

Udubaddawa Pradeshiya Sabha

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Kurunegala District  
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1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 11 April 2011 and the financial statements for the preceding year had been presented for the audit on 12 April 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 Udubaddawa 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 Udubaddawa 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 accounting policies disclosed with the financial statements, the stamp fees are brought to account on the accrual basis. Nevertheless, stamp fees amounting to Rs.5,947,496 received in the year under review had been brought to account on the cash basis.

(b) The loan installment and interest for the last quarter of the year 2010 on the loan for the backhoe machine obtained from the Local Loans and Development Fund amounting to Rs.305,783 had been paid on 30 December 2010. Nevertheless the interest component amounting to Rs.49,918 had been brought to account under the sundry creditors and as

such that amount had been brought to account in excess under the sundry creditors.

(c) The Stamp Duty payable for the third and the fourth quarters of the year 2010 amounting to Rs.21,019 and Rs.21,905 respectively had not been brought to account under the Stamp Duty Creditors.

(d) The Creditors and the Debtors Accounts relating to 15 works of the Gama Neguma Project had been understated by a sum of Rs.2,760,469.

1:3:2 Unreconciled Control Accounts

The balances of 10 items of account according to the Control Accounts totalled Rs.27,764,267 whereas the balances of those accounts according to the subsidiary registers / records totalled Rs.8,119,146.

1:3:3 Unexplained Differences

An unexplained balance of Rs.772,636 existed in the Staff Loans Account.

1:3:4 Accounts Payable

The value of the accounts payable as at 31 December 2010 amounted to Rs.10,305,597. According to the age analysis furnished for Rs.2,252,119 out of that, the value of balances older than 01 year amounted to Rs.1,181,398.

1:3:5 Lack of Evidence for Audit

Non – submission of Information to Audit

Transactions totalling Rs.18,458,302 could not be satisfactorily vouched in audit due to the non – submission of required information to audit.

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. 2,002,073 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.3,048,097 for the preceding year.

2:2 Financial Control

According to the Bank Reconciliation of the General Bank Account (028-100113254901) of the Sabha for December 2010, there were 101 cheques valued at Rs.1,550,025 issued but not presented for payment for more than 06 months. That included 10 cheques valued at Rs.261,796 drawn in favour of the Employees' Provident Fund, 08 cheques valued at Rs.34,215 drawn in favour of the Employees' Trust Fund and 21 cheques valued at Rs.443,677 drawn in favour of the Local Government Service Pension Fund existing from the year 2008.

2:3 Revenue Administration2:3:1 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	768	680	426	766	725	305
(ii) Rents	1,891	18,377	1,770	1,465	1,442	1,431
(iii) Licence Fees	692	678	201	63	17	442
(iv) Other Revenue	32,477	30,280	2,668	32,715	30,671	7,315
<b>Total</b>	<b>35,828</b>	<b>50,015</b>	<b>5,065</b>	<b>35,009</b>	<b>32,855</b>	<b>9,493</b>

2:3:2 Courts Fines

Courts fines amounting to Rs.2,667,685 recovered by a Magistrate's Court under various Ordinances up to 31 December 2010 remained receivable by the Sabha.

2:3:3 Stamp Fees

Even though it had been stated in the accounts that there were no outstanding stamp fees receivable as at 31 December 2010 from the Registrar General, the

stamp fees received during March to December 2010 had not been recorded in the register.

2:3:4 Arrears of Revenue

According to the Registers of Rates of the Sabha, there were 1108 rate payers in the area of authority of the Sabha and the arrears due from 533 of those as at the end of the year under review amounted to Rs.306,843. According to a test check carried out in audit, the arrears of rates of 17 instances with arrears exceeding Rs.1,000 each totalled Rs.38,970. Such arrears related to quarters ranging from 6 to 16. Action in terms of provisions of Section 158 of the Pradeshiya Sabha Act, No. 15 of 1987 and Rules 33 to 41 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988 had not been taken for the recovery of the arrears.

2:3:5 Acreage Tax

According to the Registers of Acreage Tax there were 368 tax payers in the area of authority of the Sabha and the arrears of 281 of those tax payers as at the end of the year under review amounted to Rs.110,832. According to a test check carried out in audit, the arrears of acreage tax of locations with arrears exceeding Rs.500 each totalled Rs.39,197. Such arrears related quarters ranging from 14 to 49. Action in terms of the provisions of Section 158 of the Pradeshiya Sabha Act, No. 15 of 1987 and Rules 33 to 41 of the Pradeshiya Sabha (Financial and Administrative) Rules – 1988 as set out in Rule 45 had not been taken for the recovery of the arrears.

2:3:6 Trade Licence Fees and Business Tax

In terms of the Section 150 (1) of the Pradeshiya Sabha Act, No. 15 of 1987 and Rule 59 of the Pradeshiya Sabha (Financial and Administrative) Rules – 1988 a field survey should be carried out to identify the business places which should obtain Trade and Business Licences. No such field survey had been carried out for the year under review. Instead payment of money to the institution and collection of cash on field visits only had been done. Accordingly, a sum of Rs.16,200 relating to 34 instances had been received for the year under review. As a field survey had not been carried out for the identification of the places which should obtain licences, arrears as at the end of the year under review are not revealed. As such a process for the recovery of arrears in terms of Section 150 (1) of the Pradeshiya Sabha Act, No. 15 of 1987 had not been carried out. The places on

which business tax could be recovered had not been separately identified and the tax had not been recovered.

#### 2:4 Expenditure Structure

The budgeted and the actual expenditure 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
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	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	17,954	17,473	481	18,203	16,720	1,483
Others	11,217	14,002	(2,785)	9,174	13,087	(3,913)
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Sub-total	29,171	31,475	(2,304)	27,377	29,807	(2,430)
Capital Expenditure	10,175	6,507	3,668	26,626	8,138	18,488
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Grand Total	39,346	37,982	1,364	54,003	37,945	16,058
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#### 2:5 Human Resources Management

##### Approved and Actual Cadre

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

Grade of Employees	Approved	Actual
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Staff Grades	02	02
Secondary Grades	26	22
Primary Grades	44	36
Other (Casual Temporary)	--	18

2:6 Assets Management

2:6:1 Accounts Receivable

The value of balances of accounts receivable as at 31 December 2010 amounted to Rs.5,028,937 comprising revenue debtors amounting to Rs.4,977,220 and prepayments amounting to Rs.51,717. An age analysis thereon was not furnished.

2:6:2 Staff Loans Recoverable

The outstanding balances of staff loans and advances older than 01 year as at 31 December 2010 totalled Rs.26,667.

2:6:3 Non – moving Current Assets

An idle cash balance of the account with the Bank of Ceylon as at the end of the year under review amounted to Rs.34,464.

2:7 Performance

The following observations are made.

- (a) Even though plans had been made under the annual estimates for the execution of 43 projects with an estimated cost of Rs.7,625,000, only 17 Projects costing Rs.3,320,000 had been implemented due to the funding constraints.
- (b) Even though plans had been made for the execution of 05 Projects valued at Rs.450,000 with the Sabha Fund as the source of funding those projects had not been implemented due to the lack of Sabha provisions.

2:8 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) Budgetary Control
- (c) Financial Control
- (d) Revenue Administration
- (e) Contract Administration
- (f) Assets Management