

**Devinuwara Pradeshiya Sabha  
Matara District**

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**1 Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year 2017 had been presented to audit on 26 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman of the Sabha on 30 July 2018.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Devinuwara Pradeshiya Sabha give a true and fair view of the financial position as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

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**1.3.1 Accounting Deficiencies**

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The following accounting deficiencies were observed in audit.

- (a) The hire charges of becko machine of the Sabha for the previous year amounting to Rs.82,283 received during the year under review had been brought to account as revenue of the year.
- (b) Equipment valued at Rs.181,300 purchased during the year under review had not been capitalized.
- (c) The sum of Rs. 276,976 spent on fitting doors at the office of the Sabha and constructing latrines had not been capitalized.
- (d) The rent of building amounting to Rs.180,000 received during the year under review on behalf of the ensuing year had been brought to account as revenue of the year under review.
- (e) The land and buildings of the rest room of employees of the Pradeshiya Sabha had been overstated in the accounts by Rs.155,772.
- (f) The sum of Rs.509,228 payable for constructing the rest room of employees as at end of the year under review had not been brought to account.
- (g) Provision for creditors for 19 works completed by utilizing funds of the Sabha and various provisions and provision for creditors for 04 works had been overstated by Rs.1,611,746 and Rs.1,394,855 respectively.

- (h) Provision for creditors amounting to Rs.2,846,000 had been made for 02 work abandoned during the previous year.
- (i) Provision for debtors amounting to Rs.3,318,352 had been made by end of the year under review for 04 work not commenced under 02 projects of the previous year.
- (j) Rectifications had been made for creditors overstated in the accounts during the previous years. While doing so, a sum of Rs.403,680 relating to 04 work had been deleted in excess from accounts.

### **1.3.2 Unreconciled Accounts**

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Differences between the balances of 04 items of accounts totalling Rs.32,543,700 as per financial statements and the balances appearing in the related subsidiary registers/schedules aggregated Rs.1,256,684.

### **1.3.3 Suspense Account**

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Action had not been taken to identify and make necessary adjustments for the balances of Rs.821,995 which continued to be brought forward in the accounts since 2007.

### **1.3.4 Accounts Receivable and Payable**

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#### **(a) Accounts Receivable**

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The balances of work debtors as at end of the year under review amounted to Rs.14,252,872. Included in it were 15 balances amounting to Rs.5,449,583 over 03 years.

#### **(b) Accounts Payable**

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- (i) Forty six balances of Rs.10,845,066 over 03 years had been included in the balances of work creditors of Rs.24,672,169 as at end of the year under review.
- (ii) A credit balance of Rs.2,317,560 over 03 years had been included in the balances of sundry creditors of Rs.2,813,229 as at end of the year under review.
- (iii) Action had not been taken even during the year under review to settle the balances of value added tax of Rs.1,479,593 which continued to be brought from years prior to the previous year.

### 1.3.5 Lack of Necessary Documentary Evidence for Audit

#### Non rendition of Information for Audit

Six items totalling Rs.220,865,190 could not be satisfactorily examined in audit due to non-rendition of necessary information.

### 1.3.6 Non-compliance

#### 1.3.6.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non - compliance</b>
(a) 1988 Pradeshiya Sabha (Finance and Administration)	
(i) Rule 143	The refundable deposit ledger had not been monthly totalled and adjusted with the main ledger account.
(ii) Rule 164	The Secretary or an officer authorized by him should check the accounting documents daily and initial them. However, action had not been taken accordingly.
(iii) Rule 193	A statement showing the reasons for surpluses and deficits had not been furnished by reconciling the actual expenditure of Objects with the budgeted and the supplementary voted expenditure.
(iv) Rule 217	A register in form specimen P.S 46 had not been maintained showing details of land and buildings of the Sabha.
(b) Financial Regulations of the Democratised Socialist Republic of Sri Lanka	
(i) Financial Regulation 110	Although a register of losses and damages had been maintained, the loss of Rs.692,300

- caused to 02 electric tractors had not been included in it.
- (ii) Financial Regulations 1645 and 1646 Running charts and monthly performance summaries Of 22 vehicles of the Sabha had not been furnished to audit.
- (c) State Accounts Circular No.2/2015 of 10 July 2015 Action had not been taken regarding 02 vehicles costing Rs.963,760 which had been set aside without being used.
- (d) Letter of Instructions of the Urban Development Authority No.05/01/119/Ⓓix of 26 February 1992. Two hours of extra duty should be performed after the normal duty hours in order to pay allowances relating to planning committees. However, a sum of Rs.201,750 had been paid as at 31 December 2017 contravening the instructions.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2017 amounted to Rs.26,179,646 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.31,055,043.

## 2.2 Revenue Administration

### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

The information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.
Rates and Taxes	3,357,100	5,717,385	5,542,818	4,095,574	5,118,100	4,826,189	4,402,357	3,921,007
Rent	27,965,850	21,354,382	21,098,163	9,773,097	24,267,300	18,378,473	18,633,726	9,516,878
Licence Fees	3,509,500	529,864	529,864	-	902,300	601,612	601,612	-
Other Revenue	29,119,550	22,036,727	8,839,989	52,214,986	28,428,700	26,754,501	6,833,912	39,018,248
Total	63,952,000	49,638,358	36,009,594	66,083,657	58,716,400	50,560,775	30,471,607	52,456,133

## **2.2.2 Performance in Collection of Revenue**

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The total estimated revenue of the year under review amounted to Rs.63,952,000 and the amount billed was Rs. 49,638,358 The total arrears at the commencement amounted to Rs.52,456,133 along with which the total amount receivable amounted to Rs.102,094,491. However, the total revenue collected during the year amounted to Rs.36,010,834 resulting in a total arrears of Rs.66,083,657 as at end of the year.

## **2.2.3 Rates and Taxes**

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The arrears of rates and taxes at commencement of the year under review amounted to Rs.3,920,965 to which the billings of the year (with penalties) amounting to receivables Rs.2,034,318 had been added resulting in recoverables amounting to Rs.5,955,283. The total recoveries were Rs.1,859,752. As such, the arrears of balances as at end of the year amounted to Rs.4,095,531. Acreage tax arrears of Rs.66,427 had been included in this.

## **2.2.4 Lease Rent**

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The following matters were observed.

- (a) The billings for the year of Rs.4,602,790 together with the opening balance of arrears of rent amounting to Rs.8,511,562 resulted in receivables of Rs.13,114,352. Total recoveries were Rs.4,763,774 resulting in an arrears of Rs. 8,350,578 as at end of the year.
  
- (b) The arrears of balances of 16 stalls of the old trade complex amounting to Rs.6,451,996 had been included in the arrears of Rs.8,350,578 as at end of the year under review. The period of agreement of 05 stalls had expired. An arrears of Rs.149,098 was due from those who were being benefitted by those stalls in unauthorized ways. The Sabha had not taken action against breach of conditions in the agreement.

## **2.2.5 Court Fines and Stamp Fees**

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Court fines of Rs.2,226,746 and stamp fees amounting to Rs.49,988,240 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017

## **3. Operating Review**

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### **3.1 Performance**

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The following matters were revealed with regard to duties to be fulfilled by the Sabha in terms of Section 3 of the Pradeshiya Sabha Act, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

**(a) Non achievement of the expected output level**  
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Approval had been granted to execute 22 development work according to the budget of the year under review. Six work worth Rs.1,283,606 only had been executed during the year. 16 work not been completed as budgeted and the progress was at a very low level of 13.37 per cent. 17 work which had not been included in the budget had been executed during the year by spending Rs.11,412,337.

**(b) Work Abandoned**  
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Four projects for which provision had been made in 2016 under the capital programme for upliftment of infrastructure facilities in local authorities had not been executed.

**(c) Solid Waste Material Management**  
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The following matters were observed.

- (i) The Sabha had purchased a 04 acre land for Rs.2,700,000 in December 2014 for disposal of garbage. However, the land had not been secured by erecting a fence around the land. Meanwhile, the Sabha had not obtained an environmental licence for this land purchased for Solid Waste Material Management as per Circular No.1533/16 of 25 January 2008 issued in terms of the National Environmental Act No.47 of 1980 as amended by Acts No.53 of 2000 and 56 of 1988.
- (ii) The Sabha had not earned any revenue although it had spent Rs.12,263,867 for collection of garbage in 2017. Degradable garbage collected by the Sabha had been disposed of, in a private land.

**(d) Sustainable Development Target**  
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The Sabha had not prepared the long term plan for sustainable development target and the objectives in order to uplift the living standards of the public within the area of the Sabha through the global indicators relating to sustainable development objectives and targets as per 2030 agenda of sustainable development.

**3.2 Management Inefficiencies**  
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The sum of Rs.147,000 receivable as hire charges of J.C.B machine in 2014 had not been recovered even by end of the year under review.

**3.3 Human Resources Management**  
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The following matters were observed.

- (a) Action had not been taken even by end of the year under review to fill one vacancy in the approved cadre and to regularize 19 excesses.

- (b) Eight employees had been recruited contravening the Management Services Circular No.03/2014 of the secretary to the Treasury and Rs.4,955,408 had been paid to them as salaries from 2014 to 2017.

### **3.4 Operating Inefficiencies**

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A sum of Rs.684,700 had been spent on maintenance of over 1000 of street lamps during the year under review. The number of street lamps approved were 157 and as such the Electricity Board had reimbursed Rs.81,828 as at 31 December 2017. As a result of using street lamps in excess of the approved limit, the Sabha had to spend Rs.602,872 from its funds. The technical officer had not supervised the electrical accessories installed.

### **3.5 Transactions of Contentious Nature**

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The Sabha gives stalls on lease for its Esala Salpila conducted during the Esala Festival of the Devinuwara Sri Vishnu Devalaya. 56 stalls had been given on lease for Rs.626,000 in 2016 deviating from the normal procedures. A sum of Rs.256,935 and a sum of Rs.42,000 had been spent on newspaper advertisements for calling for tenders to the fair premises and for preparing 07 tender boxes. However, the fair premises had been given on lease deviating from the tender procedures.

### **3.6 Assets Management**

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#### **3.6.1 Idle and Under utilized Assets**

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The following matters were observed.

- (a) Six blocks of land of the Sabha had not been used for any useful purpose.
- (b) A three wheeler valued t Rs.301,760, an electric tractor valued at Rs.662,000 and a tractor, the value of which had not been mentioned remained idle for over one year. Action had not been taken to dispose of, those vehicles in terms of State Accounts Circular No.02/2015 of 10 June 2015 of the Secretary to the Treasury.
- (c) A motor grader valued at Rs.24,928,668 and a water bowser valued at Rs.715,713 received by the Sabha in 2015 had been underutilized.

### **3.7 Identified Losses**

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The following matters were observed.

- (a) An estimate for Rs.923,302 had been prepared to construct an access road to the Devinuwara crematorium. The work had been completed by spending Rs.921,805 on a direct labour basis. However, an estimate for director labour cost had not been prepared. The profit margin of Rs.138,724 included in the estimated value too had not been saved while doing the work on direct labour basis.



- (b) An electric tractor valued at Rs.662,000 had met with an accident on 24 February 2015. Action had not been taken in terms of Financial Regulations 104 – 109 in this connection. The electric tractor had been kept aside without usage without taking action to get the compensation from insurance causing a loss of Rs.662,000 to the Sabha.

### **3.8 Procurement**

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#### **3.8.1 Supplies and Services**

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- (a) A new electric tractor had been purchased on 03 May 2017 by paying Rs.1,765,000. However, procurement procedures had not been properly followed in this regard. Further, services rendered after the sales had not been properly checked. As a result, repairs had to be carried out during the month after purchase.
- (b) An estimate for Rs.665,000 had been prepared to construct a rest room for employees of the Pradeshiya and repair the latrine system. The work had been completed even before ordering materials required at the stores, which appears to be a surprise.

#### **3.8.2 Contract Administration**

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An irregular agreement had been entered into with a private contractor on 08 September 2017 at an estimated value of Rs.1,105,029 for a work which had already been completed in 2016.

## **4. Accountability and Good Governance**

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### **4.1 Budgetary Control**

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Significant variances were observed between the budgeted and actual revenue and expenditure of the year under review as shown below. It was thus observed that the budget had not been utilized as an efficient instrument of management control.

- (a) Savings totalling Rs.26,920,109 were observed in 08 Objects due to overprovision which ranged from 13 to 88 per cent.
- (b) Adverse variances in 05 items of revenue aggregated Rs.19,410,291 ranging from 7 per cent to 83 per cent.

### **4.2 Internal Audit**

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Adequate internal audit had not been carried out in terms of provision in Financial Regulations 133 and 134 of the Republic of Sri Lanka and the circular No.දපපා/යහ/01/න.ව.ලේ of the Commissioner of Local Government.

## **5. Systems and Controls**

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Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets
- (b) Collection of Revenue
- (c) Budgetary Control
- (d) Contract Administration
- (e) Accounting