

**Tangalla Pradeshiya Sabha
Hambantota District**

01. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 31 March 2011 and the financial statements for the preceding year had been presented for 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 Tangalla 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 the Paragraph 1:3 of this report, the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Tangalla Pradeshiya Sabha as at 31 December 2010 and the financial results of its operations for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

- (a) The expenditure incurred in the year under review on 07 fixed assets valued at Rs.753,012 had not been debited to the Assets Accounts and credited to the Revenue Contribution to Capital Outlay Account.

- (b) The total of 03 Heads of Expenditure according to the Main Ledger amounted to Rs.10,734,000 while the total according to the Register of Expenditure amounted to Rs.10,154,758. Thus a difference of Rs.579,242 was observed.
- (c) Sums totalling Rs.169,860 relating to 03 items of expenditure for the year under review had not been debited to the relevant Head of Expenditure.
- (d) Even though payments on 11 vouchers amounting to Rs.157,158 had been made according to the Payment Cash Book those had not been recorded in the Main Cash Book.
- (e) An over recovery of staff loans installments amounting to Rs.1,750 had been made as at 31 December 2010. That amount had been shown as a deduction from the staff loan balances instead of showing as current liabilities in the balance sheet.
- (f) Even though the stocks balances shown in the financial statements for year under review amounted to Rs.391,851, that balance according to the stock book amounted to Rs.845,307. Thus the stock balance had been understated by a sum of Rs.453,456 in the balance sheet.
- (g) The journal entries used for accounting purposes did not include adequate information to enable the identification of the transactions relating to them.

1:3:2 Accounts Payable

The value of accounts payable older than 01 year as at 31 December 2010 amounted to Rs.635,795.

1:3:3 Lack of Evidence for Audit

(a) Unanswered Audit Queries

Replied to 07 audit queries had not been furnished up to 31 December 2010. The value of quantifiable transactions relating to those audit queries amounted to Rs.946,279. An age analysis of the unanswered audit queries is given below.

Less than 03 Months	04
From 03 Months to 01 year	03

(a) Non- rendition of Information to Audit

Bank deposits amounting to Rs.1,437,058 due to the unavailability of the Register of Fixed Deposits and letters of Confirmation of balances and works creditors amounting to Rs.635,795 due to the unavailability of subsidiary registers and schedule could not be satisfactorily vouched in audit..

1:3:4 Non – compliances

Even though the Daily Running Charts together with the Monthly Performance Summaries of Motor Vehicles should be furnished to the Auditor General in terms of Financial Regulations 1645 and 1646 of the Financial Regulations of Republic of Sri Lanka, the Daily Running Charts of 12 motor vehicles for the year under review had not been furnished.

1:3:5 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.11,851,919 and the balances of accounts older than 01 year totalled Rs.1,048,598.

02. Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2010 amounted to Rs.23,330,053 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.6,105,322 for the preceding year.

2:2 Revenue Administration

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

Information on the estimated revenue, the actual revenue and the arrears of revenue in respect of the year under review and the preceding year presented by the Chairman is given below.

Item of Revenue	Estimated	2010		Cumulative Arrears as at 31 December	2009		Cumulative Arrears as at 31 December
		Actual	Estimated		Actual	Estimated	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates Taxes	23	8	70	24	13	28	
(ii) Lease Rents	3,556	3,763	459	3,452	3,188	666	
(iii) Licence Fees	992	845	349	662	628	472	
(iv) Charges for Services	5,000	2,060	2,479	7,000	18,667	3,333	
(v) Warrant Fees and Fines	2,015	988	1,028	1,304	2,100	130	
(vi) Other Revenue	61	147	280	147	0	366	

2:2:2 Court Fines

Courts fines amounting to Rs.1,027,768 collected by a Magistrate's Court in terms of various Ordinances up to 31 December 2010 and remitted to the Chief Secretary remained receivable by the Sabha.

2:2:3 Stamp Fees

Stamp fees amounting to Rs.2,479,421 remained receivable as at 31 December 2010 from the Register General.

2:2:4 Non-recovery of Arrears of Revenue

Action had not been taken in terms of provisions of the Pradeshiya Sabha Act, No. 15 of 1987 for the recovery of arrears of revenue. Detailed appear below.

- (i) Section 134(3) Acreage tax amounting to Rs.69,604 and business tax amounting to Rs.168,453 remained recoverable as at 31 December 2010.
- (ii) Section 150(iv) Arrears of Trade Licence fees amounting to Rs.180,610 remained recoverable as at 31 December 2010.
- (iii) Section 153(i) Even though a tax not exceeding 2 per cent of the capital land value of undeveloped lands could have been recovered annually, action had not been taken to make such recoveries.
- (iv) Section 159(1) Arrears of trade stall rents amounting to Rs.470,380 remained recoverable as at 31 December 2010.

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 variances are given below.

Item of Expenditure	2010			2009		
	<u>Budgeted</u> Rs.'000	<u>Actual</u> Rs.'000	<u>Variance</u> Rs.'000	<u>Budgeted</u> Rs.'000	<u>Actual</u> Rs.'000	<u>Variance</u> Rs.'000
Personal						
Emoluments	15,541	14,310	1,231	13,892	12,529	1,363
Others	11,367	9,099	2,268	9,674	9,613	61
Sub-total	26,908	23,409	3,499	23,566	22,142	1,424
Capital Expenditure	16,323	40,306	(23,983)	16,553	60,232	(43,679)
Grand Total	43,231	63,715	(20,484)	40,119	82,374	(42,255)

2:4 Assets Management

2:4:1 Accounts Recoverable

The value of accounts receivable as at 31 December 2010 amounted to Rs.11,851,919 and the balances of accounts older than one year totalled Rs.1,048,598.

2:4:2 Staff Loans Recoverable

(a) The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.2,660,606 and that balance included a sum of Rs.3,400 older than 02 years.

(b) It was observed that the staff loan balance of Rs.158,148 recoverable from 02 officers transferred out in January 2009 is being recovered in installments instead of being recovered in one lump sum.

2:4:3 Non-moving Current Assets

Idle cash balances amounting to Rs.80,314 remained in 02 Bank Current Accounts which had been dormant for over 01 year as at 31 December 2010.

2:5 Surcharges

A sum of Rs.29,690 remained recoverable as at the end of the year under review on the surcharges imposed by me in terms of Statutory provisions.

2:6 Human Resources Management

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 -----
Staff Grades	01	01
Secondary Grades	12	15
Primary Grades	17	20
Other (Casual, Temporary)	03	35

- (c) The Sabha had recruited 38 casual and temporary employees and deployed them in service and paid salaries without obtaining the formal approval in accordance with the Management Services Circulars No. 28 of 10 April 2006, No. 28(i) of 10 May 2006 and No. 28(ii) of 01 August 2006.

2:7 Operating Inefficiencies -----

- (a) Discrepancies between the number of electric bulbs issued to the Electrician for the maintenance of Street Lights and the number of electric bulbs used by him were observed in respect of all months. It was observed that 27 electric bulbs exceeding the number of electric bulbs obtained by the Electrician on 15 October 2010 had been used. In addition, the records maintained by a Electrician had not been supervised by a responsible officer.
- (b) Even though the JCB Machine had been hired out for 45.9 hours on 12 days from January to August 2010, such hires had not been approved by a responsible officer.

03. Systems and Controls -----

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

- (a) Accounting
- (b) Revenue Administration
- (c) Fixed Assets Control
- (d) Stock Control
- (e) Motor Vehicles Control