

Deraniyagala Pradeshiya Sabha
Kegalle District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 30 March 2017 and the financial statements for the preceding year had been presented on 31 March 2016. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 14 July 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Deraniyagala Pradeshiya Sabha as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following matters were observed.

- (a) According to the replies furnished for the Report of the Auditor General 2015, it was informed that the following deficiencies observed in the audit of the accounts for the year 2015 will be rectified. But action had not been taken accordingly.
 - (i) Despite, that the sum of Rs.2,305,983 deposited by water consumers for supply of water during the period from 2010 to 2015 had been spent on activities connected with water supply, it was shown under the General Deposits.
 - (ii) Had not computed and brought to account of the value of 02 computers, and related accessories and the multi module machine obtained under the Puraneguma Project.
 - (iii) The expenditure on supplies and equipment had directly debited to the Expenditure Head and accounted for without adjusting through the Stores Advance Accounts.
 - (iv) Had not assessed and brought to account the value of 03 blocks of land in extent of 01 Acre, 03 Roods and 30 perches of the Sabha.
- (b) Key money amounting to Rs.24,299,000 obtained from 29 lease holders in the year 2015 to construct and to lease of 29 trade stalls around the Bus stand under pre-paid method should be retained in the Deposit Account and deployed for the respective purpose and brought to account as revenue when handing over the trade stalls to the owners of the trade stalls. Nevertheless, without doing so, it had been brought to account as revenue at the same time of the money received and had been spent for other purposes instead of incurring for relevant activities. In addition to that, a sum of Rs.24,630,000 receivable as pre paid amounts for another 24 trade stalls for which not entered into agreements had

been brought to account as revenue and debtors for the preceding year. As such the debtors and accumulated funds had been overstated by similar amount.

- (c) Even though, the construction of trade stalls of the proposed Bus stand had not been commenced up to now, the gross expenditure estimate amounting to Rs.25,500,000 according to the construction plan had been brought to account as expenditure and the creditors of the year 2015, the creditors had been overstated by Rs.25,500,000 and accumulated fund had been understated by similar amount.
- (d) The extra pre-paid amount of Rs.145,000 or 25 per cent recovered from sub lease holder in sub leasing of a trade stall in the weekly fair had not been taken into the revenue for the year and deducted from the key money. Therefore revenue receivable from weekly fair and receivable key money debtors had been understated by Rs.145,000.
- (e) Building application fines which should be brought to account as the revenue of the Sabha amounting to Rs.43,600 had been retained in the General Deposit Account.

1.3.2 **Unreconciled Control Accounts**

The balances of 06 items of accounts as per financial statements amounted to Rs.15,468,868 and the balances amounted to Rs.11,333,399 as per subsidiary registers/reports resulting in an unreconciled balance of Rs.4,135,469.

1.3.3 **Accounts Receivable and Payable**

- (a) The value of balances receivable accounts as at 31 December 2016 amounted to Rs.76,449,306 of which Rs.6,381,651 represented balances of over one year.
- (b) The value of balances payable accounts as at 31 December 2016 amounted to Rs.67,729,923 of which Rs.1,213,700 represented balances of over one year.

1.3.4 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following non-compliances with laws,rules, regulations and management decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Non-compliance</u>
(a) Section 158(1) of the Pradeshiya Sabha Act No.15 of 1987	Action had not been taken to recover arrears of rates and taxes remained for over 02 years amounting to Rs.141,716 and the acreage tax amounting to Rs.566,707.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) F.R.371(2) 6
- Even though, the ad hoc sub imprests should be settled immediately after the respective purpose was completed, it was observed, the delays from of 01 day to 11 days in settlement of advances of Rs.129,700 obtained in 14 instances in the year 2016.
- (c) Sections 1.6 and 4 of Chapter XXIV of the Establishments Code of the Republic of Sri Lanka
- Necessary action had not been taken to recover the loan balances of Rs.243,610 recoverable from 10 employees since the year 1993.
- (d) Circular No.CM/AD/20/03 of the Secretary of the Chief Ministry of the Sabaragamuwa Province dated 16 November 2010.
- All employees who obtained appointments as minor employees should be deployed in the service for the same post appointed. Nevertheless, 09 employees recruited for labourer posts had been deployed in other services.

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 2016 amounted to Rs.2,174,378 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.3,608,013 resulting in a decrease of Rs.1,433,635 in the financial results of the year under review.

2.2 **Analytical Financial Review**

Decrease in 03 items of revenue and increase in 03 items of expenditure had mainly attributed to the decrease in financial results by Rs.1,433,635.

2.3 **Revenue Administration**

2.3.1 **Performance in Collection of Revenue**

The information relating to the estimated revenue, actual revenue and the arrears of revenue as furnished for the year under review, appears below.

Source of Revenue	Arrears as at 01 January 2016	Recoveries out of the arrears as at 31 December 2016	Amount billed for 2016	Recoveries out of the amount billed for year	Arrears as at 01 January 2016	Arrears out of the amount billed for the year	Total Arrears
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
(i) Rates and Taxes	2,535	1,730	5,599	4,248	805	1,351	2,156
(ii) Lease Rent	142	81	4,434	4,417	61	17	78
(iii) Licence Fees	86	2	661	661	84	-	84
(iv) Other Revenue	47,655	15,865	62,648	20,306	31,790	42,342	74,132
Total	50,418	17,678	73,342	29,632	32,740	43,710	76,450

2.3.2 Licence Fees

The business tax should be obtained before 31 March of the year. Nevertheless, the business tax had been paid by 41 institutions during the period from June to October. As such, it was observed, that the businesses had been maintained without obtaining licences.

2.3.3 Other Revenue

The following matters were observed.

(a) Water Charges

Action had not been taken by the Sabha to recover the arrears of water charges of Rs.364,424 as at 31 December 2016 receivable from water supply places.

(b) Fees for Public Toilets

Action had not been taken to recover the fees of Public toilets duly and the arrears of unrecovered fees for the years 2013 and 2015 totalled Rs.4,198.

(c) Advertising Hoarding Fees

The following matters were observed.

(i) The advertising hoarding fees had been revised with effect from the year 2014 under Section 10 (b) of the Gazette of the Sri Lanka Democratic Socialist Republic of Sri Lanka dated 20 December 2013 and it was mentioned that Rs.50 should be recovered per square foot for one month or half of a month. Nevertheless, the fees had been recovered without considering the period and as such the revenue receivable for the hoardings permanently fixed for a year or a period more than that had been deprived.

(ii) A hoarding fee obtained from a telecommunication company amounting to Rs.23,000 had not been entered into the Register.

- (iii) The particulars such as number of hoardings, the number of square feet, the place fixed, the period of display and the advertising company had not been recorded in the Register in respect of money received as for temporary hoarding fees amounting to Rs.8,920.
- (iv) According to the survey relating to the unauthorized advertisements maintained in the year 2016 the recoverable hoarding fees amounted to Rs.192,713.

(d) **Environment Protection Licences**

The following matters were observed.

- (i) As revealed during test checks fifteen institutions for which should be obtained Environment Protection Licences had not obtained business licences. As such a sum of Rs.15,000 had been deprived by the Sabha.
- (ii) One industry had not obtained the licence for which should be obtained the Environment Protection licence in terms of the Extra Ordinary Gazette Notification No.1533/16 dated 25 January 2008 declared under the National Environment Act No.47 of 1980 as amended by the Act No.53 of 2000 and Act No.56 of 1988. As such a loss amounting to Rs.4,000 incurred by the Sabha.

2.3.4 **Court Fines and Stamp Fees**

The following matters were observed.

- (a) Action had not been taken by the Sabha to obtain court fines amounting to Rs.4,667,212 receivable as at the end of the year under review.
- (b) Stamp fees schedules for the year 2016 had not been received while the estimated value amounting to Rs.3,500,000 had been brought account as revenue. The recoverable arrears for the period from the year 2014 to 31 December 2016 amounted to Rs.6,422,606.

3. **Operating Review**

3.1 **Performance**

Even though, it was planned to construct 51 market trade stalls close to the Bus stand in the year 2015 and key money of Rs.24,299,000 had been recovered for 29 trade stalls out of that, the construction of trade stalls had not been carried out even by 20 May 2017.

3.2 **Management Inefficiencies**

Action had not been taken to vesting the ownership of the 03 motor vehicles which utilizing by the Sabha given by the Ministry of Local Government and Provincial Councils.

3.3 **Operating Inefficiencies**

The following matters were observed.

- (a) Out of 2 Water Supply Schemes implemented by the Sabha, the water of the Kahabate Water Supply Scheme had been purified by using chlorine. Nevertheless, the Sabha had failed to provide purified drinking water to the water consumers, as the water of the Lihiniyagala Water Supply Scheme in which water not purified anyway had been mixed with the above purified water. The inspection reports of the Medical Health Officer,

Deraniyagala had confirmed that the water supplied by the said Water Supply Schemes included harmful bacteria.

- (b) Even though, inspection fees had been paid for 21 building applications received from 19 September 2012 to 23 November 2016, action had not been taken by the Sabha to complete the lapses thereon and to give approvals.

3.4 **Transactions of Contentious Nature**

The payments had been made from the funds of the Sabha before granting money by the donor institutions for the works of Central Government and the Provincial Council, the recovery of Rs.1,533,527 paid for 3 works had been delayed for a period ranging from 02 months to 04 years. The advances of Rs.54,187 so paid on 24 January 2014 for the work of the constructions of Nakkavita Community Hall and the toilet had not been reimbursed even by 31 Decemeber 2016.

3.5 **Idle and Underutilised Assets**

Four vehicles of the Sabha had not been properly utilized due to inadequacy of drivers assigned to the Sabha and not repairing vehicles properly.

3.6 **Identified Losses**

The following matters were observed.

- (a) A difference of Rs.76,762 between the estimated loss and the money agreed to pay by the insurance company had to be incurred by the Sabha as loss due to 02 motor vehicles of the Sabha met with accidents.
- (b) Even though, the payment of compensation to a vehicle of the Sabha met with an accident on 07 September 2016, had been rejected by the Insurance Company action had not been taken to assess the related loss and to recover from the responsible officers.
- (c) A fish stall belonging to the Sabha had been kept sealed from 31 March 2016 due to non-payment of rental. But action had not been taken to tender again or to lease out by enquiring next bidder and as such a loss of Rs.77,662 approximately had been incurred by the Sabha.
- (d) As non-recovery of annual business tax recoverable at the rate of Rs.3,000 from 07 Telecommunication Transmission Towers, revenue receivable amounting to Rs.21,000 had been deprived.

3.7 **Contract Administration**

The following matters were observed.

- (a) A sum of Rs.42,944,113 had been estimated for 164 works under various provisions and the works amounting to Rs.40,727,061 out of that had been completed. Out of the said value of the finished works, a sum of Rs.5,668,972 only had been paid during the year, and Rs.35,058,089 or 86 per cent had been the creditors balances.
- (b) Five works amounting to Rs.827,246 belonging to 3 institutions had been abandoned without being implemented.

- (c) Due to cancellation/ non-implementation of 03 works which estimated value amounting to Rs.686,098 and paid Rs.23,242 in the year 2016, the amount paid had become a fruitless expenditure.
- (d) In constructing toilet system of the Saman Dewale Land, Deraniyagala a sum of Rs.19,231 relating to 04 items of works had been paid before completion of works.

3.8 **Solid Waste Management**

The garbage and waste collection in the authoritative area of the Sabha had been disposed to an open area in the cemetery situated close proximity to the Sithawaka River without a methodology to recycle or to dispose properly.

4. **Accountability and Good Governance**

4.1 **Budgetary Control**

Out of the provisions allocated in the Budget for the year under review provisions totalling Rs.45,757,744 had not been utilized comprising 100 per cent of the provisions totalling Rs.3,722,750 made for 48 Objects and the provisions ranging from 60 per cent to 99 per cent totalling Rs.42,034,994 made for 24 Objects.

5. **Systems and Controls**

Special attention of the Sabha is needed in respect of the following areas of Systems and Controls.

System -----	Observation -----
(a) Accounting	<ul style="list-style-type: none"> (i) Non-rectification of errors pointed out in previous audit. (ii) Uncleared narrations furnished on Journal Entries (iii) Non-reconciliation of schedules with accounts.
(b) Revenue Adminsitration	<ul style="list-style-type: none"> (i) Assessment of properties had not made properly for rates. (ii) Failure to take legal action to recover arrears of revenue. (iii) Failure to conduct an annual survey on businesses and works.
(c) Budgetary Control	<ul style="list-style-type: none"> (i) Significant savings on estimated provisions. (ii) Non-recovery of estimated revenue.
(d) Motor Vehicle Control	<ul style="list-style-type: none"> (i) Non-furnishing of Daily Running Charts. (ii) Failure to carry out fuel consumption test on vehicles.