

Divulapitiya Pradeshiya Sabha
Gampaha District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 31 March 2016 and the financial statements for the preceding year had been presented on 26 March 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 26 July 2016.

1.2. Qualified Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Divulapitiya Pradeshiya Sabha as at 31 December 2015 and the financial result of its operations and cash flows for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following deficiencies are observed.

- (a) The value of 04 projects constructed during the year under review amounting to Rs.6,059,428 had not been capitalised under land and buildings.
- (b) The total project value had been shown as debtors, without deducting the balance of advances obtained during the year by 04 projects. Therefore balance of debtors had been overstated by Rs.392,000.
- (c) The balance of debtors, amounting to Rs.4,371,890 relevant to the cancelled Badalgama playground development project, that had been brought to account had not been adjusted, and therefore the debtors of the year under review had been overstated by Rs.4,371,890.
- (d) The expenditure amounting to Rs.15,490 incurred for colour washing the Kotadeniyawa crematorium had been brought to account as capital expenditure.
- (e) The audit of the financial statements of 2014 revealed that The Sabha had received equipment as donation from the Ministry of Local Government and Provincial Councils. But these had not been valued and brought to accounts as fixed assets even during the year 2015.
- (f) The interest on fixed deposits amounting to Rs.127,377, received in respect of the year under review, had not been brought to account.

1.3.2. Lack of Evidence for Audit

Transactions relevant to 05 items of accounts valued at Rs.155,818,668 could not be vouched satisfactorily during the audit, due to non-submission of registers schedules, and confirmations of balances, to the audit.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.19,310,290 as compared with the excess of revenue over recurrent expenditure amounting Rs.30,736,777 for the preceding year.

2.2. Financial Control

The following matters are observed.

- (a) According to the Financial Regulation 177 of the Republic of Sri Lanka, the revenue collected should be deposited in the bank on the same day or as soon as possible. But the property retaining officer had handed over a sum of Rs.24,426 to the Sabha, after a delay of 10 days to 2 months.
- (b) Action had not been taken to identify and settle the balance of dishonoured cheques amounting to Rs.119,062, which is being carrying forward since the year 2006.
- (c) The fixed deposits as at the beginning of the year under review amounting to Rs.15,500,000, had been cashed by the Chairman and the Secretary of the Sabha during the months of February and March 2015, without the approval of the Sabha and without the approval of the Commissioner of Local Government. This money had been utilised to make the payments in respect of the projects implemented in the year 2014, for which the money had not been reimbursed.

2.3. Revenue Administration

2.3.1. Estimated Revenue, Actual Revenue and Revenue in Arrears

The information submitted by the Secretary with respect to the Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review are indicated below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.000,	Rs.000,	Rs.000,
Rates and Taxes	6,170	6,105	2,681
Lease Rent	2,085	1,627	3,800
Trade Licence	293	294	38
Total	8,548	8,026	6,519

According to the above facts, it was observed that the Sabha had not taken adequate action to recover the revenue in arrears.

2.3.2. Rates and Taxes

The following matters are observed.

- (a) According to provisions in the Section 134 of the Pradeshiya Sabha Act No. 15 of 1987, the area under the authority of the Divulapitiya Pradeshiya Sabha, had been declared as a developed area by

the Gazette Notification No. 1484 dated 09 February 2007 of the Republic of Sri Lanka. The revision of assessments for rates and taxes carried out in the years 1993 and 2003 are in force at present. Therefore the approval of the Chief Minister and the Minister in Charge of the Subject had been received for the new revision of assessment, in accordance with Section 146 of the Pradeshiya Sabha Act No. 15 of 1987, and this had been accepted at the General Meeting on 28 March 2013. Accordingly, properties in respect of 25,000 units of rates and taxes of the Divulapitiya Sub-office had been identified for the new assessment of rates and taxes, whilst identification of properties in respect of Kotadeniyawa and Kehelella (Badalgama) Sub-offices had not been commenced even as at 31 December 2015.

- (b) The project duration in respect of the implementation of the assessment of rates and taxes, had been extended from 01 August 2014 to 31 January 2015, but the assessment process had not been completed even as at 31 December 2015.
- (c) The balance of rates and taxes in arrears as at 31 December of the year under review amounted to Rs.2,681,508, and the balances over 5 years included in this amounted to Rs.1,699,951.
- (d) The assessments on 11 businesses belong to Divulapitiya Sub-office had been carried out by a private valuer, without getting the assessment carried out through the Department of Valuation.
- (e) The area under the authority of the Divulapitiya Pradeshiya Sabha in the Gampaha District had been declared as a developed area by the Gazette Notification No. 1484 dated 09 February 2007. But action had not been taken to recover the rates and taxes according to this, and rates and taxes had been recovered based on the Gazette Notification of 1990.

2.3.3. Lease Rent

- a) Action had not been taken even during the year under review, to recover the lease rent due from trade stalls and *Pola* amounting to Rs.792,214, which is being carried forward since the year 1999. Further, according to the approval of the Commissioner of Local Government, action had been taken to write-off the trade stall rent amounting to Rs.182,685 and lease rent amounting to Rs.55,083 from the registers. But action had not been taken to write-off the amounts from the accounts.
- b) The balance of lease rent not recovered since the years 2006, 2007 amounted to Rs.2,433,647.

2.3.4. Courts Fines

Action had not been taken to recover the courts fines relevant to the area within the authority of Negombo for the years 2012, 2013

2.3.5. Stamp Fees

Action had not been taken to recover the revenue from stamp fees due from Land Registrar's Offices of Negombo, Attanagalla and Gampaha, in respect of the year 2015, and year 2014.

3. Operating Review

3.1. Assets Management

Idle and Underutilized Assets

- (a) Action had not been taken even by November 2015, to lease out the newly constructed 04 stalls, bearing the numbers 17, 18, 19, 20, located on the upper floor of the Divulapitiya *Sathi Pola* Site.
- (b) The Sabha had not taken proper action to dispose the discarded goods, stagnating in the Sabha premises for several years.
- (c) A hand tractor belong to the Sabha had been idling since 2003, and it was observed during the physical check carried out on 28 April 2016, that the tractor was getting eroded without attending to repairs or taking any other action.
- (d) According to the survey report of 2015, 16 public wells belong to the Sabha, valued at Rs.130,438 had not been utilised.

3.2. Uneconomical Transactions

The following matters are observed.

- (a) Up to July 2015, the lubricating oil and other types of oils had not been purchased from the organization located within the close proximity of the Sabha, and oils had been purchased from another organization at a higher price. Therefore a financial loss of Rs.11,150 had been incurred.
- (b) A full insurance cover had been obtained for the Backhoe Loader from a private insurance company at a cost of Rs.110,011. The reasons, for not obtaining the insurance cover from the company which submitted the lowest offer of Rs.95,570 and for obtaining the insurance cover from a private company, in spite of having government insurance institutes, were not revealed during the audit.

3.3. Contract Administration

3.3.1. Progress of the Projects

267 projects had been approved for the Sabha during the year 2015 under the development projects, and the progress of the works as at 31 December 2015 are as follows.

- (a) The work of 21 projects under 100-days village uplifting programme had not been commenced even as at 31 December 2015. The Secretary of the Sabha had informed me, that granting permission to carry out development work in the lands not vested with the Sabha had created this situation.
- (b) Though Section 3.3 of the Public Finance Circular No. 452 dated 27 September 2011 stipulates that, at the time of awarding a contract, the relevant community-based organization should not be

engaged in more than 03 contracts, the contractual work had been carried out exceeding the stated limit.

- (c) 62 projects comprising; 14 projects relevant to Kotadeniya Sub-office; 26 projects relevant to Kehelella Sub-office and 22 projects relevant to Divulapitiya Sub-office; had been approved under the Sabha funds in the year under review. But the work of 25 projects out of this had not been carried out even till the end of the year under review, due to lack of funds with the Sabha.

3.3.2. Construction of Multipurpose Building in Halpe

The following matters were disclosed during the check carried out regarding this on 29 April 2016.

- (a) The building plan relevant to the project was not submitted to the audit.
- (b) This project had been approved at the General Meeting on 28 November 2014, and an agreement had been entered into with the contractor on the same day with the condition that the project would be completed and handed over within 32 days. But the work had been completed on 03 August 2015.
- (c) It was not observed whether the financial ability of the society was checked when handing over the project, and the contractor had informed vide letter dated 13 August 2015, that the work is delayed due to lack of funds.
- (d) Though the contracts had been signed again for approved work on 15 June 2015 providing a limit 03 months, the stated work had been completed only on 26 November 2015.
- (e) Photo copies of measurement reports had been submitted, and they were not clear.
- (f) It was observed during the physical check, that the building was not in a usable condition and only a part of the project had been completed.

3.3.3. Delay in Projects

The following matters are observed.

- (a) Though instructions had been given to complete the renovation work valued at Rs.5,000,000 of Aswennawatta West Gal Kanda *Sathi Pola*, under *Palath Neguma* programme 15 September 2015, only 60% of the work had been completed by December 2015.
- (b) The measurement sheets relating to the first part payment, regarding the construction of a building for the Aswennawatta Weaving Centre under *Palath Neguma* programme, had not been approved by the technical officers. Similarly, instruction had been given to complete the work by 15 September 2015, but the work had not been completed even by the date of the audit, which was carried out on 03 May 2016. In addition to this, the period of validity of the performance bond

relevant to the project had been expired, but evidence for the extension of the period of validity did not contain in the file.

3.4. Management Inefficiencies

The following matters are observed.

- (a) There were 38 Transmission Towers belong to Kehelella, Kotadeniyawa, and Divulapitiya Sub-offices and the Sabha had not taken action even during the year under review to recover the charges for those towers.
- (b) Action had not been taken to obtain the title deeds for the blocks of land demarcated for common amenities of the Sabha with regard to two lands auctioned.
- (c) Action had not been taken even by December 2015, to correct the value of erroneous billings amounting to Rs.2,584,363, carrying forward since the year 2008.
- (d) The balance of employees loans and advances as at 31 December of the year under review amounted to Rs.26,053,880 and this included 06 balances of advances totalling Rs.2,767,965, carrying forward for several years and action had not been taken to settle these balances even during the year under review. The balance of fuel advances amounting to Rs.2,558,617 included in this, was a balance existed since the year 2008

3.5. Solid-Waste Management

The following matters are observed.

- (a) The quantity of solid-waste generated within the area under the authority of the Sabha, per day amounted to 5-6 tons and around 2-3 tons of sorted-out waste had been converted into compost fertilizer, at the Nawana compost yard. The Sabha had incurred an expenditure of Rs.3,063,864 for the disposal of waste during the year under review.
- (b) Action had not been to purchase a land to dispose of the un-degradable waste and necessary action had not been taken as well, to implement a system to sort and collect the waste, within the entire area under the authority.
- (c) The Sabha had not taken action to plan, monitor and control the work indicated in accordance with the Section 22 of Bylaws relevant to solid-waste management, promulgated through the Gazette Extra Ordinary Notification No. 1713/11 dated 05 July 2011 of the Republic of Sri Lanka.

3.6. Environmental Issues

The Sabha had received 43 public complaints up to October of the year under review, and it had been recorded in the register that 19 complaints out of this had been referred to the Chairman and Superintendent of Works. No action had been taken in respect of 84 complaints submitted during the years 2013 and 2014 and, any information regarding the actions taken in this respect, from the point of receiving a public complaint up to the end, had not been entered in the complaints register.

3.7. Human Resource Management

The details of approved and actual cadre as at 31 December of the year under review are indicated below.

Grade	Approved Cadre	Actual Cadre	Vacancies
Staff Grade	03	02	01
Secondary	40	38	02
Primary	141	126	15
Total	184	166	18

The following matters are observed.

- (a) Two posts of Revenue Inspector had remained vacant since April 2011 and April 2015, and the Commissioner of Local Government had informed not to carry out recruitments due to a legal issue.
- (b) During the assigning of duties in the Sabha, the allocation of work had not been properly carried out.
- (c) The Sabha had not taken necessary action to identify the training needs and train the employees.
- (d) It was observed that the welfare of employees in the premises of Pradeshiya Sabha had been at a minimum level.

4. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- a) Accounting
- b) Revenue Administration
- c) Solid-waste Management
- d) Contract Administration