

**Dimbulagala Pradeshiya Sabha**  
**Polonnaruwa District**

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01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements for the year under review had been presented for audit on 02 May 2011, while the financial statements for the preceding had been presented for audit on 26 March 2010.

1:2 Opinion

In view of the comments and observations appearing in this report, I am enable to express an opinion on the financial statements of the Dimbulagala Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

A summary of the accounting deficiencies observed during the course of audit is given below.

<u>Accounting Deficiency</u>	<u>Number of Items</u>	<u>Value</u>
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		Rs.
(i) Omissions in the Financial Statements	08	1,399,950
(ii) Overstatements in the Financial Statements	01	887,945
(iii) Understatements in the Financial Statements	02	106,442

1:3:2 Accounts Payable

The value of Accounts Payable older than 01 year and 02 years as at 31 December 2010 amounted to Rs.113,079 and Rs.365,362 respectively.

13:3 Lack of Evidence for Audit

Non – submission of Information

Eight items of account totalling Rs.52,369,686 could not be satisfactorily vouched in audit due to the non – submission of required information to audit.

1:3:4 Non – compliances

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

Reference to Laws, Rules and Regulations	Non - compliance
(a) Inland Revenue Act, No. 10 of 2006	
Sections 153, 155 and 160	Even though one per cent Withholding Tax on the payments made for the construction of buildings, thoroughfares, bridges or systems of water supply, or drainage or garbage removal should be recovered and remitted to the Commissioner General of Inland Revenue on or before 15 <sup>th</sup> day of the month following, the Withholding Tax of Rs.44,145 recovered on specified charges in the year 2010 had not been remitted even by 15 February 2011.
(b) Pradeshiya Sabha Act, No. 15 of 1987	
Section 19(1)(1)	Salaries amounting to Rs.3,379,409 had been paid in the year under review to 25 employees recruited for 03 Water Supply Projects without obtaining the written approval of the Commissioner of Local Government.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
Financial Regulation 1645 (a)	Motor Vehicle Log Books had not been maintained for recording of repairs and servicing of motor vehicles and the purchase of spare parts amounting to Rs.728,582.

- (d) Notification Published in the Gazette No. 1528/21 of the Democratic Socialist Republic of Sri Lanka dated 19 December 2007
- (i) Even though the monthly fuel limit on official travel of the Chairman is 400 litres of diesel, a sum of Rs.76,031 had been spent in the year under review for the supply of 1,036 litres of diesel in excess of that limit for the double cab motor vehicle No. 252/6532.
- (ii) Whenever a motor vehicle is not available with the Pradeshiya Sabha, the Chairman could spend for private motor vehicles within the fuel limit specified for the month with the approval of the Commissioner of Local Government. Nevertheless, transport expenses amounting to Rs.47,482 had been incurred from the Sabha Fund without the approval of the Commissioner of Local Government.

02. Financial and Operating Review

2:1 Financial Result

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.3,303,858 as compared with the excess of recurrent expenditure over the revenue amounting to Rs.17,489,727 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 relating to the year under review and the preceding year presented by the Chairman is given below.

Revenue Item	<u>2010</u>			<u>2009</u>		
	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) Lease Rents	5,243	4,826	750	4,508	5,737	--
(ii) Licence Fees	528	657	424	487	529	340
(iii) Other Revenue	8,027	18,340	1,926	15,780	17,572	--

**2:2:2 Courts Fines**

Courts fines amounting to Rs.11,064,435 recovered under various Ordinances by a Magistrate's Court up to 31 December 2010 and remitted to the Chief Secretary remained receivable by the Sabha.

**2:2:3 Recovery of Rates**

Action had not been taken in terms of Section 134 of the Pradeshiya Sabha Act, No. 15 of 1987 to identify the developed areas and declare for the purpose of recovering rates.

**2:2:4 Other Revenue**

(a) A sum of Rs.275,412 receivable for the lease of the rights for the sale of fresh water fish in the years 2005, 2006 and 2009 had not been recovered.

(b) Action had not been taken for the recovery of charges on the advertising hoardings displayed in the urban areas and roadsides in the area of authority of the Sabha.

**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		
	<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
<u>Recurrent Expenditure</u>						
Personal Emoluments	9,734	12,214	(2,480)	8,818	10,034	(1,216)
Others	14,815	26,161	(11,346)	10,326	31,295	(20,969)
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Sub-total	24,549	38,375	(13,826)	19,144	41,329	(22,185)
Capital Expenditure	589	12,589	(12,000)	1,431	1,355	76
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Grand Total	25,138	50,964	(25,826)	20,575	42,684	(22,109)
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Excess expenditure amounting to Rs.13,827,299 representing 56 per cent of the estimated recurrent expenditure of Rs.24,548,743 for the year under review had been incurred.

2:4 Human Resources Management

Approved and Actual Cadre

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

	<u>Category of Posts</u>	<u>Approved</u>	<u>Actual</u>
(i)	Staff Grades	02	02
(ii)	Secondary Grades	12	08
(iii)	Primary Grades	13	11
(iv)	Others (Casual, Temporary)	--	44
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		27	65
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2:5 Assets Management

2:5:1 Idle Physical Resources

It was observed that certain assets had been idle as analyzed below.

Category of Assets	Number of Units or Quantity	Idle Period - Years
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(i) Hand Tractor No. 75-0892	01	Over 04 years
(ii) Motor Cycle No. 159-7115	01	Over 03 years
(iii) Machinery for Production of Rice Flour and Foodstuffs Production machinery relating thereto	01	Over 02 years

2:5:2 Accounts Receivable

The value of Accounts Receivable as at 31 December 2010 amounted to Rs.14,270,121 and the balances older than 01 year totalled Rs.441,187.

2:5:3 Staff Loans Recoverable

The balances of the staff loans and advances that remained recoverable as at 31 December 2010 totalled Rs.1,094,930 and the staff loans and advances outstanding for over 01 year totalled Rs.4,054.

2:6 Operating Inefficiencies

Even though the Secretary to the Ministry of Power and Energy had, by his Circular No. PC/PE/12/91 dated 16 March 1988, instructed the Sabha to enter into an agreement with the Ceylon Electricity Board for obtaining reimbursement of a certain amount out of the expenditure incurred on the maintenance of street lights in the area of authority of the Sabha, it had not been so done. As such it had not been possible for the Sabha to obtain any reimbursement of the expenditure incurred on the maintenance of street lights in the year under review amounting to Rs.657,857.

2:7 Performance

Absence of a Corporate Plan and an Action Plan

- (i) A Corporate Plan embodying the action to be taken in the ensuing years in connection with the functions developed on the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabha Act, No. 15 of 1987 had not been prepared in terms of paragraph 5(1) of the Circular No. PF/R/2/2/3/5(4) dated 10 March 2010.
- (ii) An Action Plan (Financial and Physical) for the proper management of the financial, human and physical resources aimed at the achievement of the objectives of the Sabha had not been prepared for the year under review.

2:8 Internal Audit

An adequate internal audit of the Sabha had not been carried out in the year under review and the preceding year.

03. Systems and Controls

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

- (a) Accounting
- (b) Internal Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Debtors and Creditors Control