

Dehiovita Pradeshiya Sabha
Kegalle District

1. **Financial Statements**

1.1 **Presentation of Financial Statements**

Financial Statements relating to the year under review had been presented on 31 March 2011 while financial statements of 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 the opinion that the Dehiovita Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2010 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 given a true and fair view of the state of affairs of the Dehiovita Pradeshiya Sabha as at 31 December 2010 and financial results of its operations for the year then ended.

1.3 **Comments on Financial Statements**

1.3.1 **Accounting Deficiencies**

- (a) Acreage tax of Rs.42,309 received during the year 2009 in respect of the year 2010 had not been shown in the accounts and due to that the income for the year had been understated to that extent, while acreage tax of Rs.92,374 to be recovered on 01 January 2010 had been under stated resulting understatement of income for the year to that extent. . Acreage tax outstanding as at 31 December amounting to Rs.49,453 also had not been shown in the accounts . Accordingly, overall income on account of acreage tax for the year under review had been understated in a sum of Rs.85,250.

- (b) Although the write-off of acreage tax during the year 2010 amounts to Rs.43, 692 according to the Acreage Tax Register, a sum of Rs.100,939 had been written off from the account. Due to that, acreage tax income for the year had been under sated in a sum of Rs.57,247.
- (c) Realised value of Rs.1,700,000 of Fixed Deposit had been debited to Surplus and Deficits Account instead of debiting the cash account having credited that that account. Since that amount had been accounted under revenue Head 2.4.3, income had been overstated to that extent.
- (d) Value of Bako Machine purchased out of the loan of Rs.6,000,000 obtained from the Local Loans and Development Fund during the year under review had not been capitalized.
- (e) The sum of Rs.9,225,930 being the value of crematorium constructed during the years 2007 and 2008 had not been capitalized.
- (f) Loans amounting o Rs.11,800,000 obtained during the years 2007, 2008 and 2010 from the Local Loans and Development had not been accounted and due to that, those liabilities were not reflected in the Balance Sheet.
- (g) Loan instalments and interest paid n settlement of the above loan are paid by the according to standing orders. The bank reconciliation statements are not up dated therefore it was not possible to determine the amount of such payments. These payments also had not been accounted.
- (h) A sum of Rs.918,424 had been shown in the accounts as investment interest receivable as at 31 December 2010, although the value of investments as at that date was only Rs.700,000. Instead of accounting the relevant amount of interest having calculated correct amount,, excessive amount of interest had been shown in the accounts.

- (i) Although the sum of Rs.221,850 received on 01 February 2010 as investment interest of the year under review was an income applicable to the preceding year, it had been accounted as an income of the year under review.
- (j) Investment Interest Income of Rs.13,438 received during the year under review had not been accounted.
- (k) Although according to the Register, the Stamp Fees receivable as at 31 December 2010 amounts to Rs.4,200,000, a sum of Rs.15,450,675 had been shown in the accounts as Stamp Fees. Due to that, Stamp Fees receivable for the year had been over stated in a sum of Rs.11,250,675 in the accounts.
- (l) Instead of accounting the sum of Rs.4,507,344 received as Stamp Fees, as an income during the under review, it had been accounted under General deposits.
- (m) Although according to the Register Court Fines receivable as at 31 December 2010 amounts to Rs.3,500,000, a sum of Rs.8,308,862 had been shown in the accounts as Court Fines. Due to that, Court Fines receivable for the year had been over stated in a sum of Rs.4,808,862 in the accounts.
- (n) Although the Employees Security Deposits balance as at 31 December 2010 amounts to Rs.121,217, it had been shown as Rs.77,024. Due to that, Rs.44,193 had been understated in the accounts.
- (o) Development Reserve of Rs.880,657 that existed as at 31 December 2009 had been omitted in the accounts for the year under review.
- (p) The debit balance of Rs.782,806 in the Loans Redemption Account coming from the year 2008 had been shown in the financial statements without being settled.

1.3.2 Un reconciled Control Accounts

While the total of Control Account balances relating to 03 items of accounts amounted to Rs.6,086,398, the total of balances of those accounts according to subsidiary registers/records amounted to Rs.3,496,277.

1.3.3 Suspense Accounts

The total of credit balances of Accounts in nature of Suspense as at 31 December 2010 amounted to Rs.4,553.

1.3.4 Accounts Payable

Value of Accounts balances payable over 01 year as at 31 December 2010 amounted to Rs.15,702,776.

1.3.5 Lack of evidence for audit

Non-rendition of information to audit

Transactions totalling to Rs.37,708,501 could not be satisfactorily vouched in audit due to non- rendition of required information.

1.3.6 Non-compliances

Following Instances of non-compliance with laws, rules, regulations and management decisions were observed in audit.

**Reference to laws, rules, regulations
and management decision**

Non-compliance

(a) Pradeshiya Sabha Act No. 15 of
1987.

Section 170

Although the Chairman has been delegated with
authority to vary the expenditure proposed in the

budget, such action had not been taken with regard to excess expenditure over the estimated expenditure under certain Expenditure Heads.

- (b) Stamp Fees (Special Provisions)
Act No. 12 of 2006 dared Section
7(i)

Although the stamp fees taxes collected should be remitted to the Commissioner General of Inland Revenue within 15 days after the end of each quarter, such action had not been with regard to the sum of Rs.72,127 collected from third quarter of 2008 to fourth quarter of 2009.

- (c) Pradeshiya Sabha (Finance
and Administration) Rules of 1988

- (i) Rule 166

Journal entries had not been used to enter the opening balances in the Main Ledger.

- (ii) Rule 168

Although a copy of the Accounts Summary of the preceding year should be furnished by the Chairman for audit, accounts had been presented to audit without being certified by the Division Secretary as Authorised Officer, since the Sabha had been dissolved during the period of presentation of accounts.

- (d) Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka

- (i) F.R. 395 (d) Although bank reconciliation statements should be prepared as at the end of each month before 15 day of the ensuing month, last bank reconciliation statements prepared had been only up to December 2009 in respect of the bank account Nos. 2235101,2235102 and 2235125 maintained by the Sabha.
- (ii) F.R. 387 Although the paying officer should find out whether the bank balance is adequate for payments to be made by cheques, according to the bank statement for April 2010 it was observed that such examination had not been made with regard to the bank account No. 0002235101.
- (iii) F.R. 756 Although a Board of Survey had been appointed for the survey to carried out each year on or around 15 December, survey work had not been carried out even up to 25 May 2011.
- (e) Local Government by-laws published in the Extra Ordinary Gazette Notification No. 541/17 dated 20 January 1989 - Part XXII Section 21. Although meat should be transported in a covered vehicle or bag, canister or other suitable container, contrary to that permission had been granted to transport in three wheeler vehicles.
- (f) Circular No.2006/03 dated 21 September 2006 of the C.LG. Instruction No .01 Although the posts that could be recruited under service agreements had been stipulated, two library assistants had been recruited contrary to

the instructions.

2. **Financial and Operating Review**

2.1 **Financial Results**

According to the financial statements presented excess of revenue over recurrent expenditure for the year ended 31 December 2010 of the Sabha amounted to Rs.8,866,868, while the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.9,953,159.

2.2 **Revenue Administration**

2.2.1 **Estimated Revenue, Actual Revenue and Arrears of Revenue**

Information relating to estimated revenue, actual revenue and arrears of revenue for the year under review and the preceding year as furnished by the Chairman is given below.

Item of Revenue	<u>2010</u>			<u>2009</u>		
	Estimated	Actual	Accumulated Arrears as at December 31	Estimated	Actual	Accumulated Arrears as at December 31
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates & Taxes	1,343	2,049	3,595	1,353	85	4,062
(ii) Lease Rent	2,724	2,135	685	2,730	2,723	81
(iii) Licence Fees	540	562	-	460	460	156
(iv) Other Revenue	-	-	-	-	-	-

2.2.2 **Court Fines**

Fines amounting to Rs. 8,308,862 recovered under various Ordinances and remitted up to 31 December 2010 to the Chief Secretary by 02 Magistrate Courts were due to the Sabha.

2.2.3 **Stamp Fees**

Stamp fees amounting to Rs.15,450,675, were due from the Registrar General as at 31 December 2010.

2.2.4 **Arrears of Rates and Acreage Taxes**

When any rates or acreage taxes are not paid, property of the owner from whom such tax is recoverable should be restrain and sold for the recovery such tax in terms of Section 158(1) of the Pradeshiya Sabha Act no. 15 of 1987. However, such course of action had not been taken for the recovery of arrears taxes as at 31 December 2010 amounting to Rs.220,132 due from 2 divisions.

2.2.5 **Arrears of Tax - Meat and Fish Stalls**

A sum of Rs.94,701 was outstanding on account of arrears of lease rent and fines from the meat and fish stalls leased out during the period from year 1991 to year 1997.

2.2.6 **Weaknesses in Recovery of Revenue.**

According to progress report relating to recovery of arrears of revenue, as at 31 December 2010 arrears of revenue had amounted to Rs.4, 622,192 and there it was observed that the recovery of revenue was at a weak level. According to the budget for the year 2010, estimated revenue had been Rs.41,437,627 while actual revenue for the year had amounted to Rs.32,597,086, indicating a down fall of revenue in a sum of Rs.8,840,541.

2.3 **Expenditure Structure**

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

Item of Expenditure	<u>2010</u>			<u>2009</u>		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Personal Emoluments	23,411	17,822	5,589	15,795	16,025	(230)
Others	9,406	5,908	3,498	9,325	3,786	5,539
Sub Total	32,817	23,730	9,087	25,120	19,811	5,309
Capital Expenditure	22,213	10,194	12,019	25,252	9,953	15,299
Grand Total	55,030	33,924	21,106	50,372	29,764	20,608

2.4 Human Resources Management

Approved and Actual Cadre

Information relating to approved and actual cadre of the Sabha as at 31 December 2010 is given below.

<u>Grade of Employee</u>	<u>Approved</u>	<u>Actual</u>
Executive	02	02
Secondary	22	20
Preliminary	37	31
Others (Casual, Temporary)	-	20

2.5 Assets Management

2.5.1 Accounts Receivable

While the total of Accounts Receivable balances as at 31 December 2010 amounted to Rs.8,518,739, total of balances due for more than one year amounted to Rs.8,518,739.

2.5.2 Outstanding Staff Loans

While the total of outstanding balances of staff loans and advances as at 31 December 2010 amounted to Rs.3,490,635, total of balances due for more than one year amounted to Rs.286,014.

2.5.3 **Non-moving Current Assets**

Total value of assets that had not been moving for more than one year as at 31 December 2010 amounted to Rs.44,050.

2.6. **Assets Not Verified**

Value of assets not confirmed through board of survey reports and value calculated on book values amounted to Rs.20,311,279 as at 31 December 2010.

2.7 **Activities not Falling within the Objectives**

Although special norms had been stated with regard to utilization of financial grants for government institutions vide Commissioner of Local Government letter No.ACLG/01/Budget dated 02 September 2009, an expenditure of Rs. 525,750 had been incurred contrary to that.

2.8 **Operational Inefficiencies**

Following observations are made.

- (a) Action had not been taken to settle the balance in the Suspense Account amounting to Rs.4,553, which is getting increased annually.
- (b) Although provision amounting to Rs.13,403,810 had been made for 47 Expenditure Heads under five Programmes in the Budget for the year 2010, any expenditure had not been incurred from those expenditure heads during the year under review.

2.9 **Performance**

It had not been possible to reach targeted objectives due to non-conformity to Annual Plan and lack of action with regard variances in financial and physical performance.

2.10 **Contract Administration**

Delays were observed with regard to implementation of 02 projects estimated to cost Rs.200,000.

3 **Systems and Controls**

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

- (a) Accounting.
- (b) Budgetary Control.
- (c) Revenue Administration.
- (d) Contract control
- (e) Stock Control.