

Mawathagama Pradeshiya Sabha

Kurunegala District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 29 March 2011 and the financial statements for the preceding year had been presented on 15 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 Mawathagama 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 Mawathagama 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) According to the Register of Fixed Assets, the value of lands and buildings acquired by the Sabha in the year 2010 amounted to Rs.6,999,200 (lands Rs.2,279,200 Buildings Rs.4,720,000). According to Journal No.57 that had been brought to account as Rs.7,099,200, thus overstating the value by a sum of Rs.100,000.

- (b) According to the Board of Survey Reports on fixed assets as at the end of the year under review, except the library books, the other fixed assets had been shown at the book value of Rs.52,891,735 without computing their value.
- (c) The discount allowed on rates during the year under review amounting to Rs.33,130 had been shown as a deduction from the revenue for the year under review instead of being brought to account as expenditure.
- (d) The rates received in advance as at the end of the year under review amounting to Rs.936,307 had been brought to account as a deduction from the revenue debtors instead of being brought to account under current liabilities.

1:3:2 Unrecoupled Control Accounts

The balances of 18 items of account according to the Control Accounts totalled Rs.44,322,725 whereas according to the subsidiary registers /records the balances of those accounts totalled Rs.25,172,807.

1:3:3 Accounts Payable

The value of balances of Accounts Payable older than 01 year as at 31 December 2010 amounted to Rs.13,494,925.

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. 621,830 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.2,759,276 for the preceding year.

2:2 Financial Control

- (a) A sum of Rs.5,590,367 remaining under 06 categories of deposits for water brought forward under long term deposits and a sum of Rs.650,000 payable to the National Housing Development Fund had not been identified and settled even up to the end of the year under review.
- (b) There were 18 cheques valued at Rs.181,647 issued from 03 Bank Accounts remaining without being presented for payment for more than 06 months.

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 ----- Rs.'000	Actual ----- Rs.'000	Cumulative Arrears as at 31 December ----- Rs.'000	Estimated ----- Rs.'000	Actual ----- Rs.'000	Cumulative Arrears as at 31 December ----- Rs.'000
(i) Rates and Taxes	1,688	1,700	3,920	1,545	1,357	3,930
(ii) Lease Rents	4,799	4,632	2,272	6,389	6,281	2,233
(iii) Licence Fees	890	891	98	930	968	98
(iv) Other Revenue	36,220	3,298	23,971	33,814	33,031	26,171
Total	43,597	10,521	30,261	42,678	41,637	32,432
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2:3:2 Courts Fines

Courts fines amounting to Rs.1,877,367 recovered by a Magistrate's Court up to 31 December 2010 under various Ordinances remained receivable by the Sabha.

2:3:3 Stamp Fees

Stamp fees amounting to Rs.16,185,662 remained receivable as at 31 December 2010 from the Registrar General.

2:3:4 Trade Stall Rents of Public Market

An arrears balance of Rs.516,092 remained outstanding as at the end of the year under review from 42 Trade Stalls of the Mawathagama Public Market and those arrears related to periods ranging from 01 year to 10 years. Action in terms of the agreements had not been taken to file cases for the recovery of arrears. The arrears of rent on 04 Meat and Fish Stalls as at the end of the year under review amounted to Rs.89,703. Even though arrears amounting to Rs.442,202 relating to preceding years existed according to the registers, information thereon was not furnished.

2:3:5 Rent on Mobile Trade Stalls

Even though 20 mobile trade stalls constructed at a cost of Rs.700,000 from a loan obtained from the local loans and Development Fund had been supplied to lessees for 36 monthly installments of Rs.1,104 each and a monthly lease rental of Rs.200, lease rent amounting to Rs.240,120 had been due as at the end of the year under review from 17 of those Trade Stalls.

2:3:6 Rates

The annual rates billed by the Sabha for the year under review amounted to Rs.1,604,241 and the arrears as at the end of the year amounted to Rs.3,541,800 representing nearly 02 times the value of annual billing. These arrears had been brought forward over long periods prior to the year 2009 and action in terms of Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 and Rules Nos. 33 to 41 of the Pradeshiya Sabha (Financial and Administrative) Rules – 1988 had not been taken for the recovery of the arrears.

2:3:7 Acreage Tax

The Acreage Tax annually billed by the Sabha amounted to Rs.33,318 and annual collection had been at the very low level of Rs.5,553 or 16 per cent of the amount billed annually. The arrears of Acreage Tax as at the end of the year under review amounted to Rs.378,529 and as compared with the amounts billed annually that represented nearly 11 times the amounts billed annually. Action in terms of Sections 158 of the Pradeshiya Sabha Act, No. 15 of 1987 and the Rules No. 33 to 44 as specified in Rules No. 44 of the Pradeshiya Sabha (Financial and Administrative) Rules – 1988 had not been taken for the recovery of the arrears.

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	2010			2009		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
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	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	34,741	29,486	5,255	35,951	27,896	8,055
Others	17,334	13,495	3,839	15,195	12,072	3,123
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Sub-total	52,075	42,981	9,094	51,146	39,968	11,178
Capital Expenditure	38,200	21,941	16,259	37,325	24,435	12,890
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Grand Total	90,275	64,922	25,353	88,471	64,403	24,068
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2:5 Surcharges

According to the surcharges imposed by me in terms of provisions of Section 172(3) of the Pradeshiya Sabha Act, No. 15 of 1987 against the persons responsible, the value of surcharges recoverable as at 31 December 2010 amounted to Rs.20,152.

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
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Staff Grades	02	02
Secondary Grades	10	09
Primary Grades	64	63
Other (Casual Temporary)	--	56

2:7 Assets Management

2:7:1 Accounts Receivable

The balances of accounts receivable as at 31 December 2010 amounted to Rs.30,953,971 and the balances of accounts older than 01 year totalled Rs.30,919,966.

2:7:2 Staff Loans Recoverable

The staff loans and advances recoverable as at 31 December 2010 totalled Rs.33,167 and the balances of accounts older than 01 year totalled Rs.22,567.

2:7:3 Non-moving Current Assets

(a) A debtors balance amounting to Rs.1,719,098 relating to the Concrete Project brought forward over a number of years remained as at the end of the year under review. Information and the schedules relating to such balance were not made available to audit.

- (b) Balance of raw material stocks amounting to Rs.28,040 and a balance of finished stocks amounting to Rs.31,428 relating to the Concrete Project brought forward over a number of years remained as at the end of the year under review.
- (c) There were 467 books valued at Rs.40,293 lent by the 05 libraries and not returned despite the elapse of several years.

2:8 Identified Losses

A sum of Rs.2,107 had been spent from the Sabha Fund in the year under review for the reconnection of the electricity supply to the 04 pump houses including the water purification plant disconnected due to the non-settlement of electricity bills on the due dates.

2:9 Transactions not supported by Adequate Authority

The following observations are made.

- (a) According to letter No. GGRC/21/05 dated 07 June 2010 of the Commissioner of Local Government a sum of Rs.10,000 had been made available by the Asia Foundation for the establishment of a Public and Private Sectors Action Committee. A sum of Rs.37,740 which exceeded that limit had been spent thereon without obtaining approval.
- (b) Even though the Sabha had, by decision No. 4.27 of 29 June 2010 granted permission requested by an applicant for the construction of a Trade Stall on the vacant block of land behind the Mawathagalam Public Market, the provisions of the Circular No. 80/46 dated 31 December 1980 of the Commissioner of Local Government had not been followed in that connection.

2:10 Operating Inefficiencies

The following observations are made.

- (a) The pensionary contributions payable to the Local Government Service Pension Fund on behalf of the employees of the Sabha who had retired

from service had not been paid by the Sabha regularly and as such the balance payable to that Fund by the end of the year under review amounted to Rs.3,017,544. Even though the Fund had charged a sum of Rs.9,710 as the monthly installment, the particulars of the employees relating to that amount had not been notified to the Sabha.

- (b) The Sabha has a fleet of 08 motor vehicles. Deficiencies such as the non-use of forms for allocation of motor vehicles, lack of approval of a responsible officer for allocations, lack of gate checks on the out and in movements, non-use of Fuel Orders for purchase of fuel, purchase of fuel for cash on daily basis, failure to test fuel consumption every 06 months and leaving the ambulance No. 53-6115 received by the Sabha as idle in the garage were observed.
- (c) Even though a Board of Survey in respect of the year under review had been conducted for assets with a book value of Rs.52,891,735, those assets had not been valued by the Board of Survey. According to the Board of Survey Report for the year under review about 500 books valued at Rs.42,600 had been misplaced.
- (d) A physical check of in stores of the Sabha carried out on 18 August of the year under review, revealed non-reconciliation of 365 units of 21 items of stocks between the balances according to the stock books and the physical balance as at that date while 11 items received by the store without following the purchase procedure had been recorded in the stock books under 881 receipt entries.

2:11 Performance

Even though provision amounting to Rs.37,800,000 had been received for 56 projects which should have been completed and handed over by 31 December 2010, agreements had been signed only for 08 projects. Work on only 04 of those projects had been commenced up to the end of the year under review.

2:12 Internal Audit

An adequate internal audit of the institution had not been carried out.

3. Systems and Controls

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

- (a) Accounting
- (b) Financial Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contract Administration