

Madurawala 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 30 March 2011 and the financial statements for the preceding year had been presented on 26 February 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 Madurawala 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 Madurawala 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) The value of 20 garbage carts received as donations amounting to Rs.82,500 had not been capitalized.
- (b) Instead of accounting for the issue of stocks valued at Rs.14,506,380 in the year under review as expenditure purchases of stocks valued at Rs.8,767,325 had been brought to account in lieu thereof as expenditure.
- (c) Even though the expenditure on the purchase / construction of lands and buildings in the year under review amounting to Rs.9,680,076 had been shown correctly in the financial statements, that had been shown as Rs.6,745,253 in the Ledger Account.
- (d) Expenditure of Rs.6,905,762 under the Expenditure Head 304 (4) appearing in the Summary Register of Expenditure had not been posted to the Revenue and Expenditure Account.

- (e) Furniture and fittings valued at Rs.2,591,518 purchased in the year under review had been posted as Rs.2,696,657 in the ledger. As such the balances of the Furniture and Fittings Account and the Revenue Contribution to Capital Outlay Account had been overstated by a sum of Rs.105,139.
- (f) According to the Summary Register of Expenditure, the purchase of library books valued at Rs.152,674 and the value of donations amounting to Rs.42,389 totalling Rs.195,063 had been posted to the Library Books Account as Rs.199,307.
- (g) According to the Trial Balance as at 31 December 2010, the cash balance of the General Account amounted to Rs.8,189,403 while that balance had been shown as Rs.9,975,218 in the balance sheet. According to the Trial Balance the debit balance of the Suspense Account amounted to Rs.1,452,614 while that balance had been shown as Rs.3,238,429 in the Balance Sheet.

1:3:2 Unreconciled Control Accounts

- (a) The Electrical Stores balance and the provision for creditors as at the end of the year under review according to the financial statements amounted to Rs.172,004 and Rs.2,552,539 respectively. Those balances according to the ledger amounted to Rs.207,600 and Rs.2,659,945 respectively while the balances according to the schedules amounted to Rs.189,802 and Rs.2,552,217 respectively.
- (b) According to the Schedule of Staff Loans, the receipts and payments of staff loans of the year amounted to Rs.1,645,679 and Rs.3,739,250 respectively while those balances according to the Summary of Revenue and Expenditure Register amounted to Rs.1,097,994 and Rs.3,662,863 respectively. The balances according to the Consolidated Revenue and Expenditure Summary amounted to Rs.1,648,836 and Rs.3,662,863 respectively.
- (c) The balances of 08 items of account according to the Summary Registers of Revenue and Expenditure totalled Rs.30,936,527 while those balances according to the Consolidated Revenue and Expenditure Summary totalled Rs.31,682,488.

- (d) The difference between in the opening balances of the Acreage Tax Account and the Lease Rent Account in the ledger and the schedule relating thereto amounted to Rs.83,411, the difference between the opening balance of the Rates Account and the Schedule amounted to Rs.216,571 and a difference of the revenue received in the year amounted to RS.11,469,706.

1:3:3 Unsettled Accounts

The accounts had been prepared on the basis of 14 balances of assets totalling Rs.6,188,095 which were distributed by the Bulathsinghala pradeshiya sabha in establishing the Madurawala pradeshiya sabha in the year 2006 and balances of 08 liabilities totalling Rs.4,621,360. No action had been taken to settle / recover those balances up to 12 August 2011, the date of audit.

1:3:4 Accounts Payable

The value of the balances of Accounts Payable as at 31 December 2010 amounted to Rs.5,316,065.

1:3:5 Lack of Evidence for Audit

Non – submission of Information to Audit

Seven balances of accounts totalling Rs.8,720,285 could not be satisfactorily vouched in audit due to the non – submission required information to audit.

1:3:6 Non-compliance with Laws, Rules and Regulations, etc.

According to the Bank Reconciliation Statement prepared as at 31 December 2010 for one Bank Current Account of the Sabha, action in terms of Financial Regulation 396 (d) of the Democratic Socialist Republic of Sri Lanka had not been taken on 02 cheques valued at Rs.10,833 issued but not presented for payment for more than 06 months.

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. 1,481,831 as against the excess of recurrent expenditure over the revenue amounting to Rs.16,901,177 for the preceding year.

2:2 Financial Control

Favourable variances ranging from 23 per cent to 74 per cent in 02 items of revenue and 03 items of expenditure were revealed between the estimated and the actual revenue and expenditure while adverse variances ranging from 24 per cent to 61 per cent were observed between the estimated and the actual revenue in 04 items of revenue and one item of expenditure. 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	2010			2009		
	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	616	293	649	629	217	1,252
(ii) Lease Rents	--	--	188	--	--	187
(iii) Licence Fees	226	226	--	268	267	122
(iv) Other Revenue	342	342	121	365	365	124

2:3:2 Courts Fines

Courts fines amounting to Rs.2,063,785 collected by a Magistrates' Court 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

Stamp fees amounting to Rs.1,892,539 remained recoverable as at 31 December 2010 from the Registrar General.

2:3:4 Advertising Hoarding Charges

(a) A sum of Rs.46,512 receivable as advertising hoarding charges in respect of the year 2009 had not been recovered even by 03 August 2011. There was no evidence that the advertising hoardings had been removed.

- (b) The field inspection carried out on 03 August 2010 revealed that a sum of Rs.23,503 recoverable on 09 permanent advertising hoardings and 03 temporary advertising hoardings erected along the Madurawala – Matugama Road had not been recovered.

2:3:5 Tax on Land Sales

A sum of Rs.671,778 had been received in the year 2010 by the Sabha as one per cent tax on sale of lands in terms of Section 154 (1) of the Pradeshiya Sabha Act, No. 15 of 1987 on the auction sale of 05 lands in the area of authority of the Sabha. The tax had been recovered on the estimated sale price of lands instead of recovering on the sale price of lands.

2:3:6 Environmental Protection Permits

Sixteen Environmental Protection Permits had been issued during the period 2009 to 31 July 2011. Even though the permits of 08 institutions had expired in the years 2008, 2010 and 2011, and only one institution had renewed the Permit. The Sabha had not taken any action whatsoever in connection with the institutions which had not renewed the permits.

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	27,398	20,993	6,405	25,646	17,459	8,187
Others	14,105	7,774	6,331	6,791	26,152	(19,361)
	-----	-----	-----	-----	-----	-----
Sub-total	41,503	28,767	12,736	32,437	43,611	(11,174)
Capital Expenditure	26,660	15,039	11,621	16,000	27,710	(11,710)
	-----	-----	-----	-----	-----	-----
Grand Total	68,163	43,806	24,357	48,437	71,321	(22,884)
	=====	=====	=====	=====	=====	=====

2:5 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 Employees -----	Approved -----	Actual -----
Staff	02	01
Secondary	37	23
Primary	70	63
Other (Casual Temporary)	---	20

2:6 Assets Management

2:6:1 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.2,620,193.

2:6:2 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.4,405,547.

2:7 Identified Losses and Damages

Action had not been taken even by July 2011 for the recovery of 79 books valued at Rs.11,754 issued from the year 1999 to April 2010 from the Parties concerned or recover the value of books from the guarantors up to July 2011. The Chairman informed me on 29 October 2011 that 19 books had been returned while the value of 06 books had been recovered.

2:8 Operating Inefficiencies

The Register of Fixed Assets had not been maintained in the updated manner while 07 items of assets totalling Rs.1,685,946 representing purchases made and donations received in the year under review had not been recorded in that register.

2:9 Internal Audit

An internal audit had not been carried out in terms of Financial Regulations 133 and 134 of the Republic of Sri Lanka and Circular No. WP/LGD/10/2008 dated 14 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