

Hakmana Pradeshiya Sabha

Matara District

01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements for the year under review had been presented to audit on 26 September 2011 and the financial statements for the preceding year had been presented for the audit on 23 November 2010.

1:2 Opinion

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

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The value of library books purchased in the year under review valued at Rs.76,025 had been debited to the Stationery Account which is a recurrent account instead of being debited to the Capital Expenditure Account.
- (b) The discount of Rs.11,274 received on the library books valued at Rs.76,025 purchased in the year under review had not been posted in the accounts.
- (c) In rectifying the duplicated accounting of the expenditure on the construction of Kongala Devenigewatta Road amounting to Rs.976,038, the Accumulated Fund had been credited instead of debiting the Creditors Capital Account and crediting the Expenditure Account.

- (d) Provision had not been made for the audit fees for the year under review amounting to Rs.51,574.
- (e) The contributions to the Local Government Service Pension Fund payable as at the end of the year under review amounting to Rs.893,472 had not been brought to account.

1:3:2 Unreconciled Accounts

The balances of 07 items of accounts according to the financial statements totalled Rs.5,399,544 whereas according to the ledger those balances totalled Rs.3,678,486 and the difference amounted to Rs.1,721,058.

1:3:3 Suspense Accounts

The unsettled debit balance of the Suspense Account as at 31 December 2010 amounted to Rs.70,702.

1:3:4 Accounts Payable

The balances of Accounts Payable older than one year as at 31 December 2010 amounted to Rs.2,040,140.

1:3:5 Lack of Evidence for Audit

Balances amounting to Rs.110,719,332 of 07 items of account could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

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

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

Reference to Laws, Rules and Regulations ,etc.	Non-compliances
(a) Pradeshiya Sabha (Financial and Administrative Rules 1988)	
(i) Rule 143	A detailed report on the deposits classified under each category had not been prepared at the end of each year.
(ii) Rules 153	The Statement of Arrears of Revenue had not been prepared in Form P.S. 07.
(iii) Rule 164	The Secretary or an officer authorized by him had not checked the accounts of the Sabha daily and authenticated by intialling.
(iv) Rule 193	A statement of excesses and shortfalls prepared by comparing the actual balances of the items with the budgeted and Supplementary Estimates provision had not been furnished to audit.
2. Financial and Operating Review	
2:1 Financial Results	
According to the financial statements presented, the excess of recurrent expenditure over the revenue of the Sabha for the year ended 31 December 2010 amounted to Rs.418,126 as compared with the excess of recurrent expenditure over revenue amounting to Rs.345,862 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 03 March 2011 to furnish information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year in a specified format, such information had not been furnished. Nevertheless the position arrears of revenue as at 31 December 2010 according to the Statement Arrears of Revenue presented with the financial statements summarized as compared with the preceding year is given below.	

Particulars	Arrears of Revenue		Percentage of Increase	Decrease as a Percentage
	31 December 2010 Rs.'000	31 December 2009 Rs.'000		
Acreage Tax	68,180	60,600	12	--
Rates	714,510	768,629	--	07
Water Rates	1,283,479	872,870	47	--
Trade Stall Rents	782,445	876,345	--	11
Land Tax	196,290	155,900	26	--

2:2:2 Arrears of Taxes and Charges

Action had not been taken in terms of Sections 158 and 159 of the Pradeshiya Sabha Act, No. 15 of 1987 for the recovery of the taxes and charges amounting to Rs.782,690 relating to the year under review and the preceding years.

2:2:3 Courts Fines

Fines amounting to Rs.405,136 recovered by 02 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.1,810,798 remained receivable as at 31 December 2010 from the Registrar General.

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	13,542	12,009	1,533	11,202	11,074	128
Others	8,649	9,992	(1,343)	7,370	7,250	120
Sub-total	22,191	22,001	190	18,572	18,324	248
Capital Expenditure	2,500	48,765	(46,265)	2,500	135,659	(133,159)
Grand Total	24,691	70,766	(46,075)	21,072	153,983	(132,911)

The entire provisions under 12 Expenditure Heads for the year under review amounting to Rs.131,500 had been saved while expenditure exceeding the provisions made under 15 Heads of expenditure, had been incurred. As such, it was observed that the budget had not been made use of as an effective instrument of control.

2:4 Human Resources Management

2:4:1 Approved and Actual Cadre

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	01	--
Secondary	08	06
Primary	26	18
Others (Casual/ Temporary)	--	38

- (a) According to the Revenue and Expenditure Account for the year under review, the expenditure on the staff and members' allowance of the year under review amounted to Rs.11,911,008 and the Commissioner of Local Government had reimbursed only a sum of Rs.8,098,000. As such the

difference of Rs.3,813,008 had become an additional expenditure of the Sabha Fund.

- (b) According to the Management Services Circulars No. 14 of 03 January 2012 and No. 28 of 10 April 2006 of the Secretary to the Treasury all recruitments of the Local Authorities on casual, temporary, substitute and contract bases had been suspended. Contrary to such stipulation 38 employees had been recruited on contract substitution and a sum of Rs.3,421,651 had been paid from the Sabha Fund as their salaries. It had been emphasized that if recruitment is made surpassing the instructions of the circulars, the Head of the institution is personally responsible in that connection.

2:5 Assets Management

2.5.1 Idle and Underutilised Assets

- (a) Five items of fixed assets valued at Rs.1,476,376 owned by the Sabha had been either idle and underutilized by 28 September 2011, the date of audit.
- (b) The following equipment and goods remained idle even by 21 September 2011 without taking suitable action.
- Four electric motor removed from water pump houses.
 - Centric Water Pump
 - Two hand tractors (Yamaha) with laurel rotary
 - Honda Motor Cycle (131-3031)

2:5:2 Staff Loans Recoverable

The balances of staff loans recoverable as at 31 December 2010 totalled Rs.3,824,082 and the account balance remaining outstanding for more than 01 year amounted to Rs.3,448.

2:5:3 Deficiencies in the Maintenance of Registers

The following registers had not been maintained in the updated and proper manner.

- * Register of Creditors
- * Register of Debtors
- * Register of Staff Loans
- * Register of Deposits
- * Registers of Revenue

2:6 Operating Inefficiencies

2:6:1 Maintenance Street Lights

The following matters were observed.

- (i) Even though the purchase of accessories for the maintenance of street lights should be on the requests made by the Electrician according to the needs as approval by the Technical Officer, such methodology had not been followed.
- (ii) A register had not been maintained for the separate identification of the street lights maintained in the area of authority of the by accounting numbers or codes and for recording the accessories and electric bulbs installed.
- (iii) Reimbursement of the sum of Rs.136,584 spent by the Sabha for the maintenance of street lights in the area of authority of the Sabha had not been obtained from the Ceylon Electricity Board.

2:6:2 Purchase of Compost Bins for Solid Waste Management

Out of the 100 bins purchased in June of the year under review under the Pilisaru Project of the Central Environmental Authority, 21 bins valued at Rs.25,200 remained without being distributed even by 28 September 2011. As such it had not been able to achieve the expected objectives of the Project.

2:6:3 Unauthorised Constructions

Action in terms of Sections 126(VII)(e) and (g) and 126 (ix) of the Pradeshiya Sabha Act, No. 15 of 1987 had not been taken on 09 unauthorised constructions. The charge of Rs.8,223 recoverable on granting the covering the approval for the two storeyed building constructed without authority at the Amaradasa Galappaththi Mawatha at Wepathira, Hakmana Road had not been recovered.

2:6:4 Building Applications

The following matters were observed.

- (i) Extensions of the development permits issued had not been obtained for the year under review and the preceding years and the action had not been taken for the issue of the Certificates of Conformity for the houses constructed.

- (c) According to the Building Application No. BC 2010/09A for a commercial building of 391.40 square meters floor space, a indoor vehicle park should be included in the building plan in accordance with the Notifications published in the Gazette No. 392/9 of 10 March 1988 and No. 1597/8 of 17 April 2009 . But, it had not been included in the building plan. Even the charge of Rs.500,000 recoverable for the motor vehicle park had also not been recovered.

2:6:5 Contributions of the Members for the Activities of the Sabha

The following matters were observed.

- (i) Allowances amounting of Rs.585,000 had been paid to the 08 members of the Sabha including the Chairman and the Vice Chairman only four members including the Chairman had attended the 12 meetings of the year under review.

- (ii) Five proposals of the Chairman only had been implemented in the year under review and the other members had not made any proposals.

2:6:6 Water Rates

The following matters were observed.

- (i) The consumers of the Water Supply Division maintained by the Sabha had been 821 and according to the Revenue and Expenditure Account, the net operating loss for the year under review amounted to Rs.2,841,185. Nevertheless, according to the computation done in audit the operating loss amounted to Rs.2,734,355.
- (ii) Action in terms of clause 03 of the agreement had not been in connection with the sum of Rs.802,121 recoverable from 85 water consumers by way of disconnecting the supply, recovery from the security deposit or by taking legal action.
- (iii) A sum of Rs.225,060 had been outstanding as at the end of the year under review from 112 consumers from whom normal charges are recovered due to the breakdown of the water meters. It was observed that the charges for the actual consumption of water had not been recovered due to the failure to take action for replacing the broken down water meters with new meters.

2:6:7 Stocks of Stores

The following matters were observed.

- (i) The stores ledger had been maintained without being balanced as the stores had been handed over in the year 2009 to the Development Assistant without carrying out a survey of the stock.
- (ii) A shortage of 04 categories of goods valued at Rs.29,740 purchased and issued during the period 2009 to 26 September 2011 existed.
- (iii) Storage facilities are not available for the methodical storages of goods. There was no methodology for takeover, issue of goods in the absence of the storekeeper.

03. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Expenditure Control
- (d) Assets Management