009</u> Rs.;000	
Acreage Tax	19	17	11.7
Trade Licence Fees	33	15	120.0
Lease Rents	236	143	65.0
Water Tax	265	213	24.4

2:2:2 Arrears of Taxes and Charges

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.287,968 relating to the year under review and the preceding years.

2:2:3 Trade Stall Rents – Public Market

The matters observed in connection with the leasing of trade stalls of Thihagoda Public Market and Yatiyana Public Market are as follows.

- (i) Even though the agreements of 13 trade stalls on Thihagoda Public Market and 09 trade stalls of Yatiyana Public Market had expired, action in terms of clause 01 of the agreement had not been taken to renew the agreements.
- (ii) According to clause 04 of the lease agreement lease rent amounting to Rs.76,983 had been outstanding from 04 trade stalls of Thihagoda Public Market and legal action in terms of clause No. 09 of the agreement had not been taken for the recovery of the arrears of lease rent.
- (iii) Action in terms of procedures Nos. 05, 06, 07 and 11 of the Circular No. SLG/CLG/2010/01 dated 27 December 2010 of the Southern Provincial Commissioner of Local Government had not been taken on the trade stalls belonging to the Sabha.

2:2:4 Courts Fines

Action had not been taken to recover court fines amounting to Rs.257,584 collected by a Magistrate’s Court under various Ordinances up to 31 December 2010 and remitted to the Chief Secretary.

2:2:5 Stamp Fees

Stamp fees amounting to Rs.4,124,382 remained receivable as at 31 December 2010 from the Registrar General.

2:3 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		
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	<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
Recurrent Expenditure						

Personal Emoluments	10,048	8,862	1,186	9,663	8,611	1,052
Others	5,235	3,022	2,213	5,240	4,574	666

Sub-total	15,283	11,884	3,399	14,903	13,185	1,718
Capital Expenditure	68,590	66,170	2,420	85,100	37,839	47,261

Grand Total	83,873	78,054	5,819	100,003	51,024	48,979
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2:4 Human Resources Management

2:4:1 Approved and Actual Cadre

- (a) Information on the approved and the actual cadre of the Sabha as at 31 December 2010 is given below.

Category of Posts	Approved	Actual
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Staff	02	02
Secondary	05	12
Primary	15	13
Other (Casual, Temporary)	--	09
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	22	36
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- (b) Even though the expenditure on the staff salaries for the year under review amounted to Rs.8,262,203, the Commissioner of Local Government had reimbursed only a sum of Rs.8,203,000 out of that. As such a sum of Rs.59,203 had become an additional expenditure to the Sabha Fund.
- (c) According to the Management Service Circulars Nos. 14 and 28 dated 03 January 2002 and 10 April 2006 respectively of the Secretary to the Treasury, recruitment of employees to Local Authorities on casual, substitute and contract basis had been suspended. Contrary to such provisions 09 employees had been recruited

and a sum of Rs.931,522 had been paid out of the Sabha Fund as salaries during the year under review.

2:5 Assets Management

2:5:1 Accounts Receivable

The value of the balances of accounts that remained receivable as at 31 December 2010 amounted to Rs.47,949,184.

2:5:2 Staff Loans Recoverable

The balances of staff loans that remained recoverable as at 31 December 2010 totalled Rs.655,420 and the balances remained outstanding for over 01 year totalled Rs.62,966.

2:6 Internal Audit

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

03. Systems and Controls

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

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