

Palindanuwara Pradeshiya Sabha

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Kalutara District  
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1. Financial Statements

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1:1 Presentation of Financial Statements  
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The financial statements for the year under review had been presented for audit on 31 March 2011 and the financial statements for the preceding year had been presented on 05 March 2010.

1:2 Opinion  
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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 Palindanuwara 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 Palindanuwara 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  
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1;3:1 Accounting Deficiencies  
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The following observations are made.

- (a) The provisions for creditors made for the payment of salaries and allowances as at the end of the year under review under the General Administration Programme and Health Services Programme amounted to Rs.123,707 and Rs.44,284 respectively and those amounts had been posted to the Revenue Account as Rs.118,719 and Rs.42,166 respectively thus resulting in an understatement of Rs.7,106.

- (b) The balance stock valued at Rs.67,356 which should have been deducted from the Expenditure Head 309 of Physical Planning, Thoroughfares and Land and Buildings Programme had been deducted from the Expenditure Head 303.
- (c) Revenue from Licence Fees under Programme 2 amounting to Rs.222,300 had been brought to account as Rs.182,635.
- (d) Capital grants receivable amounting to Rs.82,650 had not been brought to account.
- (e) Special advances and festival advances paid in the year under review amounting to Rs.195,000 and Rs.80,000 respectively had been brought to account as salaries and allowances.
- (f) Rates amounting to Rs.2,945 received in advance had been shown as a deduction from the outstanding rates balance instead of being shown as receipts in advance.
- (g) The works stores balance amounting to Rs.81,486 included a sum of R.14,130 representing the value of inventory items.

1:3:2 Unrecounciled Control Accounts

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The balances of 04 items of account according to the financial statements totalled Rs.7,167,982 whereas according to the subsidiary registers and schedules the balances of those accounts totalled Rs.7,564,155

1:3:3 Accounts Payable

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The value of balances payable older than 01 year as at 31 December 2010 amounted to Rs.4,526,715..

1:3:4 Lack of Evidence for Audit

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Non – submission of Information to Audit  
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Balances of accounts amounting to Rs.603,439 and transactions totalling Rs.1,552,026 could not be satisfactorily vouched in audit due to the non – submission of evidence required for audit.

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

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

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
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(i) Financial Regulations 371 (2)(b) and 371(2)(c)	An advance paid for a particular purpose should be settled immediately after the completion of such purpose. Nevertheless, advance amounting to Rs.19,858 paid from the year 2006 up to 09 March 2010 had not been settled even by April 2011.
(ii) Financial Regulation 396(d)	Action in terms of the Financial Regulation referred to had not been taken on 08 cheques valued at Rs.38,802 relating to a Bank Current Account not presented for payment for over 06 months as at 31 December 2010.
(iii) Financial Regulation 756	Even though a Board of Survey should be conducted at the end of each year, reports in support of Boards of Survey conducted after 31 December 2007 had been furnished.
(iv) Financial Regulation 1645(a)	Log Books had not been maintained for motor vehicles.

- (v) Financial Regulation 1647(e) Schedules to Financial Regulation Part II A Register of Motor Vehicles had not been maintained as required by the Financial Regulation.
- (b) Paragraph 2 of the Circular No. LG/05/2004 dated 09 July 2004 of the Commissioner of Local Government Even though it is the duty of the Secretary of the Sabha to obtain adequate security deposits from officers incharge of the custody of properties of all kinds of Local Authorities such as cash, equipment, stores, etc. and officers collecting revenue, security deposits had not been obtained from any of the officers of the Sabha performing the above duties.

2 Financial and Operating Review  
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2:1 Financial Result  
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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. 6,691,100 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.5,837,225 for the preceding year.

2:2 Financial Control  
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The following matters were observed.

- (a) In terms of Sections 153,160 and 165 of the Inland Revenue Act, No. 10 of 2006,Withholding Tax at 5 per cent of payments exceeding Rs.50,000 per mensem or Rs.500,000 per annum made for purchase of goods or service should be retained and remitted to the account of the Commissioner General of Inland Revenue. Nevertheless, a sum of Rs.112,792 that should have been retained from the payments made in April and May 2010 had not been so retained.
- (b) Favourable variances ranging from 10 per cent to 236 per cent were revealed between the estimated revenue and expenditure relating to one item of revenue and 07 items of expenditure while adverse variances ranging from 07 per cent to 90 per cent were revealed in relation to 07 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

### (a) 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	1,101	1,078	24	867	768	99
(ii) Lease Rents	525	525	--	405	405	--
(iii) Licence Fees	147	147	--	124	124	--
(iv) Other Revenue	1,890	1,890	--	1,799	1,809	(10)

(c) The Statement of Arrears presented with the financial statements indicated an outstanding lease rent balance of Rs.1,321 as at 31 December 2010, but there is no such outstanding lease rent balance in the above information.

## 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
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	13,857	11,292	2,565	11,741	8,947	2,794

Others	11,022	4,606	6,416	5,060	6,873	(1,813)
Sub-total	24,879	15,898	8,981	16,801	15,820	981
Capital Expenditure	19,252	30,701	(11,449)	39,090	2,356	36,734
Grand Total	44,131	46,599	(2,468)	55,891	18,176	37,715

## 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	01	01
Secondary	10	06
Primary	42	40
Other (Casual Temporary)	--	04

## 2:6 Assets Management

### 2:6:1 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.2,410,345.

### 2:6:2 Assets not Surveyed

The value of assets not supported by Board of Survey Reports and computed on the book values as at 31 December 2010 amounted to Rs.24,935,494.

## 2:7 Irregular Transactions

### Payment of Uniform Allowances

Even though Circular No. μ÷À/´ ÔÛ/2/9/97 dated 19 August 1997 of the Commissioner of Local Government, Western Province, emphasized that cash

payments should not be made for uniforms and that uniforms should be provided, cash payments amounting to Rs.16,075 had been made to 32 employees entitled to uniforms.

2:8 Operating Inefficiencies  
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2:8:1 Thoroughfares of the Sabha  
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Even though the thoroughfares of the Sabha should be published in the Gazette in terms of Section 21(2) of the Pradeshiya Sabha Act, No. 15 of 1987, the Sabha had not published in the Gazette 273 thoroughfares acquired or owned by the Sabha after the year 2008.

2:8:2 Stock Control  
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- (i) The hume pipes purchased for road development work at the requests of members had been issued to the members through the Technical Officer. Nevertheless there were no reports of the place where those hume pipes were installed. Nevertheless, the places of installation of 10 hume pipes purchased for Rs.52,500 by the Sabha in 2010 at the request of 02 members and issued to those two members could not be found by the audit.
- (ii) Purchases of electrical goods had been made on the requests made by the members without any requests for stores requirements made by the Storekeeper.
- (iii) The electrical goods purchased for Rs.297,455 in December 2010 had been issued to the Chairman and two members through the Technical Officer and there were no reports on the places where those goods were installed. Instead of using the goods needed for installation on a day, all the goods purchased on each occasion (purchases of about Rs.50,000 on each occasion) had been issued to the Technical Officer.
- (iv) Records of the old goods removed, for new goods installed, handed over to the stores had not been maintained.

- (v) The electric poles in the area of authority of the Sabha had not been numbered.
- (vi) Even though 75 ordinary switches valued at Rs.6,000 ordered under Order No. 295 of 29 October 2010 had been issued to the Technical Officer under the Goods Issue Order No. 001222 of 09 November 2010, that stock had not been recorded in the stock book.

2:8:3 Acquisition of Lands

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The block of land 51 perches in extent allocated for common amenities from the Bellana Diyanthegodalands Land 03 acres 01 rood 21 perches in extent auctioned in the year 2006 had not been acquired by the Sabha even by 26 January 2011, the date of audit.

2:9 Contract Administration

2:9:1 Construction of Trade Stalls on the Fair Premises – Second Project – Stage I

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An estimate of Rs.11,000,000 had been prepared for the above Project in the year 2009 and the work had been started by awarding the contract for a sum of Rs.9,675,300.

In this regard the following observations are made.

- (i) The Civil Engineer and the District Engineer had not participated in the meeting of the Project Procurement Evaluation Committee on this Project held on 28 January 2010.
- (ii) The Engineer had not participated in the Technical Evaluation Committee meeting.
- (iii) According to Section 5.4.4 of the Procurement Guidelines 2006, the advance payable to the contractor of a construction contract should be 20 per cent of the estimated expenditure. Nevertheless, the contractor had been paid an advance amounting to 25 per cent, thus resulting in an overpayment of Rs.483,765.



- (iv) Even though the sum of Rs.60-,000 had been paid to a Chartered Engineer for the preparation of the estimates and the designs, the approval of the Commissioner of Local Government had not been obtained for the payment.
- (v) A copy of the designs and the estimates relating to the construction had not been furnished to audit.
- (vi) The estimate of Rs.1,560,000 at Rs.1`,560 per square foot had been made under work item No.24 of the agreed estimate for the installation of high quality aluminium doors to all trade stalls and application of paint. According to the measurement report for the final payment, a sum of Rs.1,791,150 had been paid for 1,791.75 square feet. Thus a sum of Rs.231,150 had been paid in excess of the estimated amount. Under such circumstances, an additional payment of Rs.35,910 had been paid for additional work for the purchase of amano sheets to cover the clefts caused in fixing the doors. Accordingly a sum of Rs.267,060 in excess of the estimate had been paid.
- (vii) A physical inspection of the trade stalls carried out on 26 January 2011 revealed cracks developed on outside of the walls, a large crack on the wall near the steps and cracks developed on the inside of the walls of trade stalls 3,4 and 5.
- (viii) A valuation report from the Chief Government Valuer had not been obtained for determining the key money and in lease rent of the trade stalls.
- (ix) Out of the 14 trade stalls constructed 03 stalls had not been leased out even by January 2011. Even though a sum of Rs.11,500,000 had been expected from the lease of all trade stalls, a sum of Rs.9,075,000 only had been received.

#### 2:9:2 Development of Roads

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- (i) A physical inspection revealed that concreting of the Kalugala Magura Kanatta Road 81.9 metres in length, Magura, Puwakgahadeniya Road 54 metres in length and Lathpandura, Kurunduwatta Road 37 metres long had been done without allowing for expansion gaps.

- (ii) Crackss developed horizontally from the beginning of Kalugala Magura Kanatta Road up to a length of 45 metres, from the beginning of Puwakgahadeniya Road up to a length of 47 metres and from the beginning of Lathpandura Kurunduwatta Road up to 26.8 metres were observed.

2:10 Internal Audit

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An Internal Audit Unit had not been established in terms of Financial Regulations 133 and 134 and the Circular No. WP/LGP/10/2008 dated 19 August 2008 of the Commissioner of Local Government.

3. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Budgetary Control
- (d) Stock Control