

Hambantota Pradeshiya Sabha

Hambanatotota District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 13 February 2012 and the financial statements for the preceding year had been presented on 24 June 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 Hambantota 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 Hambantota Pradeshiya Sabha as at 31 December 2010 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Policies

The accounting policies adopted by the Sabha had not been disclosed in the financial statements while a Cash Flow Statement had not been prepared and presented with the financial statements.

1:3:2 Accounting Deficiencies

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- (a) The Warrant Costs and Fines amounting to Rs.599,518 relating to January 2010 had been credited twice to the relevant account and as such the Warrant Costs and Fines revenue had been overstated by that amount.
- (b) According to the Register of Stamp Fees and Courts Fines, a sum of Rs.4,162,638 had been receivable as at 01 January 2010 while a sum of Rs.4,000,000 only had been shown in the Warrant Costs and Fines Account as receivable on that date. Out of the Courts Fines receivable for the year 2010 amounting to Rs.3,362,326 a sum of Rs.559,518 and the full amount in respect of the preceding year had been received in the year 2010. As such, the balance of the Warrant Costs and Courts Fines Account as at 31 December 2010 amounted to Rs.2,762,808. But the balance as at that date had been overstated by a sum of Rs.436,880 and shown as Rs.3,199,688.
- (c) According to the informing letter dated 08 April 2011 of the Chief Secretary of the Southern Provincial Council a sum of Rs.1,624,950 had been shown as the stamp fees for the year 2010. The opening balance of the other Revenue Outstanding Account (Stamp Fees) as at 01 January 2010 amounted to Rs.2,589,597. Out of that a sum of Rs.1,454,097 had been recovered in August 2010. As such the balance of the account as at 31 December 2010 should have been Rs.2,760,450. Nevertheless, the balance as at that date had been overstated by a sum of Rs.229,250 and shown as Rs.2,531,200.
- (d) A sum of Rs.2,541,202 received in the year 2010 for the road development relating to the year 2009 under the Maga Neguma Development Programme of the Ministry of Highways had been included in the sum of Rs.14,937,343 shown as capital grants under Programme 03 of the Revenue and Expenditure Account for the year under review.
- (e) The provision for audit fees payable for the year of accounts had not been made in the financial statements presented for the year under review.

- (f) Even though the postings made in the General Ledger should agree with the Formats P.S. 13 and 14, a reconciliation made for 8 months with the expenditure ledger revealed differences in the postings made in the ledger.
- (g) The value of the assets purchased and buildings improved in the year under review amounting to Rs.2,028,655 and the value of the mobile library bus received as a donation to the Sabha had not been brought to account under fixed assets.
- (h) The Bank Charges and the cost of cheque books amounting to Rs.42,772 appearing in the Bank Reconciliation Statements of 03 Bank Accounts prepared for December 2010 had not been adjusted in the accounts for the year under review.
- (i) According to the Bank Reconciliation for December 2010 in respect of the Bank of Ceylon Account No. 0002163905 relating to staff loans, the cash book balance as at 31 December 2010 amounted to Rs.49,306. But that balance had been overstated by a sum of Rs.6,880 and shown as Rs.56,186 in the balance sheet.

1:3:3 Unreconciled Control Accounts

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According to the General Ledger, the difference of the balances of 09 items of accounts according to the Control Accounts and the subsidiary registers/schedules as at 31 December 2010 amounted to Rs.4,012,610.

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.6,511,620.

1:3:5 Lack of Evidence for Audit

(a) Unanswered Audit Queries

Replies had not been furnished to 22 audit queries relating to periods ranging from 02 to 03 years as at 31 December 2010 and the value of quantifiable transactions relating to those audit queries amounted to Rs.1,858,600.

(b) Non-submission of Information to Audit

Transactions totalling Rs.26,877,361 could not be satisfactorily vouched in audit due to the non-submission of the required information to audit.

(c) Non-submission of Payment Vouchers

Five payment vouchers relating to the year 2010 valued at Rs.55,247 had not been submitted for audit.

1:3:6 Non-compliances

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

Reference to Laws, Rules and Regulations and Management Decisions etc.	Non-compliance
(a) Pradeshiya Sabha (Financial and Administrative) Rules 1988	
(i) Rule 101	The Sabha resolutions authorizing the payments had not been quoted on certain vouchers.

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| (ii) Rule 105  | The erasures in the postings made in the payment records had not been authenticated by placing the initials.   |
| (iii) Rule 125   | The Expenditure Ledger had not been maintained in the proper and updated manner.   |
| (iv) Rule 150  | A summary cash book in Form P.S. 5 had not been maintained.  |
| (v) Rule 155   | The Main Cash Book (P.S. 10) had not been maintained in manner to disclose the daily balances.   |
| (vi) Rule 164  | The accounts and documents had not been checked daily by the Secretary or the officer authorized by him and authenticated as correct.                |
| (vii) Rule 193   | The budgeted revenue and expenditure had not been reconciled with the actual revenue and expenditure and reasons had not been adduced for variances. |
| (viii) Rule 218  | The lands and buildings owned by the Sabha and those used by the Sabha had not been surveyed at least once each year.                                |
| (b) Financial Regulations of the Republic of Sri Lanka |  |
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| (i) Financial Regulation 387                           | Overdrafts facilities amounting to Rs.432,471 had been obtained as at 31 December 2010 from the Sabha Fund Account.                                  |

- (ii) Financial Regulation 189 Action in terms of the regulation referred to had not been taken on a dishonored cheque valued at Rs.1,216.
- (iii) Financial Regulation 396(d) Action in terms of the regulation referred to had not been taken on 15 lapsed cheques valued at Rs.39,023.

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. 3,697,405 as compared with the excess of recurrent expenditure over revenue amounting to Rs.2,675,457 for the preceding year.

2:2 Revenue Administration  
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2:2:1 Estimated Revenue, Actual Revenue and Arrears of Revenue  
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The 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	<u>2010</u>			<u>2009</u>		
	Estimated	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
Rates and Taxes	30	27	255	30	25	232
Lease Rents	2,491	135	74	2,451	238	10
Licence Fees	417	607	685	417	476	643
Charges for Services	22,157	13,284	13,951	16,654	13,345	16,672

2:2:2 Recovery of Rates  
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The following observations are made.

- (a) The rates had been recovered on the values assessed in the year 1988.
- (b) The balance of arrears of rates as at 31 December 2010 amounted to Rs.178,190.
- (c) Out of the 548 rate payers the number of rate payers who had not paid for periods exceeding 10 years had been 498.

2:2:3 Courts Fines  
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Courts fines amounting to Rs.3,199,688 recovered under various Ordinances by a Magistrate's Court up to 31 December 2010 remained receivable by the Sabha.

2:2:4 Stamp Fees  
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Stamp fees amounting to Rs.2,531,200 remained receivable as at 31 December 2010 from the Registrar General.

2:2:5 Arrears of Trade Licence Fees  
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A sum of Rs.141,200 remained receivable as at 31 December 2010 from 65 trading businesses and steps had not been taken in terms of provisions of Section 152(4) of the Pradeshiya Sabha Act, No. 15 of 1987 for the recovery of the arrears of trade licence fees.





2:4 Human Resources Management  
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2:4:1 Approved and Actual Cadre  
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Information on the approved and the actual cadre of the Sabha as at 31 December 2010 is given below.

Grade of Employees -----	Approved -----	Actual -----
Staff	01	--
Secondary	06	10
Primary	13	14
Other (Casual Temporary)	--	14

The Sabha had recruited and deployed in service 14 persons (substitute) without the formal approved in terms of the Management Service Circular No. 28 of 10 April 2006.

2:5 Assets Management  
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2:5:1 Accounts Receivable  
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The value of balances of Accounts Receivable as at 31 December 2010 amounted to Rs.14,964,400 and the balances of accounts older than 01 years totalled Rs.558,840.

2:5:2 Staff Loans Recoverable  
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The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.1,869,517 and the balances of accounts outstanding for more than 01 year totalled Rs.27,650.

2:5:3 Idle Assets

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The following assets had been idling.

- (a) The diesel generator of 12.5 K.V. capacity valued at Rs.500,000.
- (b) Water bowser not in working condition.
- (c) The concrete mixer valued at Rs.200,000

2:5:4 Non-maintenance of Inventory Register

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Inventory Registers had not been maintained for 11 items of fixed assets supplied to the Public Library at Sisilasagama and the Bosath Foundation.

2:6 Operating Inefficiencies

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(a) Un-utilization of Funds

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A donation of Rs.200,000 made by a private company in the year under review for the purchase of pre-school equipment during the year 2010 had not been utilized for the purchase for those equipment.

(b) Non-return of Borrowed Books

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Action had not been taken to recover the value of books borrowed from the Sisilasagama library and not returned amounting to Rs.2,232 from the borrowers or the sureties.

(c) Motor Vehicles Control

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The fuel consumption and the milometer data of the double cab motor vehicle No. 257-6542 had not been recorded in the Daily Running Charts for the period 2008 to 07 September 2010. It was observed that the Log Books of 08 motor vehicles of the Sabha had been maintained in an irregular manner.

(d) Maintenance of Sheet Lights  
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The following observations are made.

- (i) The maintenance of street lights for May to September 2010 had not been recorded in the Stores Ledger.
- (ii) Even though the Electrician had installed 1,161 street lights from January to September 2010, those installations had not been supervised and certified by a responsible officer.
- (iii) The number of the posts on which the street lights had been installed had not been recorded in the records maintained by the Electrician.
- (iv) The requests made for repairs of street lights and the approval granted for such requests had not been furnished to audit.
- (v) The physical inspection of the store carried out on 08 September 2010 revealed a shortage of 98 street lamps.
- (vi) Out of the 46 solar power street lamp supplied in July 2010 by a voluntary organization 12 street lamps had been issued by 30 September 2010. But those receipts and issues had not been recorded in the stores ledger.

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management