

Kelaniya Pradeshiya Sabha

Gampaha District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the years under review had been presentation for audit on 30 March 2011 and the financial statements for the preceding year had been presented for audit on 30 March 2010.

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 Kelaniya Pradeshiya Sabha for the year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

(a) Omissions in the Accounts

The following omissions in the accounts were observed.

Particulars	Value Rs.
(i) contribution to pension not recovered from reimbursement of salaries for December 2010	134,001
(ii) Financial aid receivable	1,246,148
(iii) Payable to stores creditors	9,250,132
(iv) Payable to contractors for 07 projects completed under the decentralized funds	1,234,570
(v) Meat stall rents of the Dalugama Sub-Office for January 2010	20,603
(vi) Value of fumigation machine received as a donation from the National Solid Waste Management Assistance Centre	Not stated

(vii)	Value of three wheeler vehicle purchased	328,160
(viii)	Expenditure on the construction of 20 notice boards	51,000
(ix)	Staff security amounting to Rs.41,825 obtained from 10 employees /officers and employees security realized	49,659

(b) Transactions not approved by the Sabha  
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Creditor balances amounting to Rs.33,972,902 and arrears of contribution to pensions amounting to Rs.792,434 had been eliminated from accounts without the approval of the Sabha.

(c) Understatements and Overstatements in the Accounts  
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(i) The value of the printer purchased for Rs.89,000 had been understated by a sum of Rs.1,000.

(ii) Even though the reimbursement of Entertainment Tax had been stopped from the year 2006, the balance as at the end of the year under review amounting to Rs.2,693,238 included a balance of Rs.1,601,091 related to the period in which the reimbursement had been stopped.

(iii) According to the letter of the Director General of Pensions dated 26 January 2011, the arrears of contribution to pensions as at 31 December 2010 amounted to Rs.489,340 whereas the balance according to the account amounted to Rs.107,402. As such the arrears of contribution to pensions had been understated by a sum of Rs.381,838.

(iv) The value of office equipment purchased in the year under review according to the accounts amounted to Rs.395,930 whereas according to the Register of Fixed Assets, equipment valued at Rs.395,800 only had been recorded.

(v) A debit balance of Rs.4,932,658 existed as at 31 December 2010 in the General Supplies Creditors Account. An examination of that revealed the following deficiencies relating to the year.

Rs.

\* Increase in the debit balance due to the payment made to debtors relating to the year 1,231,119

2009 and prior year in the year under review.

* Payments made to road roller in implementation of projects debited to General Supplies Creditors Account.	230,600
* Under-extraction of the value of withdrawals in the year from the Stores Ledger.	2,459,026
* Debited to Creditors Account according to payment vouchers and withdrawals not recorded in the Stores Ledger.	1,240,638
* Payables as at 31 December 2010 but creditors without creditors provisions.	1,658,718

- (vi) The purchase prices of 27 items of goods recommended for auction by the Board of Survey for the year 2009 and sold on 10 December 2010 had not been eliminated from the accounts.

#### 1.3.2 Control Accounts

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The balances of 05 items of accounts according to the control accounts totaled Rs.58,775,436 and the balances according to the Subsidiary Registers totaled Rs.49,544,354.

#### 1:3:3 Lack of Evidence for Audit

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Non-submission of Information to Audit

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Transactions totalling Rs.50,198,498 could not be satisfactorily vouched in audit due to the non-submission of the required information to audit.

#### 1:3:4 Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations	Non-compliance
(a) Pradeshiya Sabha Act, No. 15 of 1987	
(i) Section 24(1)(b)	A list of names of roads and paths belonging to the Sabha had not been prepared and published in the Gazette.
(ii) Section 107(2)	A sum of Rs.12,000 paid in the year under review in connection with the removal of 04 dangerous trees had not been recovered from the parties concerned.
(iii) Section 132(j)	Payments for civic receptions or celebrations held in connection with any events or occasions of public interest should be made with the prior written approval of the Minister. But a sum of Rs.257,200 had been spent in 02 instances without obtaining such approval.
(b) Pradeshiya Sabha (Finance and Administrative) Rules 1988	
(i) Rule 150	Even though a Summary Cash Book in Form PS.5 should be prepared by the Sabha, the PS.5 records for the Head Office and Sub-office of the Sabha had not been maintained.
(ii) Rule 155	Head office of the Pradeshiya Sabha had not maintained the main cash book in form PS10.
(iii) Rule 178(2)	According to the Rule under reference, prior to the award of development projects such as Gama Neguma, Maga Neguma etc. to the approved Societies, action should be taken to obtain a certificate from the contractor that he has adequate equipment and a competent

staff. But development works had been awarded to societies without obtaining such confirmation.

(iv) Rule 217

Even though a register in Form PS 46 should be maintained for all the lands and buildings vested in the Sabha, used by the Sabha and occupied by the Sabha, no such action had been taken.

(c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka

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(i) Financial Regulation 110

A Register of Damage and Losses had not been maintained.

(ii) Financial Regulation 260 and 389

(i) Instead of issuing a cheque in name of Wijayaba Farmers' Organization for the contract executed by that Farmers' Organization, cheques valued at Rs.3,772,140 had been issued in 13 instances in the name and private Bank Account of another individual.

(ii) In the payment of overtime to 17 employees of the Road Maintenance Unit amounting to Rs.45,717 for December 2009, all the money had been paid to one employee on the written institution of the Secretary of the Sabha.

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.36,821,518 as compared with the corresponding excess of

revenue over recurrent expenditure amounting to Rs.10,804,982 for the preceding year.

2:2 Financial Control

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The following financial control weaknesses were observed.

- (a) Action in terms of Financial Regulation 396(d) had not been taken on 14 cheques totalling Rs.29,680 lapsed for more than 06 months from the date of issue.
- (b) Cheques had been written in November 2010 on two Bank Accounts causing credit balances amounting to Rs.482,372 and Rs.860,767 in the two cash books contrary the provisions in Financial Regulation 387 of the Republic of Sri Lanka .
- (c) According to Financial Regulation 317 a safe with two locks should be used always. Nevertheless the Sabha was using a safe with only one lock.
- (d) According to Pradeshiya Sabha-1988 (Financial and Administrative) Rule 164, prior to depositing cash at the end of the day in the safe, a summary of cash with the cashier should be prepared and all receipts and payments should be checked and certified by an officer of the Sabha who has been delegated with the authority. Nevertheless, the cash deposited in the safe duty had not been subjected to such checks.
- (e) Even though a separate Current Account had been maintained in the Kelaniya Branch of the People's Bank to carry out the development work of the Sabha free of the daily routine, a test check revealed that payments relating to the General Account amounting to Rs.5,826,662 had also been paid from that account.
- (f) According to the Register of Dishonoured Cheques, action in terms of Financial Regulation 189 had not been taken for the recovery of money on 13 cheques valued at Rs.38,110 dishonoured as at 31 December 2010. This balance includes the cheques issued for 5 to 6 years period.
- (g) Even though the difference between the total of individual balances in the Register of Expenditure Creditors and the balance according to the accounts had been written off without the approval of the Sabha reason for the difference had not been identified.

2:3 Revenue Administration  
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2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue  
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The information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year furnished by the Chairman is given below. Nevertheless, it was observed in audit that the information does not reconcile with the figures appearing in the accounts.

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	83,504	41,195	42,309	66,841	29,650	37,191
(ii) Lease Rents	5,654	4,029	1,625	5,878	4,891	987
(iii) Licence Fees	1,182	406	776	1,551	746	805
(iv) Other Revenue	56,821	57,665	--	52,244	30,069	--

2:3:2 Meat Stall Rents  
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According to a decision of the Finance Committee dated 19 October 2009, the lessees who had obtained in leases of 07 meat stalls for the year 2009 had been granted the leases for the year under review at the preceding years lease rent plus 10 per cent. The arrears of rent for the year 2009 from the lessees so selected amounted to Rs.396,130 and the arrears had not been settled before entering in to agreements for the year under review.

2.3.3 Lease of Trade Stalls – Kiribathgoda Bus Stand  
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- (i) Eleven trade stalls constructed in the Kiribathgoda Bus Stand in the year 2006 had been leased out for businesses outside the bid procedure and action had not been taken for the recovery of any revenue whatsoever from those trade stalls up to June 2010.
- (ii) Out of the persons who ran businesses in those trade stalls five business men had been evicted in the year 2010 and those trade stalls had been given over to five other persons to run businesses.

- (iii) According to the decisions taken at the Financial Committee meeting held on 21 June 2010 and the decision of the Sabha taken at the meeting held on 20 July 2010, it had been decided to lease out these trade stalls to the bidders who had quoted over Rs.200,000. Nevertheless those business men who were running businesses therein had been allowed to remain continuously. But, a sum of Rs.1,330,150 out of the key money receivable by the Sabha remained outstanding and action had not been taken for the recovery of that amount. Agreements had not been entered into with lessees while action had not been taken for the recovery of the monthly lease rent.

#### 2.3.4 Lease of Trade Stalls – Trading Complex, Kelaniya Bus Stand

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- (i) Even though bids had been invited for leasing out 41 trade stalls of the Trading Complex constructed by the Peradeniya Sabha in the premises of the Kelaniya Bus Stand belonging to Sri Lanka Transport Board, the Commissioner of Local Government had, by his letter No. LGD/09/01/06/P14(SPL) dated 03 July 2007, informed that bids should not be accepted until the premises of the Kelaniya Bus Stand is vested in the Pradeshiya Sabha. But contrary to that 28 trade stalls had been leased out and key money due amounting to Rs.10,851,783 remained outstanding from them.
- (ii) Agreements had not been entered in to with the lessees of the trade stalls of the Kelaniya Bus Stand. Even though the Finance and Policy Committee had decided at the meeting held on 21 June 2010 that Rs.2,000 per month from a trade stall in the ground floor and Rs.1,000 per month from a trade stall in the upper floor should be recovered from August 2010, rent had not been recovered form the trade stalls even up to the date of audit in 26 January 2011. Accordingly, the rent of stalls recoverable for the period August 2010 to January 2011 exclusive of taxes amounted to Rs.210,000.

#### 2.3.5 Charges for Advertising Hoardings

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A sum of Rs.384,600 only had been received in the year under review for 11 advertising hoardings and the following observations are made in connection with the recovery of charges.

- (a) An annual survey of the advertising hoardings displayed in the area of authority of the Sabha had not been carried out.



- (b) According to a physical survey conducted after a request for information for audit was made, action had not been taken for the recovery of a sum of Rs.960,000 receivable for 20 advertising hoardings in the area of authority of the Kelaniya sub-office.
- (c) Dalugama Sub-office had not taken action to carrying out a physical survey of the advertising hoardings and furnish a report.

#### 2.3.6 Lease of Lands

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The following observations are made.

- (a) Leasing out of an area of 100 square feet from Hunupitiya Rubberwatta Land

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According to a decision of the Finance Committee dated 24 June 2007, an area of 100 square feet of the Hunupitiya Rubberwatta Land had been leased out for a period of three years with effect from 15 August 2007 at Rs.10,000 monthly rent and the following observations are made in that connection.

- (i) At the time of surveying of the land for the purpose of the lease on 03 August 2007, a vegetable stall and fish stall had been established on the land and area covered by those had been 452 square feet. A lease agreement for the entire area had been signed on 28 April 2008.
- (ii) Even though a sum of 45,200 should be recovered as the monthly rent a sum of Rs.11,300 only had been recovered. As such a loss of Rs.1,220,400 at Rs.33,900 per month had been incurred.
- (iii) Even though the lease agreement had lapsed on 14 August 2010 action had not been taken to recover the property and lease out again.
- (iv) The assessed monthly rent had not been assessed through the Chief Government Valuer.

- (b) Leasing out of the Small Strip of Land Opposite  
Thorana Junction, Kelaniya

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This strips of land had been leased out on 30 October 2008 for an annual rent of Rs.10,356. The lease rent had not been decided on an assessment made by the Chief Government Valuer.

- (c) Leasing out of the Land near Contras Cinema, Dalugama on which  
the Transformer was situated

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The land near the Cotnras Cinema Dalugama on which the transformer was situated had been leased out for a period of three years with effect from 01 July 2006 at a monthly rent of Rs.2,300. Even though a sum of Rs.74,336 had been in arrears from the lessee as at 30 June 2009, it had been leased out again for the three ensuing years disregarding the arrears.

- (d) Leasing out of the strip of Land behind Kiribathgoda Bus Stand

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The land 270 feet long and 15 feet wide situated in the north boundary of the Kiribathgoda Bus Stand adjoining the drain had been leased out on 01 August 2007 for Rs.1,100,000. The following observations are made in connection with that lease.

- (i) The annual lease had not been decided on an assessment made by the Chief Government Valuer.
- (ii) At the meeting of the Finance Committee held on 17 August 2007, it had been decided that the drain in the strip of land should be constructed by the lessee at his cost and to forgo the lease rent for August and September 2007 in lieu of that. The approval of the Minister in terms of Section 182 of the Pradeshiya Sabha Act, No. 15 of 1987 had not been obtained for that decision.
- (iii) In terms of clause 06 of the lease agreement, permanent buildings should not be constructed on the land. But according to plan No. 505/2006 of the Sub-division made on 18 November 2007, the lessee had constructed 26 unauthorized trade stalls on that land for sub-leasing.
- (iv) The Sabha had not taken any action against the unauthorized constructions and lease rent amounting to Rs.1,064,860 had been

in arrears as at 30 September 2010. No action whatsoever had been taken for the recovery of the arrears of lease rent.

- (v) Even though the lease period of the property had lapsed by 30 September 2010, evidence of take over of the land by the Sabha was not made available. As action had not been taken to invite bids to lease the land again it was observed that the Sabha had been deprived of the revenue receivable by the Sabha.

- (e) Leasing of the Land 2,000 square feet in extent adjoining the Weekly Fair Hunupitiya

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The land 2,000 square feet in extent adjoining the Weekly Fair, Hunupitiya had been leased out for a period of 04 years with effect from 01 August 2007 at a monthly rent of Rs.12,500.

The following observations are made in that connection.

- (i) A plan had not been prepared by surveying the land and determining its area and a file had not been maintained on the land.
- (ii) The lessee had been allowed to use the land even after the elapse of the lease period.

- (f) Lease of the Bare Land situated South of the Buddha Statue at the Tyre Corporation Junction

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The bare land situated south of the Buddha Statue at the Tyre Corporate Junction had been leased out for period of 03 years from 01 November 2007 to 31 October 2010 at a least rent of Rs.79,200. The following observations are made in that connection.

- (i) The unauthorized contractors on that land were pointed out in the Report of the Auditor Genial for the year 2009 and no action whatsoever had been taken thereon.
- (ii) The arrears of lease rent for the relevant period amounted to Rs.93,830.

- (iii) Even though agreement period had elapsed action had not been taken to recover the block of land.

(g) General Matters

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- (i) The Procurement Procedure had not been followed in terms of Rule 177 of the Pradeshiya Sabha (Financial and Administrative) Rules – 1988 in connection with these leases.
- (ii) The approval of the Minister for these leases had not been obtained in terms of Section 19(xi) of the Pradeshiya Sabha Act, No. 15 of 1987.
- (iii) The commercial purposes for which the leases had been granted had not been included in the lease agreements.
- (iv) According to clause 06 of the agreement, permanent buildings should not be constructed on the lands leased out. Contrary to that, permanent buildings had been constructed.

2:4 Expenditure Structure

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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	52,250	57,985	(5,735)	52,650	55,010	(2,360)
Others	54,535	65,176	(10,641)	55,463	81,758	(26,295)
Sub-total	106,785	123,161	(16,376)	108,113	136,768	(28,655)
Capital Expenditure	256,950	134,568	122,382	125,395	52,190	73,205
Grand Total	<u>363,735</u>	<u>257,729</u>	<u>(106,006)</u>	<u>233,508</u>	<u>188,958</u>	<u>(44,550)</u>

2:5 Human Resources Management

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 Approved and Actual Cadre  
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The information on the approved and the actual cadre of the Sabha as at 31 December 2010 has been as follows.

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff Grades	02	01
Secondary Grades	37	30
Primary Grades	139	129
Others - Substitutes	--	58
Contract	--	11
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	178	229
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2:6 Assets Management

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 2:6:1 Accounts Receivable  
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The value of prepayments balances as at 31 December 2010 amounted to Rs.4,319,878 and the balances of accounts older than one year totalled Rs.4,269,655.

2:6:2 Staff Loans Recoverable  
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The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.15,707,029 and the balances of accounts recoverable from 24 persons who are not in service at present due to the reasons such as vacation of posts and change of station transfers, of which no recoveries had been made for more than one year totalled Rs.51,133.

2:7 Uneconomic Transactions

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 Purchase of a Barge and an Excavator  
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A barge and an excavator had been purchased for Rs.2,109,648 for cleaning the canals in the area of the Kelaniya Divisional Secretariat under the Jathika Saviya – Gama Neguma Development Programmes. The following observations are made in that connection.

- (a) Instead of following the Procurement Procedure, quotation had been obtained by hand.
- (b) The excavator purchased had been a used machine and the reasons for the purchase such a machine had not been explained.
- (c) Quotations had been obtained without preparing specifications for the excavator.
- (d) The institutions which submitted quotations for the machine were not sellers of such machines or local agents.
- (e) The Technical Evaluation Committee did not include a subject specialist and the Chairman of the Procurement Committee had functioned as the Chairman of the Technical Evaluation Committee as well.
- (f) Action contrary to the instructions relating to the Value Added Tax in the Public Finance Circular No. 364(4) of 27 August 2004 had been taken in the selection of supplier.
- (g) Even though a sum of Rs.109,648 exceeding Rs.2,000,000 approved for the purchase had been spent out of the Sabha Fund approval for that had not been obtained.

2:8 Activities Extraneous to Objectives

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Technical specifications had not been prepared for the Multi Media Projector purchased at a cost of Rs.115,000 for the Dengue Eradication Project while a technical evaluation had not been carried out in terms of Section 2.8.4 of the Government Procurement Guidelines.

2:9 Transactions not supported by Adequate Authority

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Fifty six persons had been recruited to the casual staff without the approval of the Commissioner of Local Government in terms of Section 19(1)(i) of the Pradeshiya Sabha Act, No. 15 of 1987.

2:10 Transactions of Contentious Nature

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(a) Purchase of a Land at Manelgama for Garbage Disposal

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Even though a sum of Rs.5,269,852 had been paid for the purchase of a land, one acre in extent, out of a marshy land, belonging to the Sri Lanka Land Reclamation and Development Board, situated in the Kelaniya Manelgama area for disposal of garbage, its title had not been transferred. A sum of Rs.4,000,000 had been overpaid as the estimated cost of the water pump house proposed for construction on the land had also been included in determining the sales consideration.

(b) Spread of Gravel Earth on the Garbage Disposal Ground

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A sum of Rs.1,397,441 had been paid to a private institution for the supply of 915 cubes of earth in the year under review to cover in garbage dumped. The following observations are made in this connection.

- (i) The method of selection of the private institution for earth filling was not made available for audit.
- (ii) Materials from demolished buildings such as fragments of concrete, bricks, concrete plaster, etc. had been duped on the garbage and as such it was not possible to ascertain at the physical inspection that 915 cubes of earth had been spread for covering garbage.
- (iii) A small backhoe machine had been taken on hire from the said private institution to level the garbage and a sum of Rs.3,393,667 had been paid in the year under review in that connection. The method of selection of that institution for this purpose was not made available to audit.

(c) Purchase of a Canon iR 2318L Model Photocopier

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A Canon iR 2318L Model Photocopier had been purchased for Rs.95,200 in the year under review and the following matters were observed in this connection.

- (i) The procurement procedure had not been followed in terms of Rule 177 of the Pradeshiya Sabha (Finance and Administrative) Rules 1988 for the purchase.
- (ii) Technical specifications had not been prepared before the purchase.
- (iii) The photocopier sold to the Pradeshiya Sabha for Rs.135,000 had been sold to other Government institution for Rs.86,500 and as such a loss of Rs.48,500 had been caused to the Sabha.
- (iv) The old photocopier of Model iR 1600 of the Sabha had been assessed for Rs.50,000 and set off against the purchase contrary to the accepted procedure. A Board of Survey had not recommended that the old photocopier was not in working condition and its value had not been assessed by an officer with technical knowledge.

#### 2:11 Operating Inefficiencies

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- (a) According to a decision of a case filed against the Sabha by a private company for the non-payment of a sum of Rs.1,404,150 due for the disposal of garbage of the Kelaniya Pradeshiya Sabha during 04 months of the year 2006 a sum of Rs.1,518,000 had to be paid. A loss of Rs.178,850 had been caused as a sum of Rs.65,000 had also been paid as lawyers' fees. The Sabha had paid a sum of Rs.900,000 up to January 2011. Even though 33 1/3 per cent of the Value Added Tax amounting to Rs.61,033 should have been withheld in terms of the Value Added Tax Act, No. 14 of 2007 and remitted to the Commissioner General of Inland Revenue it had not been so done.
- (b) The Sabha had not taken action to demolish the unauthorized constructions on the strip of land between the Jinadasa Nandasena Mawatha across the Kiribathgoda Bus Stand and the canal parallel to the mawatha.

#### 03. Systems and Controls

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

- (a) Accounting
- (b) Internal Audit



- (c) Revenue Administration
- (d) Assets Management
- (e) Stores Control