

Dodangoda Pradeshiya Sabha

Kalutara District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 08 April 2011 and the financial statements for the preceding year had been presented on 26 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 Dodangoda 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 Dodangoda 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 Deficiencies

- (a) A sum of Rs.17,716 spent on the purchase of hume pipes and a sum of Rs.1,047,662 spent on construction of roads had been brought to account under Head 304 -4 as recurrent expenditure.
- (b) Staff security amounting to Rs.60,000 invested had been brought to account by debiting the Staff Security Account and crediting the Cash Account instead of debiting Investments Account and crediting the Cash Account. As such the balances of the Staff Security Account and the Staff Security Investment Account had been eliminated from the accounts.
- (c) Provision had not been made in the accounts for the audit fees payable for the period from the year 2002 up to the end of the year under review.

- (d) Even though the expenditure paid and payable up to 31 December 2010 under Head 304 of Programme 03 amounted to Rs.2,420,603 it had been shown as Rs.2,825,433 in the Revenue and Expenditure Account.
- (e) An deposit of Rs.50,000 paid to a fuel filling station had been brought to account under advances instead being brought to account under the deposits.
- (f) A sum of Rs.16,000,000 and the overdraft charges and cost of cheques amounting to Rs.4,100 credited to the Current Account with the Bank of Ceylon had not been brought to account.

1:3:2 Unreconciled Control Accounts

The balances of the staff loans according to the financial statements amounted to Rs.5,376,683 whereas this balance according to the Schedule of Staff Loans amounted to Rs.5,223,551. Thus a difference of Rs.153,132 was observed.

1:3:3 Accounts Payable

The balances of accounts payable as at 31 December 2010 totalled Rs.27,175,543 and the balances of accounts payable older than 01 year amounted to Rs.6,292,960.

1:3:4 Lack of Evidence for Audit

Non – submission of Information to Audit

- (a) Two balances of deposits amounting to Rs.2,281,331 each that existed due the unavailability of Registers of Deposits maintained by carrying forward the balances and the Works Creditors balance of Rs.3,995,234 and the Works Debtors balance of Rs.978,387 due to the unavailability of the Register of Creditors and Registers of Debtors showing all the balance receivable and payable, could not be satisfactorily vouched in audit.
- (b) The particulars of the make-up of sum of sum of Rs.892,392 debited to the Works Debtors Account and credited to the Accumulated Fund had not been furnished to audit.

1:3:5 Non-compliance with the Provisions of Laws, Rules and Regulations

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

Reference Regulations to Laws, Rules, Regulations, etc.	Non-compliance
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Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka

(i) Financial Regulation 396 (d)	According to the Bank Reconciliation Statement prepared as at 31 December 2010, action in terms of the Financial Regulation referred to had not been taken on 08 cheques valued at Rs.17,496 issued but not presented to the Bank for over 06 months.
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(ii) Financial Regulation 756	The Board of Survey which should be conducted in terms of the Financial Regulation referred to had not been conducted after the year 2006.
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2 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. 4,900,751 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.20,939,339 for the preceding year.

2:2 Financial Control

(a) According to Financial Regulation 387 of the Republic of Sri Lanka cheques for payments should be written only after ensuring that the Bank balance available is adequate to meet the relevant payments. Contrary to such stipulation, cheques had been drawn on one Bank Account during 02 to 15 July 2010 and 12 to 16 December 2010 causing overdrafts in the

Bank Account. The Bank had charged a sum of Rs.6,083 as overdraft interest and charges.

- (b) Favourable variances ranging from 13 per cent to 53 per cent in one item of revenue and 06 items of expenditure were revealed between the estimated and the actual revenue and expenditure while adverse variances ranging from 14 per cent to 47 per cent in 04 items of revenue were observed between the estimated and the actual revenue. Thus it was observed that the budget had not been made use of as an effective instrument of control during the year under review.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	2,361	1,141	4,633	2,610	710	5,955
(ii) Lease Rents	260	149	258	251	170	209
(iii) Licence Fees	104	848	594	103	97	42
(iv) Other Revenue	12,765	279	10,182	4,081	3,944	505

2:3:2 Courts Fines

Courts fines amounting to Rs.3,706,724 collected by three Magistrates' Courts up to 31 December 2010 under various Ordinances and remitted to the Provincial Commissioner of Revenue remained receivable by the Sabha.

2:3:3 Stamp Fees

Action had not been taken for the recovery of stamp fees amounting to Rs.1,300,801 recovered by the office of the Registrar of Lands, Matugama during the period January to October 2010 and remitted to the Provincial Commissioner of Revenue.

2:3:4 Recovery of Arrears of Revenue

The following observations are made.

- (a) The arrears of revenue amounting to Rs.38,322 relating to the lease of the beef stall in the years 2005 and 2008, trade stall rents on 30 trade stalls of 02 Public Markets amounting to Rs.198,921 relating to the years 1999 to 2010 and a sum of Rs.21,030 on the lease of plots of land for temporary trade stalls relating to the years 2006 to 2008 had not been recovered even by 13 July 2011, the date of audit.
- (b) According to the Register of Acreage Tax bills issued for acreage tax in the year under review amounted to Rs.87,419 and a sum of Rs.66,488 out of that had been recovered. As the acreage tax had not been recovered over a number of years, the accumulated arrears balance as at 31 December 2010 amounted to Rs.1,116,704.

2:3:5 Backhoe Loader Hire Charges

The following observations are made.

- (a) Even though a monthly hire charge revenue of Rs.176,000 had been expected for the settlement of the loan of Rs.5,000,000 obtained from the Local Loans and Development Fund for the purchase of the Backhoe Loader, no revenue whatsoever as hire charges had been earned from the year 2009 up to August 2010.
- (b) According to the Project Report hire charges per meter hour for the year 2009 had been fixed at Rs.2,200 with the condition that it should be increase by 10 per cent annually thereafter. Revenue amounting to Rs.140,400 had been earned from hiring the machine for 78 hours from August to December 2010 after the reducing of the hourly hire charge to Rs.1,800.

2:3:6 Tax on Land Sales

- (a) Instead of the recovery of the tax at 01 per cent of the turnover on the auction sale of lands in the Pradeshiya Sabha limits in terms of Section 154 (1) of the Pradeshiya Sabha Act, No. 15 of 1987, the tax had been recovered on estimated value as recommended by the Chairman.

Accordingly, tax amounting to Rs.1,509,660 had been recovered in the years 2008, 2009 and 2010.

- (b) The title deed of the block of land 30.7 perches in extent allocated for common amenities from the Hettiyagodawatta approved on 22 November 2008 had not been obtained even by 13 July 2011, the date of audit.

2:4 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	<u>2010</u>			<u>2009</u>		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	20,532	20,001	531	21,056	19,169	1,887
Others	18,375	13,315	5,060	10,978	24,033	(13,055)
Sub-total	38,907	33,316	5,591	32,034	43,202	(11,168)
Capital Expenditure	12,649	9,523	3,126	1,630	4,605	(2,975)
Grand Total	51,556	42,839	8,717	33,664	47,807	(14,143)

2:5 Human Resources Management

2:5:1 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 Employees	Approved	Actual
Staff	03	02
Secondary	12	10
Primary	68	66
Other (Casual Temporary)	--	14

2:6 Assets Management

2:6:1 Idle Physical Resources

Action had not been taken up to the time of audit in July 2011 to repair and use the Bobcat Machines out of order since January 2010 and the generator out of order since January 2011.

2:6:2 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.15,358,026 and the balances of accounts older than 01 year totalled Rs.230,897.

2:6:3 Unsettled Accounts

Action had not been taken in terms of provisions of Financial Regulation 371 (a) for the recovery from the officers concerned advances amounting to Rs.173,523 granted in 25 instances from the year 1981 to 2006. Action had not been taken to get down the Members' Allowances amounting to Rs.46,220 for October 2004 from the Department of Local Government.

2:6:4 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.5,376,683.

2:6:5 Assets not Surveyed

The value of assets not supported by Boards of Survey Reports and computed on the basis of book values as at 31 December 2010 amounted to Rs.29,435,328.

2:7 Electrical Goods Stock Control

The following observations are made.

- (i) Even though the purchases of electrical goods should be made by calling for quotations in accordance with the Procurement Procedure, the purchases had been made from a particular institution since the year 2008 without calling for quotations. The value of the such electrical goods purchased in the year 2010 amounted to Rs.1,828,060.
- (ii) The electric poles in the area of authority of the Sabha on which street lights are installed had not been numbered.

- (iii) The issues of electrical goods / equipment / light bulbs had been made without specifying the places of installation.
- (iv) The Goods Issue Orders relating to the issue of electrical goods valued at Rs.180,940 in 19 instances during the period 18 January 2010 to December 2010 did not indicate the requests made by Superintendent of Works / Technical Officer / Officer in Charge or any other officer. Goods had been issued without the recommendation of the Secretary of the Sabha. The Storekeeper had not signed for the issue of goods.
- (v) A system for the handover of the old parts removed for the installation of new electrical goods to the store had not been followed.
- (vi) Entries in the stock book had been made in pencil.

2:8 Operating Inefficiencies

The following observations are made.

- (a) The roads belonging to the Sabha and those transferred to the Sabha after May 1995 had not been published in the Gazette in terms of Section 21 (2) of the Pradeshiya Sabha Act, No. 15 of 1987. The nature of the roads had not been identified and recorded in a register.
- (b) Action had not been taken even by the date of audit in July 2011 for the recovery of staff loan balance of Rs.57,417 recoverable from 22 officers of the Sabha who had been transferred out.

2:9 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulations 128, 132 and 134 of the Republic of Sri Lanka and paragraph (d) of the Circular No. WP/LGD/10/2008 dated 19 August 2008 of the Commissioner of Local Government.

3. 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