

Pitabeddara Pradeshiya Sabha

Matara 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 July 2011 and the financial statements for the preceding year had been presented on 03 February 2011.

1:2 Opinion

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

1:3 Settlement of Assets and Liabilities

Even though the Pitabeddara Pradeshiya Sabha had been established by the Notification published in the Gazette Extraordinary No. 1421/26 dated 01 December 2005 of the Democratic Socialist Republic of Sri Lanka the settlement of the assets and liabilities between the Kotapola Pradeshiya Sabha and the Pitabeddara Pradeshiya Sabha in terms of the provisions in Section 223 of the Pradeshiya Sabha Act, No. 15 of 1987 had not been finalized even up to 17 August 2011.

1:4 Comments on Financial Statements

1:4:1 Accounting Deficiencies

The following matters were observed.

- (a) The Value Added Tax amounting to Rs.28,797 relating to the year under review allowed for set off had been credited to the Surpluses and Deficits Account by Journal Entry No. 39 instead of being credited to the Revenue and Expenditure Account.

- (b) The provision made for the stamp fees for the year under review had been understated by a sum of Rs.1,965,530.
- (c) The Government contribution of Rs.74,055 relating to the property loans in the year under review had been credited to the Other Grants Account by Journal Entry No. 50 instead of being credited to the Property Loans Interest Receivable Account.
- (d) The value of lands and buildings transferred to the Sabha by the Kotapola Pradeshiya Sabha had not been computed and brought to account even up to the end of the year under review.
- (e) The loan balance amounting to Rs.1,979,028 payable to the Local Loans and Development Fund which should be shown under the long term liabilities in the financial statements had been erroneously shown under the current liabilities.
- (f) The value of the stocks of library books as at the end of the year under review according to the financial statements amounted to Rs.1,874,306 whereas the value according to the schedules prepared on the basis of the Accession Register amounted to Rs.1,880,115. Thus the difference amounted to Rs.5,809.
- (g) The balance of the Staff Loans according to the financial statements amounted to Rs.1,466,344 whereas the balance according to the schedules amounted to Rs.1,595,504. Thus the difference amounted to Rs.129,160.

1:4:2 Accounts Payable

The value of Accounts Payable older than 01 year as at 31 December 2010 amounted to Rs.6,131,360.

1:4:3 Lack of Evidence for Audit

- (a) The balance relating to 08 items of account amounting to Rs.52,837,191 could not be satisfactorily vouched in audit due to the unavailability of

Board of Survey Reports, documents supporting the ownership and existence, schedule, age analysis, etc.

- (b) Even though a sum of Rs.45,324 had been credited by Journal Entry No. 50 and debited to the Surpluses and Deficits Account in connection with the difference in the General Stores Stock Account, the explanation relating thereto had not been furnished to audit.

1:5 Non-compliance

Instances of non-compliance with laws, rules, regulations, etc. observed during the course of audit are given below.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Pradeshiya Sabha (Finance and Administrative) Rules 1988	

(a) Rule 164	The accounting records of the Sabha had not been checked daily by the Secretary or an Officer authorized by him and authenticated by placing the initials.
(ii) Rule 193	A report on the excesses and shortfalls had not been prepared by reconciling the Budgeted and the Supplementary Estimates with the actual balances and furnished to audit.
(iv) Rules 218	A Board of Survey of the lands and buildings belonging to the Sabha had not been conducted for the year under review.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

Financial Regulation 507	A Statement of Existence of Fixed Assets prepared by conducting a Board of Survey as at the end of the year for

inclusion of the value of stocks in the annual accounts had not been furnished to the Auditor General.

- (c) Treasury Circular No. 1A1/2002/02 of 28 November 2002. A Register of Fixed Assets on Computer Accessories and Software had not been maintained.

2. Financial and Operating Review

2:1 Financial Results

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.65,574 as compared with the excess of revenue over recurrent expenditure amounting to Rs.379,895 for the preceding year.

2:2 Revenue Administration

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

Even though a request was made to the Chairman by my letter dated 23 February 2011 to furnish the information on the estimated revenue, the actual revenue and the arrears of revenue relating to the year under review and the preceding year on a specified format, it was observed in audit that the information furnished was not correct. Nevertheless, the position of the arrears of revenue as at 31 December 2010 according to the Statement of Arrears of Revenue presented with the final financial statements as compared with the preceding year is summarized below.

Particulars	Arrears of Revenue		Increase as a Percentage	Decrease as a Percentage
	2010 Rs.'000	2009 Rs.'000	%	%
Rates and Acreage Tax	207,890	180,090	15.44	--
Lease Rents	2,350,311	1,075,504	118.53	--
Licence Fees	70,522	72,272	--	2.42
Others	17,864,807	12,864,226	38.87	--

2:2:2 Arrears of Rates and Acreage Tax

Action had not been taken in terms of provisions in Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 for the recovery of the arrears of rates and acreage tax amounting to Rs.207,890 relating to the year under review and the preceding year.

2:2:3 Courts Fines

Courts fines amounting to Rs.445,407 recovered by two Magistrates' Courts under various Ordinances up to 31 December 2010 and remitted to the Chief Secretary remained receivable by the Sabha .

2:2:4 Stamp Fees

Stamp fees amounting to Rs.1,342,793 remained receivable as at 31 December 2010 from the Registrar General.

2:2:5 Non-recovery of Key Money

Key money amounting to Rs.150,000 recoverable as at the end of the year under review from 04 trade stalls of the weekly fair had neither been recovered nor brought to account.

2:2:6 Recovery of Charges on Telephone / Telecommunication Towers

The charges recoverable in terms of 6(v) of Schedule v of the Notification of the Minister of Urban Development and Sacred Areas Development published in the Gazette No. 1597/8 dated 17 April 2009 had been under-recovered by a sum of Rs.493,960 in granting covering approval while a sum of Rs.42,500 had not been recovered on the issue of the Certificates of Conformity.

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		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Recurrent Expenditure						
Personal Emoluments	10,475	8,836	1,639	10,387	8,387	2,000
Others	7,661	3,899	3,762	6,437	5,245	1,192
Sub-total	18,136	12,735	5,401	16,824	13,632	3,192
Capital Expenditure	70,085	14,635	55,450	69,890	9,984	59,906
Total	88,221	27,370	60,851	86,714	23,616	63,098

2:4 Human Resources Management

(a) Approved and Actual Cadre

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

Grades of Employees	Approved	Actual
Staff	02	02
Secondary	12	09
Primary	17	16
Others (Casual/ Temporary)	--	18
	31	45

- (b) According to the Management Services Circulars No. 14 and No. 28 dated 03 January 2002 and 10 April 2006 respectively of the Secretary to the Treasury, the recruitment of employees as casual, substitute and contract basis by Local Authorities had been suspended. But salaries amounting to Rs.1,551,789 had been paid in the year under review to 18 employees recruited contrary to such provisions.

- (c) According to the Register of Salaries for the year under review, the expenditure on the Salaries of Staff and the allowance of members amounted to Rs.8,836,156 but a sum of Rs.7,947,000 only had been reimbursed by the Commissioner of Local Government. As such the difference of Rs.889,156 had been borne by the Sabha Fund.

2:5 Assets Management

Staff Loans Recoverable

According to the registers, the balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.1,466,344.

2:6 Operating Inefficiencies

The following observations are made.

2:6:1 Backhoe Machine No. RS-1126

The cost of this machine purchased from a loan of Rs.5,000,000 obtained in the year 2007 from the Local Loans and Development Fund, after the payment of loan installments and interest by 30 September 2012 amounted to Rs.6,122,247 and the payments made up to 31 December 2010 amounted to Rs.3,981,762.

- (a) The expenditure on the machine for the year under review for repairs, fuel, driver's salary, loan installments and interest amounted to Rs.2,461,706. Nevertheless, a Register of Deployment of the Machine and the registers relating to fuel used, servicing and repairs and hire to external parties had not been maintained properly.
- (b) Even though the value of the machine after the payment of loan installments and interest, amounted to Rs.6,122,247, the value shown in the financial statements amounted to Rs.7,300,000. The difference amounted to Rs.1,177,753.

2:6:2 Maintenance of Street Lights

A sum of Rs.135,010 had been spent in the year under review for the purchase of electrical equipment and accessories.

- (a) An agreement on the maintenance of street lights in the year under review had not been entered into with the Ceylon Electricity Board. As such the expenditure on maintenance of Street Lights incurred from the Sabha Fund could not be obtained as a reimbursement.
- (b) The purchase of accessories for the maintenance of street lights had been made without preparing estimates of requirements and the places of installing, and the types of bulbs.

2:6:3 Proposals of Pradeshiya Sabha Members and Progress

Pitabeddara Pradeshiya Sabha comprised 10 members and only 03 members had regularly attended the 12 meetings held in the year under review and 09 members had attended the meetings occasionally. Members' allowance amounting to Rs.678,000 had been paid to all members.

2:7 Irregular Transactions

Payment of Members' Allowance

In terms of Section 3(1)(I) of the Order of the Chief Minister and the Minister incharge of the Subject of Local Government of the Southern Province published in the Gazette No. 1413/15 of 05 October 2005, members' allowance cannot be paid to any member who does not attend the monthly meeting and the meetings of Committees. Nevertheless, a sum of Rs.95,000 had been paid to 07 members who had not attended the monthly meetings held in January, March, April, June, August and October of the year under review.

03. Systems and Controls

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

- (a) Accounting
- (b) Financial Control
- (c) Revenue Administration